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Services exports and developing countries: competitiveness challenges according to mode of supply

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ABSTRACT

This research looks at how competitive developing countries are in exporting services and at the instruments and tools that they can use to become credible competitors of developed economies in service exports. The analysis focuses on several case studies assessed by the existing economic literature, the lessons that developing countries can draw from those experiences, the role that enterprises, institutions and governments can play to increase the competitiveness of developing countries and the measures and tools they can use to achieve their objective.

The research aims at showing that a developing country could become competitive in service exports as long as it implements a series of measures aimed primarily at improving the country's human capital and infrastructures, making institutions play a more active role in assisting enterprises and governments and encouraging policymakers to adopt adequate policies in support of service exports. The measures change according to type of service, mode of supply, stakeholder and objective to be achieved.

The research will also highlight the statistical limits and difficulties that countries, especially developing economies, face in properly assessing trade in services.

DECLARATION

This master thesis has been written in partial fulfilment of the Master of International Law and Economics Programme at the World Trade Institute. The ideas and opinions expressed in this paper are made independently, represent my own views and are based on my own research. I confirm that this work is my own and has not been submitted for academic credit in any other subject or course. I have acknowledged all material and sources used in this paper.

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LIST OF ABBREVIATIONS

BOP	Balance of Payments
BPAP	Business Processing Association of the Philippines
BPO	Business Process Outsourcing
CIS	Commonwealth of Independent States
e.g.	for example
FATS	Foreign Affiliates Trade in Services
FDI	Foreign Direct Investment
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
i.e.	that is
IT	Information Technology
ITeS	Information Technology enabled Services
LDCs	Least-Developed Countries
MFN	Most-Favoured-Nation
MNC	Multinational Corporation
NASSCOM	National Association of Software and Services Companies
PTA	Plurilateral Trade Agreement
SME	Small and medium enterprise
UN	United Nations
WTO	World Trade Organization

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1. INTRODUCTION

Many developing countries perceive trade in services as pertaining to the realm of developed countries and thus out of their reach. This opinion is based primarily on the assumption that only developed countries can export services because their technology is more advanced than that of most developing countries. According to Cattaneo, however, recent research and evidence have proven that any country, including emerging economies and least developed countries, can join the club of service trade exporters and benefit from increased market opening, provided that proper sequencing and complementary reforms are carried out.[1] India, for example, is a leading exporter in information technology and computer services. The Philippines are also becoming a hub for Business Process Outsourcing (BPO) service exports.

1.1. Objective of the research

The intent of the following research is to support previous studies in dispelling the erroneous belief that a developing country cannot become a services exporter. Albeit not all, numerous developing countries have the potential to be credible competitors of developed countries in exporting services, as long as they fulfil certain requirements and undertake adequate measures to exploit such potential.

The research will demonstrate that there exist specific measures and reforms a developing country should implement in order to increase its competitiveness in exporting services. It will also show that enterprises, institutions and policymakers in developing countries play a different role in addressing competitiveness challenges, according to the service sector and mode of supply at issue.

1.2. Methodology of analysis

The research will be structured in six chapters. The first chapter will consist of an introduction to trade in services. Particular attention will be dedicated to the importance of liberalisation in trade in services, the multilateral framework regulating trade in services and the role played by developing countries in trade in services. The second chapter will explore more in detail services exports, with a focus on current patterns, trends and participation of developing countries. The chapter will briefly introduce the main competitiveness challenges that most developing countries face in exporting services as well as the factors that could make a developing country a potential service exporter. The third chapter will focus on cross-border supply and the measures that enterprises, institutions and policymakers in developing

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[1] Cattaneo, O. *International Trade in Services: New Trends and Opportunities for Developing Countries*, Washington D.C.: The World Bank, 2010, p. 1.

countries can undertake to address competitiveness issues in exporting services through this mode of supply. The fourth chapter will focus on consumption abroad and the measures that the three above mentioned stakeholders can carry out to improve service exports through this mode of supply. The fifth chapter will address service exports supplied through commercial presence. Particular attention will be dedicated to the relationship between inward and outwards foreign direct investments and the role that enterprises, institutions and policymakers can play in fostering developing countries' service exports through commercial presence abroad. The sixth chapter will be dedicated to the movement of natural persons and the measures that the main stakeholders can implement in order to address competitiveness challenges that developing countries face while exporting services through this mode of supply.

1.2.1. Case-by case analysis

In order to establish how developing countries can improve their competitiveness in services exports, the research will focus on existing case studies of several developing countries which have shown different degrees of success in becoming service providers or hubs.[2] The observations, interpretations and conclusions highlighted by the aforementioned case studies will be used to draw key lessons for those developing countries which aim at addressing their competitiveness shortcomings and becoming successful services exporters.

Existing case studies focus primarily on understanding the factors which may allow most developing country to succeed in their quest to become competitive service exporters and the competitiveness challenges that such countries have to face in the process. Moreover, most case studies focus on one sector per country. The following research aims at making a step further. Its objective is analyse the factors of success or failure highlighted by existing literature, in order to identify which strategies, tactics and tools a developing country could use to overcome its competitiveness shortcomings, based on a mode of supply approach rather than a sectoral approach.

1.2.2. Country focus

The research will focus on developing countries, both as recipients and as protagonists of the present work. The attention will be dedicated primarily to those developing countries that show greater potential to become service hubs and whose impact on trade in services has been analysed less intensively than India's or China's. Malaysia, the Philippines, Thailand and Egypt are among the few case studies which present the aforementioned characteristics. Thus,

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[2] World Bank, *Exporting Services: a Developing Country Perspective*, Washington: PRMTR, International Trade Department, World Bank, February 2011, p. 7.

the research will focus primarily, albeit not exclusively, on South East Asian and African economies.

For the purposes of the research, the term 'developing countries' will be used to identify all countries that are not developed countries. Thus, the term includes also least-developed countries (LDCs).

1.2.3. Sectoral focus

The analysis will be structured in a manner consistent with the GATS definition of trade in services according to the four modes of supply. A dominant sector where developing countries have greater competitiveness potential and were more data are available will be identified and analysed for each mode of supply: BPO services for Mode 1, tourism (inclusive health tourism) for Mode 2, construction and distribution services for Mode 3 and health-related services for Mode 4. The tools and strategies identified in Chapter 4, 5, 6 and 7 are based primarily on the analysis of these dominant sectors. Consequently, not all measures could be equally and efficiently applied to sectors other than those mentioned above. However, they could be used as guidelines for action.

1.2.4. Stakeholders focus

Service liberalisation is a multifaceted process which touches upon a broad range of complex policies and regulatory instruments. It is not a process confined to the mere negotiation among governments and policymakers. The nature, pace and sequencing of regulatory reform and liberalisation require a deep involvement of all actors which play a role in trade in services: policymakers, institutions and enterprises, both domestic and foreign.[3]

Governments, institutions and the private sector must collaborate to improve the competitiveness of developing countries in service exports.[4] For example, policymakers need the assistance of service exporters and trade associations to gather information on the capabilities and competitiveness of the private sector in order to develop appropriate negotiating strategies.[5] Enterprises and institutions, on the other hand, need assistance from negotiators to understand the GATS agreement and the schedules of commitments in order to

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[3] Sáez, S. *Trade in Services Negotiations: A Guide for Developing Countries*, Washington D.C.: The World Bank, 2010, p. 19.
[4] Ibid, p. 65.
[5] de Sousa, P. & Conrad, D. 'GATS Negotiations: Why Service Industry Associations Should Get Involved', International Trade Centre, (last accessed on 22nd August 2011), www.tradeforum.org/m/fullstory.php/aid/461/GATS_Negotiations:_Why_Service_Industry_Associations_Should_Get_Involved.html.

identify more precisely which are the most useful inputs on the private sector that they can provide policymakers with.[6]

The research will focus on the role of each of the three main stakeholders involved in services liberalisation: service enterprises (mainly SMEs), institutions (including trade associations, export promotion agencies, professional bodies) and policymakers (including governments, ministries and governmental policymaking bodies).

1.3. Limits of analysis

The methodology of research is subject to three main limits. First of all, the research is based on the analysis of developing countries which, despite belonging to the same artificial category, are very heterogeneous in their economic structure and service exports. As pointed out by Whalley, the term 'developing countries' spans "rapidly growing economies in Asia, negative growth economies (in GDP/capita) in Africa, middle income and very poor countries, small and large, landlocked and ocean access as well as heavily regulated and recently liberalised".[7] Albeit aggregation of findings is possible, it is necessary to remember that such heterogeneity may have an impact on the practical application of the tools identified as useful to increase the competitiveness of many developing countries in exporting services.

Another limit is posed by the lack of adequate data on trade in services, with specific reference to data on the participation of developing countries to trade in services. Thus, the analysis can be based only on a few sectors and countries where available data are present.

Finally, the third limit regards statistical data. Indeed, GATS-relevant statistics are hard to find because of the difference between the GATS legal framework and the balance of payments statistical framework used to identify trade in services. Whilst balance of payments statistics are based on the concept of residency, the GATS legal framework expands beyond residency to include nationality, territorial location, ownership and control.[8] Also, balance of payments statistics do not include data on commercial presence (mode 3) because a commercial presence company is usually resident in the economic territory where it is established.[9] Statistics on foreign direct investment (inward and outward) though the Foreign Affiliated Trade in Services Statistics (FATS) help understand how much trade in services

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[6] Ibid.
[7] Whalley, J. 'Assessing the Benefits to Developing Countries of Liberalisation in Services Trade', *The World Economy* 27, UK: Blackwell Publishing, 2004, p. 1223.
[8] Karsenty, G. 'Assessing Trade in Services by Modes of Supply', in *GATS 2000: new directions in trade in services liberalisation*, Sauvé P. & Stern R. M., Brookings Institution Press, 2000, (last accessed on 22nd August 2011), http://books.google.ch/books?hl=it&lr=&id=itIxU3LGtXcC&oi=fnd&pg=PA33&dq=philippines+trade+in+services&ots=bxlpIE2W78&sig=I6B1akXB_7J1OWVZbdHZaOrHG78#v=onepage&q=philippines%20trade%20in%20services&f=false, p. 34.
[9] Ibid, pp. 3-4.

occurs through mode 3. However, FATS are generally not compiled by developing countries. Thus, currently available data on commercial presence established by developing countries outside their domestic market is virtually non-existent.

2. CHAPTER 1 - TRADE IN SERVICES: AN OVERVIEW

Before proceeding with the in-depth analysis of how a developing country could become competitive in services exports, it is necessary to provide an adequate overview of the political economy of trade in services and the role of developing countries in the multilateral framework of trade in services liberalization.

2.1. The importance of trade in services

According to the World Trade Organization (WTO), services represent the fastest growing sector of the global economy which account for about 70 per cent of world gross domestic product (GDP), one third of global employment and nearly 20 per cent of global trade.[10]

Services are becoming the most important sector in many economies. Services account for about 70 per cent of economic activity in high-income countries and even in low income countries services generate at least 45 per cent of GDP.[11] The fast paced evolution of information and telecommunications technology has arguably been one of the key drivers of services growth.[12]

Services are important in their own right and as inputs to all other businesses. As Hoekman and Kostecki emphasize, services are vital to the functioning of any economy because they have an effect on competitiveness and play an intermediation function in the production process.[13] Like capital goods, services play a key role as determinants of the productivity of the factors of production by facilitating transactions through space or time.[14] Indeed, services are inputs in the production of goods and other services and, through these, they contribute to economic growth and the development of countries.[15] Low-cost, high-quality services generate economy-wide benefits.[16] According to Ghani and Homi, there is a relationship between high growth in services and high overall economic growth, albeit the causality relationship cannot be established.[17] Still, service sector growth is usually associated with a

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[10] World Trade Organization, 'Services: rules for growth and investment', (last accessed on 06th August 2011), http://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm6_e.htm

[11] Hoekman, B. M. & Kostecki, M. M. *The Political Economy of the World Trading System. The WTO and Beyond*, 3rd Edition, Oxford: Oxford University Press, 2009, p. 317.

[12] Singh, A. D. *ICT Services: Developing Potential – Opportunities and Strategic Implications*, Executive Forum on National Export Strategies, 'Export of Services: Hype of High Potential? Implications for Strategy-Makers', Switzerland: Montreux, 05-08 October 2005, p. 3.

[13] Hoekman, B. M. & Kostecki, M. M. see note 11, p. 317.

[14] Sáez S., see note 3, p. 2.

[15] Stanculescu, D. *Trade in Services: an assessment of priority sub-sectors for future intervention*, Geneva: ITC, 28th February 2011, p. 2.

[16] Sáez, S., see note 3, p. 1.

[17] Ghani, E. & Homi, K. 'The Service Revolution', *PREM Economic Premise*, No. 14 (May), Washington D.C.: The World Bank, 2010, p. 2.

reduction in poverty, due to the creation of new jobs and an indirect effect on consumption, and greater participation of women in the labour market.[18]

2.2. Defining services

There exist no unique classification list of services. Different studies and organizations classify services differently. According to the International Monetary Fund (IMF), services include distributive services (e.g. transportation), producer services (e.g. banking and finance), social services (e.g. education) and personal services (e.g. catering).[19] The WTO, on the other hand, classifies services on the basis of the UN Central Product Classification: business services; communication services; construction and related engineering services; distribution services; educational services; environmental services; financial services; health related and social services; tourism and travel related services; recreational, cultural and sporting services; transport services; and other services not included elsewhere.[20]

Notwithstanding the type of classification used, all services share common characteristics.[21] First of all, contrary to goods, services are intangible and invisible. These two characteristics have important implications for negotiations because they make it difficult to measure the real value of services and to assess their contribution to production.

Moreover, services are perishable and non-storable. Unlike goods, services require simultaneous production and consumption, that is personal contact between customers and suppliers.[22] Trade in services is possible only via sales through a foreign affiliate or if either the customer or producer travels across borders. For example, in construction services the supplier moves to the location of the consumer. In tourism, the consumer moves to the location of the supplier. Thus, services require factor mobility. While foreign investment and labour mobility are also issues affecting goods trade, they are fundamental aspects of trade for some services.[23] Factor mobility poses a political economy challenge both in the home and in the host country.[24]

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[18] Ibid, p. 3-4.
[19] Lehmann, A. & Tamirisa, N. T. & Wieczorek, J. 'International Trade in Services: Implications for the IMF', *IMF Policy Discussion Paper*, Policy Development and Review Department, Washington: IMF, December 2003, p. 4.
[20] See Annex 1.
[21] Sáez, S., see note 3, p. 1.
[22] Ibid, p. 3.
[23] Copeland, B. & Mattoo, A. 'The Basic Economics of Services Trade', Revised April 15th 2004, (last accessed on 06th August 2011), http://siteresources.worldbank.org/INTRANETTRADE/Resources/WBI-Training/288464-1121285527226/CopelandEconomicsofservices1619f-Paper.pdf, p. 1.
[24] Sáez, S., see note 3, p. 20.

Also, services are very diverse and complex. Many stakeholders are involved, from trade ministries to regulatory agencies. In certain sectors, the provision of one service requires the joint provision of other services.[25]

Finally, many services are highly regulated as market failures that affect service transactions are ubiquitous and diverse.[26] Indeed, service industries are characterised by problems of imperfect and asymmetric information, lack of competition and natural barriers to entry.[27] Barriers to trade in services arise from domestic regulations that often serve the dual purpose of responding to market failures (such as ensuring quality standards for medical practitioners) and discouraging or impeding foreign competition to protect local suppliers. For example, many regulations are in place partly to counteract negative externalities or market failures that are associated with the supply of services and that affect third parties and society in general.[28] Identifying and measuring trade barriers in the service sector is very complex as domestic regulation can serve both legitimate policy objectives and protectionism.[29]

All the above-mentioned characteristic make it impossible for services to be defined solely based on their crossing of borders, as for trade in goods. Thus, services are defined under the General Agreement on Trade in Services (GATS) according to four modes of supply: cross-border supply, consumption abroad, commercial presence and presence of natural persons.[30]

2.3. GATS: multilateral regulatory framework for trade in services

GATS is a specific multilateral regulatory framework for international services trade. Concluded during the Uruguay Round in response to the impressive growth of the service economy over the past 30 years and the greater potential for trading services brought about by technological progress, it is in force since 1995.[31]

2.3.1. Modes of supply

Under GATS, countries make specific commitments on different modes of supply. According to the ‘Scheduling of Initial Commitments in Trade in Services: Explanatory Note’ "modes are essentially defined on the basis of the *origin* of the service supplier and consumer, and the degree and type of *territorial presence* which they have at the moment the service is

[25] Ibid, p. 3.
[26] Ibid, p. 20.
[27] Ibid, p. 7.
[28] Cattaneo, O., see note 1, p. 10.
[29] Copeland, B. & Mattoo, A., see note 23, p. 2.
[30] Cattaneo, O., see note 1, p. 8.
[31] World Trade Organization, see note 10.

delivered."[32] Following the criteria established by the Explanatory Note, there are four ways in which international transactions take place: cross-border supply, consumption abroad, commercial presence and movement of natural persons (see Table 2.1.).

Table 2.1.: Modes of supply

Mode	Other Criteria	Supplier Presence
Mode 1: Cross-border supply	Service delivered within the territory of the Member, from the territory of another Member	Service supplier not present within the territory of the member
Mode 2: Consumption abroad	Service delivered outside the territory of the Member, in the territory of another Member, to a service consumer of the Member	
Mode 3: Commercial presence	Service delivered within the territory of the Member, through the commercial presence of the supplier	Service supplier present within the territory of the Member
Mode 4: Presence of a natural person	Service delivered within the territory of the Member, with supplier present as a natural person	

Source: WTO[33]

Examples of cross-border supply (mode 1) include software services supplied by a supplier in one country through mail or electronic means to consumers in another country.[34] Consumption abroad (mode 2) occurs for example when the consumer moves to another country for tourism or to receive medical or educational services.[35] An example of commercial presence (mode 3) is an insurance company owned by citizens of one country establishing a branch in another country.[36] Examples of movement of natural persons (mode 4) include a doctor of one country supplying through his physical presence services in another country.[37]

With regards to mode 4, it includes both independent service suppliers, and employees of the services supplier of another country. Mode 4 only covers people moving temporarily, albeit no definition of temporary is provided. Very few unconditional commitments have so far been scheduled for mode 4, and the discussion at the political level often confuses mode 4 with migration, that is a permanent movement of persons.[38]

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[32] GATT Document MTN.GNS/W/164, 3 September 1993, Part II (B) (18), p. 7.
[33] Ibid, p. 8.
[34] Copeland, B. & Mattoo, A., see note 23, p. 4.
[35] Ibid, p. 4.
[36] Ibid, p. 4.
[37] Ibid, p. 4.
[38] Lehmann, A. & Tamirisa, N. T. & Wieczorek, J., see note 19, p. 8.

As described in Table 2.2., commercial presence is the key mode of services provision in most sectors and has a positive relationship with cross-border supply.[39] According to Lehmann, Tamirisa and Wieczorek, "lberalizing the regulations affecting foreign direct investors promises early and lasting efficiency gains in terms of transfers of skills and technology".[40]

Table 2.2.: Sale of Services by GATS Mode of Supply (2005)

Mode of supply	Estimated Share
Mode 1: Cross-border supply	25-30%
Mode 2: Consumption abroad	10-15%
Mode 3: Commercial presence	55-60%
Mode 4: Presence of a natural person	Less than 5%

Source: WTO[41]

The modes of supply can be substitutes or complements to one another and the relationship between them can have implications for the analysis of the impact of regulations on the quality and costs of services. Indeed, in order to fully gain from liberalisation, if the modes of supply are complements or imperfect substitutes, it is not enough for only one mode to be liberalised: effective access to service markets requires the freedom to use a combination of modes.[42]

2.3.2. GATS key principles and structure

GATS covers all internationally-traded services, except services supplied in the exercise of governmental authority and, in the air transport sector, traffic rights and all services directly related to the exercise of traffic rights. It provides a "comprehensive set of multilateral rules covering international trade in services as well as a forum for continuous negotiations".[43]

GATS represents an important step in the process of service liberalisation, which requires the removal of all discriminatory barriers that affect services and services providers.[44] Contrary to trade in goods, services are subject primarily to non-tariff barriers, which are more difficult to measure and less transparent than tariff barriers, and which may derive from a complex

[39] Sáez, S., see note 3, p. 12.
[40] Lehmann, A. & Tamirisa, N. T. & Wieczorek, J., see note 19, p. 21.
[41] Maurer, A. & Magdeleine, J. 'Measuring Trade in Services in Mode 4', World Trade Organization, (last accessed on 09th August 2011), www.unescap.org/tid/artnet/mtg/reformservice_maurer.pdf, slide 30.
[42] Goswami, A. G. & Mattoo, A. & Sáez, S. *Exporting Services: A Developing Country Perspective*, (last accessed on 01st July 2011), www.pecc.org/resources/doc_view/1686-exporting-services-a-developing-country-perspective-paper, p. 4.
[43] Lehmann, A. & Tamirisa, N. T. & Wieczorek, J., see note 19, p. 8.
[44] Sáez S., see note 3, p. 3.

relationship between legitimate policy objectives and protectionist aims.[45] Indeed, international service transactions are impeded by a variety of regulatory barriers, regarding especially foreign direct investment and the movement of the service providers, which span from certifications and licenses to quotas.[46]

As Lehamann, Tamirisia and Wieczorek point out, the most common barriers to trade in services, which stem from the absence or inadequate enforcement of national competition standards, are "quantitative restrictions or prohibitions on the provision of services by foreign residents; price-based measures applied through differential taxes on the transactions of foreign providers, or through additional charges on the regulatory processes that they engage in; additional licensing or certification requirements; and lack of access to distribution and communication networks".[47]

According to Sáez, service liberalization means allowing the private sector to participate in the provision of services; allowing foreign providers of services to compete on a non-discriminatory basis with state-owned companies and with the domestic private sector; and eliminate restrictions that create incentives for an inefficient and non-optimal provision of services.[48]

The benefits of service liberalisation derive from better market access abroad, increased competitiveness and efficiency of all sectors of the domestic economy as well as enhanced national welfare. Indeed, service liberalisation provides access to foreign capital and technology that, through enhanced competition and innovation, can offer consumers more choice in terms of quality and price at home and improve the productivity of producers.[49] According to Adlung and Roy, other two main reasons contribute to make service liberalisation even more beneficial than liberalisation of merchandise trade: barriers to trade in services are higher, less transparent and more distortive of competition than those to trade in goods; and most of the restrictions applied to services are non-revenue generating quotas.[50]

Also, services liberalisation would allow innovations to take place at a faster pace. According to de Sousa and Conrad, countries with liberalised markets have been great product and

[45] Ibid, p. 3.
[46] Cattaneo, O., see note 1, p. 12.
[47] Lehmann, A. & Tamirisa, N. T. & Wieczorek, J., see note 19, p. 6-7.
[48] Sáez, S., see note 3, p. 6-7.
[49] Cattaneo, O., see note 1, p. 7.
[50] Adlung, R. & Roy, M., *Turning Hills into Mountains: Current Commitments under GATS and Prospects for Change*, Geneva: World Trade Organization, Staff Working Paper ERSD-2005-01, March, 2005, p. 3.

process innovators.[51] This is due primarily to the intermediate nature of services which allow for transfer of skills and technologies that benefit the wider economy.

However, service liberalization cannot yield the expected benefits if policymakers do not make adequate efforts to introduce competition, if they fail to strengthen regulation and to carry out appropriate sequencing of reforms, and if they provide inadequate assistance to help implement reforms.[52]

GATS provides a useful tool for service liberalization albeit its reach is limited only to the sectors that countries include in their schedules of specific commitments, thereby locking in their policy regime.[53] GATS is useful to all stakeholders involved in trade in services, from governments to enterprises. The latter in particular benefit from the increased transparency that GATS provides because they can supply services under predictable, stable conditions and can plan long-term investments with greater certainty.[54]

GATS is based on four basic trade principles: most-favoured nation (MFN), market access, national treatment and transparency. According to the MFN principle, WTO Members should treat services providers in the same way as they would treat those from their most favoured trade partner and prohibits Members from discriminating between services and services providers from different member countries.[55] According to the market access principle, access to the domestic market should not be trade distorting.[56] The national treatment principle entails that foreign services and services providers should be treated no less favourably than domestic services and service providers. Finally, transparency means that a country's regulations should be clear and readily accessible to foreign service providers.[57]

GATS applies a hybrid approach to multilateral liberalisation of international services markets.[58] On the one hand, GATS is based on a general obligation of MFN treatment, which is limited by a 'negative list' of exceptions. As pointed out by Lehmann, Tamirisa and Wieczorek, "such exemptions, however, have a limited duration and could only be taken during the Uruguay Round and in the follow-up sectoral negotiations".[59] On the other hand, members make specific commitments on market access and national treatment in selected sectors by means of a 'positive list approach'. Within each sector, members make

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[51] de Sousa, P. & Conrad, D., see note 5.
[52] World Bank, see note 2, p. 18.
[53] Lehmann, A. & Tamirisa, N. T. & Wieczorek, J., see note 19, p. 7.
[54] de Sousa, P. & Conrad, D., see note 5.
[55] Lehmann, A. & Tamirisa, N. T. & Wieczorek, J., see note 19, p. 9.
[56] de Sousa P & Conrad D., see note 5.
[57] Ibid.
[58] Lehmann, A. & Tamirisa, N. T. & Wieczorek, J., see note 19, p. 9.
[59] Ibid, p. 9.

commitments for different modes of services supply. Yet again the commitments are subject to a ‘negative list’ of nonconforming measures (i.e. the measures that violate principles of market access and national treatment).[60] The level of liberalization under the GATS’ hybrid approach depends on the number of services sectors that are not included in the list of exemptions to the MFN treatment and on the sectors put in the positive list of commitments for which no nonconforming measures are maintained. [61]

Alongside the non-discriminatory treatment of foreign service suppliers and the transparency of regulatory regimes, other key tenets of the GATS are: recognition of standards; objective and reasonable regulations; and, most importantly, progressive liberalization through further negotiations.[62] According to Lehmann, Tamirisa and Wieczorek, these principles provide powerful incentives that will help to attract capitals, expertise and access to international information networks that global service companies control, increase the predictability and transparency of market access regimes and circumscribe anticompetitive practices by foreign service providers, and the conduct of state-owned service providers.[63]

The GATS also includes annexes, which outline issues in specific services sectors, such as professional services, air transport, financial services, maritime transport, and telecommunications.[64]

2.3.3. Liberalisation through GATS negotiations

Liberalization can occur unilaterally as well as at plurilateral and multilateral level. Although GATS remains the main forum for multilateral negotiations, plurilateral trade agreements (PTAs) covering services have flourished since the mid-1990s. 83 services PTAs have been notified since 1995. They account for almost 30% of all WTO-notified PTAs. Moreover, many governments have carried out policy reforms to relax restrictions on foreign provisions of services autonomously, outside the realm of negotiations. Indeed, the commitments inscribed in the Members’ schedules of commitments at the end of the Uruguay Round were essentially confined to existing regimes in a limited number of sectors whereas further progress has been the result of unilateral liberalisation by individual countries.[65]

Albeit unilateral liberalisation may be feasible, countries should enter reciprocal negotiations to liberalise trade in services for three main reasons. First of all, negotiations allow for deeper

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[60] Ibid, p. 9.
[61] Ibid, p. 9.
[62] World Trade Organization, see note 10.
[63] Lehmann, A. & Tamirisa, N. T. & Wieczorek, J., see note 19, p. 8 and 22.
[64] Ibid, p. 9.
[65] Adlung, R. & Roy, M., see note 50, p. 3.

liberalization through the reciprocal exchange of concessions. Secondly, governments' reforms are more credible through binding commitments. Thirdly, negotiations allow for regulatory cooperation.

Following GATT Article XIX, which establishes that WTO Members should engage in further negotiations with a view to achieve higher levels of service liberalization, GATS has been characterised by continuous negotiations and deliberations in committees and working parties in order to expand the coverage of the agreement.[66] The latest round of negotiations began in 2000 and became part of the 'single undertaking' under the Doha Development Agenda at the Doha Ministerial Conference in November 2001. Currently, services negotiations focus on four topics: market access, domestic regulation, GATS rules and implementation of LDC modalities.

2.4. Trade in services and developing countries

Most developing countries tend to believe that trade in services is the realm of developed countries and that they are not able to play a greater role in services liberalisation. However, albeit trade statistics confirm that developed countries play a major role in trade in services, several developing countries have the potential to participate more actively in trade in services by becoming service exporters, provided that, as pointed out by Cattaneo, they liberalise services in a proper sequence and implement policy reforms that create an enabling environment for private sector service providers.[67]

According to Ghani and Homi, developing countries can sustain services-led growth because there is enormous space for catching up and convergence.[68] Also, the globalisation of services contributes to expanding the opportunities for developing countries to develop on the basis of their comparative advantage and to specialise in sectors other than manufacturing and agriculture.[69] For example, due to their advanced skills and lower labour costs, many developing countries have substantial untapped potential to satisfy the demand for Business Process Outsourcing services such as accounting, engineering, IT and legal services.[70] It is not necessary for developing countries to become industry based economies before becoming services exporters. As India exemplifies, a developing country can directly move from an agriculture based economy to a knowledge based economy, as long as it is able to fulfil its potential as services exporter.

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[66] Hoekman, B. M. & Kostecki, M. M., see note 11, p. 353.
[67] Cattaneo, O., see note 1, p. 7.
[68] Ghani, E. & Homi, K., see note 17, p. 4.
[69] Ibid, p. 4.
[70] Cattaneo, O., see note 1, p. 7.

The passive role that many developing countries have taken so far in services liberalisation depends also on a number of other factors. First of all, most developing countries are often unable to engage meaningfully in service negotiations because of lack of adequate human, financial and administrative resources.[71] Indeed, numerous developing countries often do not have a permanent representation in Geneva, at the heart of the multilateral trade world, and they frequently lack human resources with adequate competences in trade policy. Also, they often have limited financial resources which constrain they ability to engage more actively in trade negotiations. Secondly, many developing countries tend to be more defensive in their commitments to market access because they are afraid of repercussions that further entry of foreign service suppliers could have on their domestic market, especially in terms of employment. Indeed, several developing countries have voiced concerns over the risks from further services liberalization regarding, among others, the impact of opening domestic service sectors on poverty and the risk of displacement of unskilled labour as a result of the local establishment of foreign services providers or the entry of new domestic competitors.[72] Thirdly, many developing countries are often ill-equipped to implement commitments adequately, especially in case of North-South Agreements.[73]

The difficulties faced by most developing countries in their ability to engage meaningfully in service negotiations translate into cautious negotiating stances and levels of bound commitments.[74]

However, many developing countries would greatly benefit from service liberalisation because it will allow resources to be allocated more efficiently. A better allocation of resources improves price, choice and quality of services and the overall economic capacity, which in turn facilitates trade in manufacturing and agriculture, a traditional export earner for developing countries.[75] By gaining market access several developing countries would be able to export those services where they have relative strength or comparative advantage. Indeed, access to foreign markets is important for most developing economies because it enables them to improve their export earnings and the employment opportunities of their nationals, as well as to increase the efficiency in their own economies so as to mobilise resources for development.[76]

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[71] Sáez, S., see note 3, p. 4.
[72] Lehmann, A. & Tamirisa, N. T. & Wieczorek, J., see note 19, p. 12.
[73] Sáez, S., see note 3 , p. 5.
[74] Ibid, p. 20.
[75] McGuire, G., 'Trade in Services: Market Access Opportunities and the Benefits of Liberalization for Developing Countries', *Policy Issues in International Trade and Commodities Study Series*, No.19, New York: United Nations, June 2003, p. 1.
[76] Ibid, p. 1.

3. CHAPTER 3 – SERVICES EXPORTS

Services exports represent an opportunity for many developing countries because they can directly affect overall competitiveness and growth and indirectly affect poverty, employment and consumption.[77] Moreover, increasing services exports may alleviate balance of payments deficits, which affect many developing countries, by creating potentially significant new export earners.[78] Finally, increased exports of services allow developing countries to diversify their development strategy and to move away from relying on agriculture and natural resources only to grow.[79]

Services exports are to be analysed and understood in the general context of trade in services and in relationship with services imports. Current trends, patterns and flows of trade services, import services and export services help clarify the political economy framework within which the research takes place.

3.1. Trade in services: statistical introduction

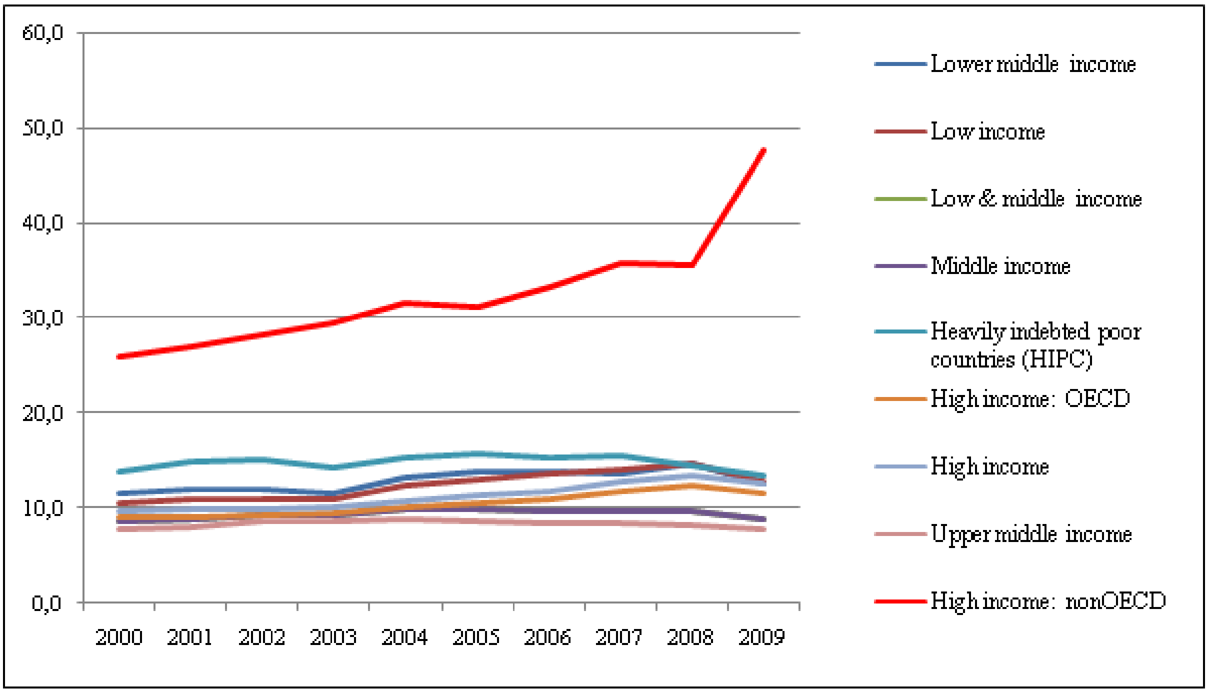
In order to understand the role and importance of trade in services in world trade, it is necessary to look closely at the available data on services imports and exports. Data on trade in services derive from statistics on international service transactions that are included in the balance of payments (BOP) statistics.[80] The latter present two main characteristics. First of all, BOP statistics cover only three modes of supply: cross-border supply (mode 1), consumption abroad (mode 2) and presence of natural persons (mode 4). Commercial presence (mode 3), which is not covered by BOP statistics, is captured primarily by Foreign Affiliates Statistics (FATS), which are currently available only for developed countries.[81] Secondly, BOP statistics refer to 'commercial services', which the 5th Edition of the IMF Balance of Payments Manual defines as all "services minus government services".[82]

Statistical data show that world trade in services accelerated markedly between 2000 and 2008 but, as a consequence of the global financial crisis, slowed down between 2008 and 2009. As shown in Chart 3.1., in the period 2000-2008 trade in services accounted on average

[77] te Veld, D. W., 'Offshoring: opportunities and threats as services go global', *Overseas Development Institute*, July 2004, (last accessed on 27th August 2011), www.odi.org.uk/resources/download/482.pdf
[78] Ibid.
[79] Ibid.
[80] World Trade Organization, 'Technical Notes', (last accessed on 19th August 2011), www.wto.org/english/res_e/statis_e/technotes_e.htm
[81] Even among the developed countries only a handful have started compiling Foreign Affiliates Statistics (FATS), a new conceptual framework launched in 2002 which, among other indicators, would provide sufficient information on GATS mode 3. World Trade Organization, *Participation of developing countries in the global trading system*, Committee on Trade and Development, Note of the Secretariat, WT/COMTD/W/172/Rev.1, 21 January 2010, p. 4.
[82] World Trade Organization, see note 80.

for about 11 per cent of GDP for all income levels, with the exception of high income non-OECD countries[83], whose trade in services accounted on average for over 30 per cent of GDP during the same period. Chart 3.1. also shows that since 2004 trade in services has grown as a percentage of GDP until 2008. Indeed, all developing regions experienced an acceleration in their exports and imports of commercial services over the 2006-2008 period.[84] In 2009, as a result of the global financial crisis, trade in services as a percentage of GDP has decreased for all income levels, with the exception of high income non-OECD countries, whose trade in services as a percentage of GDP, rose from 35 per cent in 2008 to almost 50 per cent in 2009.

Chart 3.1.: Trade in services (% GDP) - Income levels[85]



Source: Elaboration of the Author based on World Bank data (World Development Indicators)[86]

A comparison across developing regions, illustrated in Chart 3.2., shows that trade in services as a percentage of GDP has increased in the world from around 9 per cent in 2000 to over 12 per cent in 2008, before falling of about 1 per cent in 2009. It is important to notice that trade

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[83] High income non-OECD countries are . They include Andorra, Antigua and Barbuda, Aruba, Bahamas, Barhain, Barbados, Bermuda, Brunei, Cayman Islands, Channel Islands, Croatia, Cyprus, Equatorial Guinea, Estonia, Faeroe Islands, French Polynesia, Greenland, Guam, Hong Kong, Isle of Man, Israel, Kuwait, Liechtenstein, Macao, Malta, Monaco, Netherlands Antilles, New Caledonia, Northern Mariana Islands, Oman, Puerto Rico, Qatar, San Marino, Saudi Arabia, Singapore, Slovenia, Trinidad and Tobago, United Arab Emirates and Virgin Islands. World Bank, 'List of Economies (January 2011), (last accessed on 20th August 2011), http://shop.ifrs.org/files/CLASS.pdf

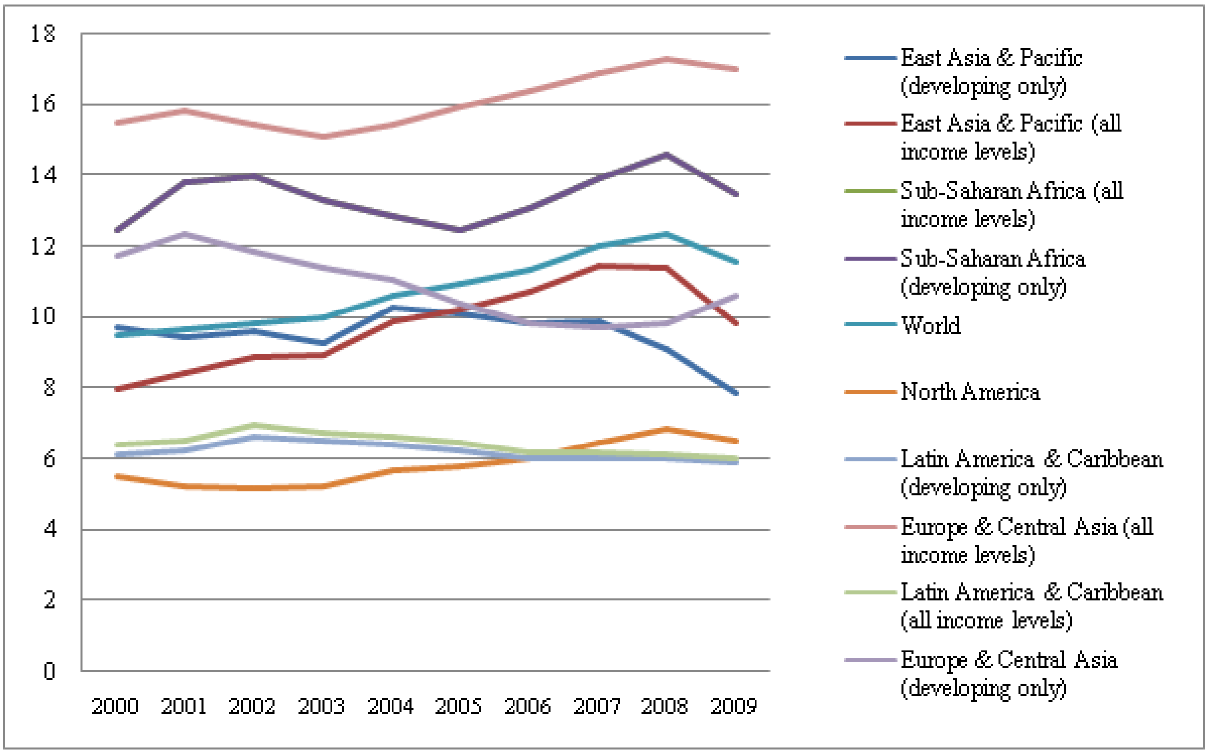
[84] World Trade Organization, see note 81, p. 4.

[85] Trade in services is the sum of service exports and imports divided by the value of GDP, all in current U.S. dollars. World Bank, 'Data: Indicators', (last accessed on 14th September 2011), http://data.worldbank.org/indicator.

[86] Ibid.

in services as a percentage of GDP accounts more than the world average for developing countries in Sub-Saharan Africa.

Chart 3.2.: Trade in services (% GDP) – Developing regions



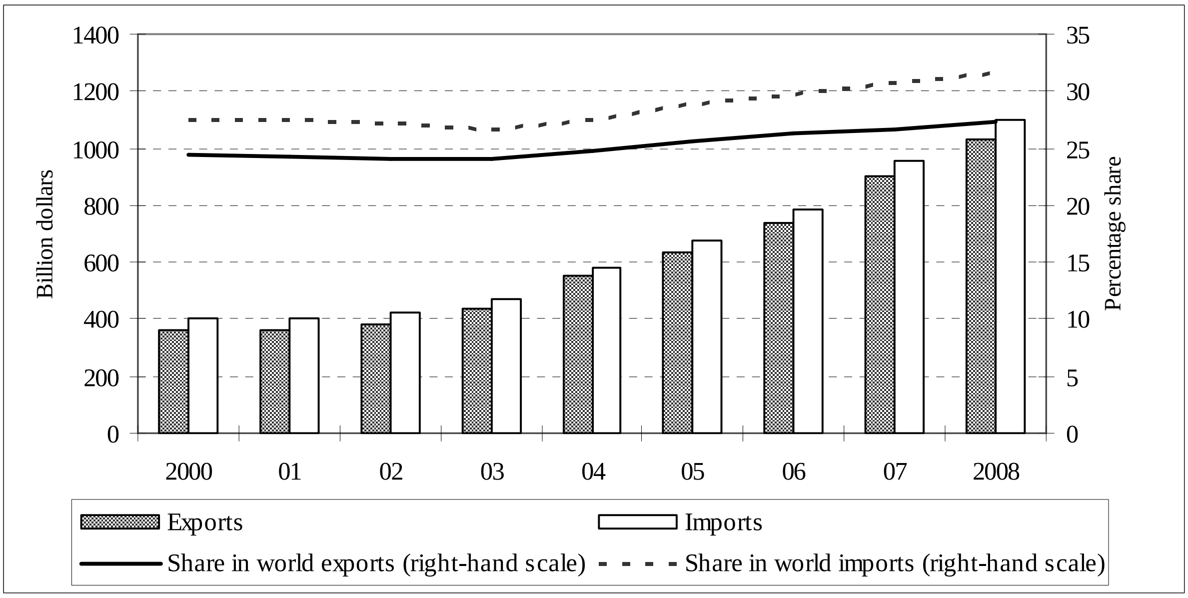
Source: Elaboration of the Author based on World Bank data (World Development Indicators)[87]

Also, Chart 3.2. shows that, compared to all other categories, only in developing countries in Europe and Central Asia trade in services as a percentage of GDP has increased in the period 2008-2009 whereas countries in East Asia and the Pacific, especially developing countries, have suffered the greatest decrease in the period 2007-2009.

Developed countries have the lion's share of the trade in services.[88] World Bank data show that developed countries still account for most service exports and service imports. Developed countries' share of world exports and imports in commercial services rose from 24 per cent in 2000 to 27 in 2008 and from 28 per cent in 2000 to 32 per cent in 2008, respectively.[89] However, growing at a faster pace than developed economies, developing countries have increased their participation in international service transactions, both as suppliers and as importers of services, as illustrated in Chart 3.3..

[87] World Bank, see note 85.
[88] Sáez, S., see note 3, p. 2.
[89] World Trade Organization, see note 81, p. 16.

Chart 3.3.: Developing economies' trade in commercial services (BOP basis), 2000-2008



Source: World Trade Organization[90]

3.2. Services imports

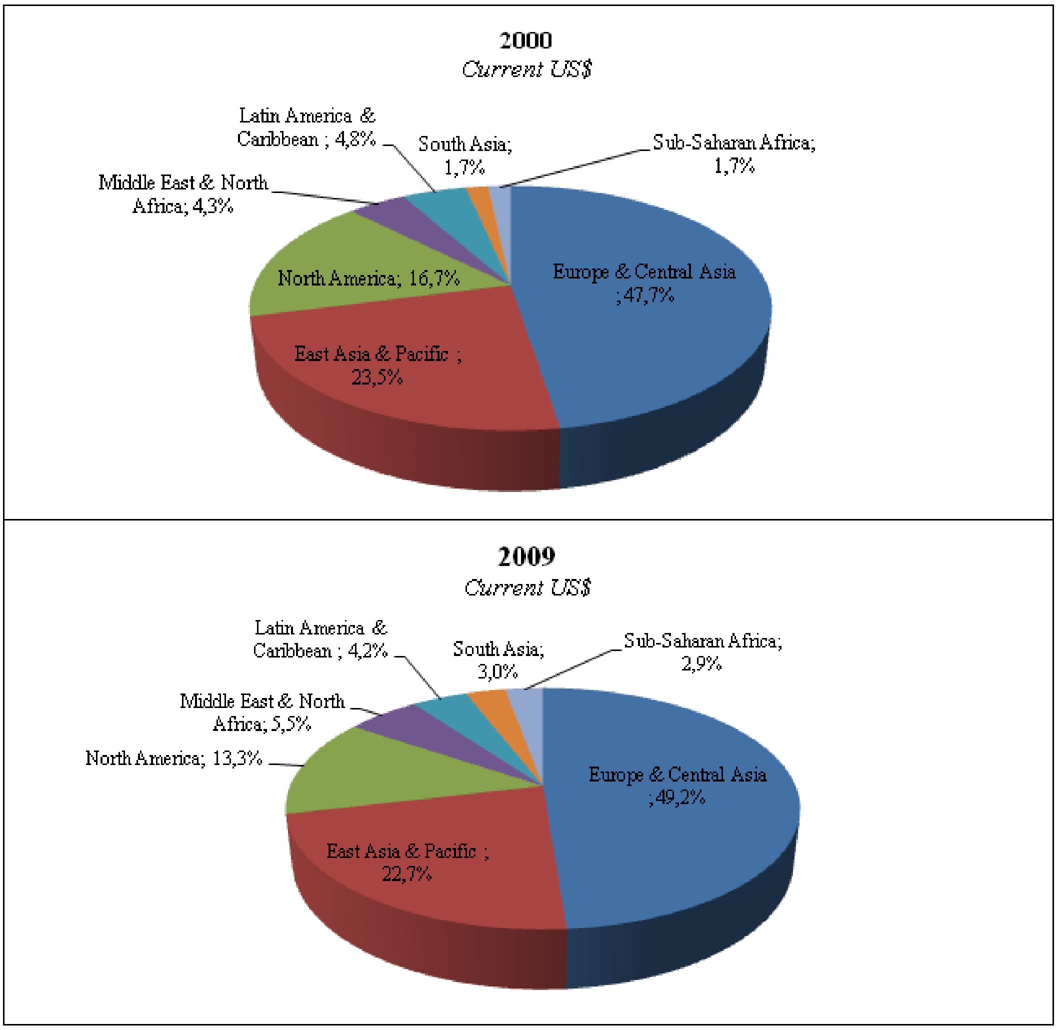
Service imports play a significant role for service exports. They allow capital and knowledge to flow in the importing country and, as a consequence, contribute to increasing the productivity and competitiveness of all sectors of the economy, including services that are exported.

Developed countries have been the main commercial service importers in the past two decades. However, in the last ten years the increase in service imports can be attributed primarily to the growth of developing countries such as China and India as well as developed countries such as Ireland and Singapore.

As Chart 3.4. shows, Europe & Central Asia and North America alone accounted for 62.5 per cent of commercial service imports in 2009. However, their share of world service imports has decreased from an initial 64.4 per cent in 2000. On the contrary, Middle East & North Africa, South Asia and Sub-Saharan Africa have increased their share of world service imports of 1.2 per cent each from 2000 to 2009.

[90] Ibid, p. 16.

Chart 3.4: Commercial services imports (comparison between 2000 and 2009)



Source: Elaboration of the Author based on World Bank data (World Development Indicators)[91]

According to the World Trade Organization, the share of world service imports of developed economies decreased from 70 per cent in 2000 to 65 per cent in 2008, whereas the share of developing countries increased from 28 per cent in 2000 to 32 per cent in 2008.[92] Service imports of developing Asia, Africa and the Middle East grew at an annual average growth of 14 per cent, 16 per cent and 17 per cent respectively during 2000-2008.[93] In the same period Latin America's imports grew by a moderate 9 per cent per year.[94]

As indicated in Table 3.1, United States, Germany and United Kingdom are the main service importers. Their share of service imports accounted for 24 per cent of world service imports in 2009. Among developing countries, China, India, Brazil, South Korea and Thailand are the main service importers, accounting for over 12 per cent of total world services imports. China

[91] World Bank, see note 85.
[92] World Trade Organization, see note 81, p. 18.
[93] Ibid, p. 18.
[94] Ibid, p. 18.

alone represented over 5 per cent of total world service imports in 2009, a percentage very close to that of the United Kingdom. It should also be noted that China and India have become increasingly more important service importers. Indeed, in 1995 China and India ranked 12th and 26th respectively, whereas in 2009 they rank 4th and 12th respectively.

Table 3.1.: Main service importers (2009)

Ranking			Country Name	2009 *(Current US$)*	% World Service Imports
1995	***2000***	***2009***	***World***	***3.107.448.533.089,62***	***100,00%***
1st	1st	1st	United States	334.311.149.000,00	10,76%
2nd	2nd	2nd	Germany	253.467.121.832,71	8,16%
5th	4th	3rd	United Kingdom	160.035.774.984,46	5,15%
12th	10th	4th	China	158.107.261.814,82	5,09%
3rd	3rd	5th	Japan	146.965.281.284,27	4,73%
4th	5th	6th	France	126.424.929.001,91	4,07%
6th	6th	7th	Italy	114.581.265.477,35	3,69%
25th	13th	8th	Ireland	104.551.321.168,00	3,36%
13th	12th	9th	Spain	86.987.787.517,63	2,80%
7th	7th	10th	Netherlands	84.624.886.963,67	2,72%
26th	18th	12th	India	80.274.315.005,54	2,58%
11th	11th	14th	Korea, Rep.	74.978.200.000,00	2,41%
23rd	24th	21st	Brazil	44.074.337.000,00	1,42%
16th	26th	23rd	Thailand	37.541.007.160,14	1,21%

Source: Elaboration of the Author based on World Bank data (World Development Indicators)[95]

3.3. Services exports

The increasing participation of developing countries in trade in commercial services is not limited to service imports but occurs also in service exports. In some developing countries, services exports are growing even faster than exports of goods.[96]

3.3.1. Geographical composition

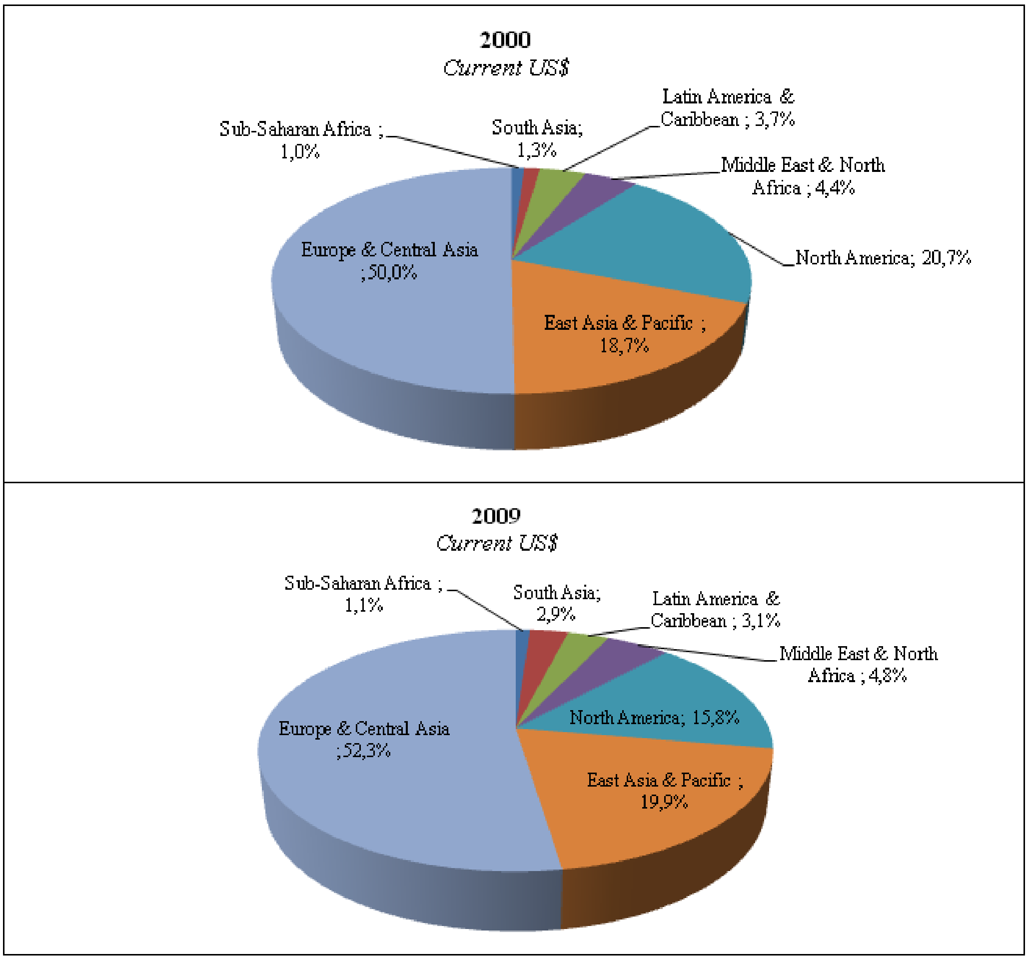
Developed countries are the largest services exporters but developing countries are among the most dynamic.[97] In the period 1990-2007, the average growth of services exports for high income countries was 8.7 per cent whereas for low income and lower middle income countries was about 10 and 13 per cent, respectively.[98] Moreover, according to the World Trade Organization, the share of world service exports of developed economies decreased from 74 per cent in 2000 to 71 per cent in 2008, whereas the share of developing countries

95 World Bank, see note 85.
96 World Bank, see note 2, p. ii.
97 Ibid, p. ii.
98 Ibid, p. 7.

increased from 24 per cent in 2000 to 27 per cent in 2008.[99] In 1990 the share of developing countries in world service exports was 14 per cent. [100]

Chart 3.5 shows that developing countries have increased their contribution to world trade in commercial services exports. Indeed, albeit Europe & Central Asia and North America account for almost 70 per cent of world service exports, their total share has decreased from 71 per cent in 2000 to 68 per cent in 2009. In the meanwhile, East Asia & Pacific and South Asia have witnessed an increase in their share of world service exports from 20 per cent in 2000 to 23 per cent in 2009. In should be noted that most countries in Europe & Central Asia as well as in North America are developed countries whereas most countries in East Asia & Pacific as well as South Asia are developing countries, in the broader sense of the term.

Chart 3.5: Commercial services exports (comparison between 2000 and 2009)



Source: Elaboration of the Author based on World Bank data (World Development Indicators)[101]

Service exports from developing Asia, Africa and the Middle East grew at an annual average growth of 15 per cent, 14 per cent and 14 per cent respectively during 2000-2008.[102] In the

[99] World Trade Organization, see note 81, p. 18.
[100] World Bank, see note 2, p. ii.
[101] World Bank, see note 85.

same period Latin America's and developing Europe's exports grew annually by 10 per cent and 11 per cent, respectively.[103]

In the last 25 years, services exports from about 20 developing countries have grown at an annual rate of 15 per cent.[104] Among these countries there are Russia, Morocco, Cambodia, Nigeria and China. The latter in particular has significantly grown into one of the leading service exporters in the world. As Table 3.2. shows, China ranked 15th among the top service exporters in the world in 1995 whereas it ranked 5th in 2009. Also India has become a leading service exporter, primarily due to computer and Information Technology enabled Services (ITeS) exports. As illustrated by Table 3.2. India ranked 33rd among service exporters in 1995 while it ranked 12th in 2009.

Notwithstanding the increasing participation of developing economies to service exports, Table 3.2. shows that three developed countries top the list of service exporters: United States, United Kingdom and Germany. The three countries combined accounted for 28 per cent of world service exports in 2009.

Table 3.2.: Main service exporters (2009)

Ranking			Country Name	2009 *(Current US$)*	% World Service Exports
1995	*2000*	*2009*	***World***	***3.367.307.588.589,78***	***100,00%***
1st	1st	1st	United States	475.978.986.000,00	14,14%
3rd	2nd	2nd	United Kingdom	236.253.684.775,46	7,02%
4th	4th	3rd	Germany	226.638.089.256,20	6,73%
2nd	3rd	4th	France	142.487.270.816,68	4,23%
15th	12th	5th	China	128.599.892.380,90	3,82%
5th	5th	6th	Japan	125.918.017.230,52	3,74%
8th	7th	7th	Spain	122.101.018.710,46	3,63%
6th	6th	8th	Italy	101.237.041.012,34	3,01%
38th	23rd	9th	Ireland	92.964.366.609,90	2,76%
7th	9th	10th	Netherlands	90.852.681.225,23	2,70%
33rd	25th	12th	India	90.193.277.363,86	2,68%
19th	28th	27th	Thailand	29.676.793.286,83	0,88%
22nd	27th	29th	Malaysia	28.726.914.680,69	0,85%
35th	33rd	31st	Brazil	26.245.160.400,00	0,78%
29th	31st	34th	Egypt, Arab Rep.	21.302.200.000,00	0,63%
36th	38th	41st	Indonesia	13.238.244.249,74	0,39%
49th	49th	42nd	Morocco	11.891.620.013,68	0,35%
39th	39th	44th	South Africa	11.656.009.456,61	0,35%
28th	47th	47th	Philippines	10.101.000.000,00	0,30%

Source: Elaboration of the Author based on World Bank data (World Development Indicators)[105]

[102] World Trade Organization, see note 81, p. 18.
[103] Ibid, p. 18.
[104] World Bank, see note 2, p. ii.
[105] World Bank, see note 85.

It should also be noted that the overall performance of a few developing countries, such as Thailand, Malaysia and the Philippines, worsened over the last fifteen years, although in specific sectors their performance has improved over time. For example, the Philippines are becoming leader in exports of voice BPO services.

As far as destination countries are concerned, developing countries have been able to diversify their services exports markets. According to Goswami, Mattoo and Sáez, a developing country has on average 33 service export markets, with developing countries accounting for about two thirds of the destination markets of other developing countries.[106]

3.3.2. Sectoral composition

Within trade in services, three main sub-sectors can be identified for BOP statistical purposes: transport services, travel and other commercial services. The latter can by further subdivided into communication services, financial services, insurance services, construction services, computer and information services, royalties and licence fees, other business services and personal, cultural and recreational services.[107]

According to Cattaneo, services such as financial services, communication services, and business and professional services have emerged as particularly dynamic.[108] Indeed, economies which in recent years developed new export-oriented service activities such as Business Process Outsourcing (BPO) or computer services have experienced particularly strong export growth.[109]

With an average annual growth of 15 per cent, other commercial services was the most dynamic service sector between 2000 and 2008.[110] In the same period, transportation services and travel exports grew on average 13 per cent and 9 per cent per year, respectively.[111] Different rates of growth have led to a different structure of world exports in the period 2000-2008, with an increase in the share of total service exports by other commercial services and a decrease in travel. Indeed, transportation services, travel and other commercial services accounted for 23 per cent, 32 per cent and 45 per cent of total exports of commercial services in 2000 whereas they accounted for 24 per cent, 25 per cent and 51 per cent, respectively, in 2008.[112]

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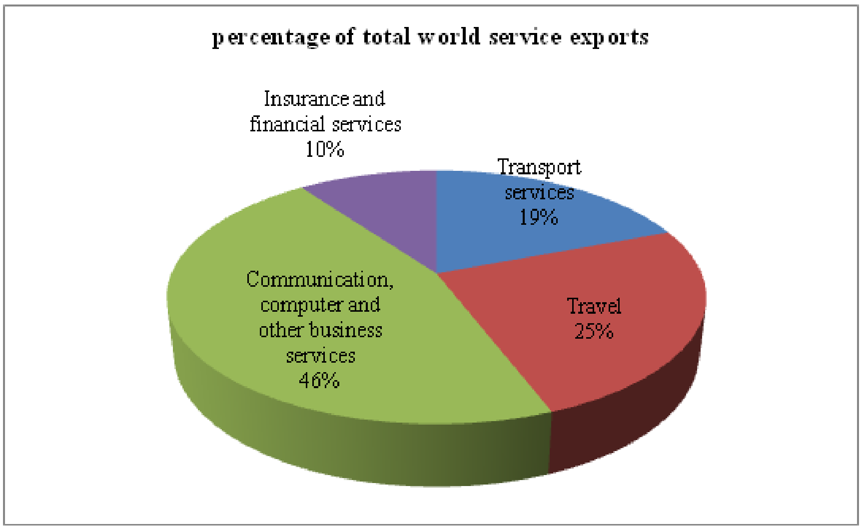
[106] World Bank, see note 2, p. 13.
[107] World Trade Organization, see note 80.
[108] Cattaneo, O., see note 1, p. 3.
[109] World Trade Organization, see note 81, p. 4.
[110] Ibid, p. 1.
[111] Ibid, p. 1.
[112] Ibid, p. 1.

A closer look to the structure of world service exports shows that, as illustrated in Chart 3.6., communication, computers and other business services account for almost half of world service exports, whilst travel, transport services and insurance and financial services account for 25 per cent, 19 per cent and 10 per cent of world service exports, respectively. Thus, between 2008 and 2009, transport services exports have been affected more than other sectors by the financial crisis. This finding is consistent with the decrease in sharp fall in merchandise trade registered in the same period.[113]

Chart 3.6.: Sectoral composition of world service exports (BOP) in 2009



Source: Elaboration of the Author based on World Bank data (World Development Indicators)[114]

3.4. Developing countries as service exporters

A few developing economies, such as Maldives and several Caribbean countries, depend almost exclusively on one service sector, mainly tourism.[115] However, Goswami, Mattoo and Sáez point out that services exports of developing countries are not concentrated in a few areas but already span a wide variety of services, from technology and skills-intensive services such as BPO services to labour- and resources-intensive services such as construction services.[116]

According to Goswami, Mattoo and Sáez, differences in trade patterns can be observed among developing regions as well as within developing regions. [117] For example, in Latin America services exports tend to concentrate on commercial presence (mode 3), through

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[113] World Trade Organization, *International Trade Statistics 2010*, Geneva: World Trade Organization, 2010, p. 118.
[114] World Bank, see note 85.
[115] World Trade Organization, see note 81, p. 2.
[116] World Bank, see note 2, p. 13.
[117] Ibid, p. 14.

direct investment within the region.[118] In South Asia, on the other hand, services exports are mainly concentrated on cross-border supply (mode 1) and are directed primarily at developed countries.[119] In Africa and Middle East and North Africa (MENA), no clear pattern can yet be observed in terms of dominant mode of supply. In terms of target-markets, most services exports from the MENA Middle East and North African are destined to Europe whereas South African export services providers are increasingly exporting to the same region.[120]

Several developing countries have experienced different degrees of success in exporting services, where success is to be intended both in qualitative and in quantitative terms. Indeed, some developing countries have been able to export successfully retailing services and transportation services (e.g. Chile and China), health and higher education services (e.g. Malaysia) and BPO services (e.g. India and Philippines) but have not been as successful in exporting ITC (e.g. Chile and Malaysia) or tourism (e.g. Philippines and Egypt).[121]

Economic literature offers different explanations for the different degrees of success experienced by some developing countries in service exports. For example, with reference to differences among countries, Amin and Mattoo stated that "countries with better institutions have relatively larger and more dynamic service sectors".[122] Thus, institutions are a determining factor in the success of a country to export services. Goswami, Mattoo and Sáez, on the other hand, stress the central role that human capital plays in affecting the service exporting performance of a country in comparison to another country and of a service sector in comparison to another service sector.[123]

A SWOT analysis on developing countries summarized in Table 3.3. shows that many factors should be taken into consideration to assess the competitive potential of many developing countries in becoming successful service exporters. Understanding which factors in particular affect the competitiveness of a developing country in exporting services is crucial to determine which measures and actions enterprises, institutions and policymakers should undertake in order to improve a country's competitiveness in service exports.

The SWOT analysis illustrated in Table 3.3. is based on aggregate assessment of developing countries. However, it is neither exhaustive nor directly applicable to each single developing country. As previously stated, developing countries range from fast-growing economies to

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[118] For example, Chile has 61 per cent investment abroad in services and energy industries is located in neighbouring countries. Ibid, p. 14.
[119] Ibid, p. 14.
[120] Ibid, p. 14.
[121] Ibid, p. ii.
[122] Amin, M. & Mattoo, A. 'Do Institutions matter more for services?', *Policy Research Working Paper Series 4032*, Washington DC: World Bank, 2006 , Abstract.
[123] World Bank, see note 2, p. 22.

small land-locked countries. Strengths and weaknesses may vary according to the country, sector and mode of supply at issue. The following chapters will analyse more in detail the competitiveness challenges that, for each mode of supply, many developing countries might face in order to fulfil their potential as service exporters.

Table 3.3.: SWOT analysis – developing countries as potential service exporters

STRENGTHS	**WEAKNESSES**
• comparative advantage in labour-intensive services • strong entrepreneurial culture • relatively low labour costs • historical and cultural linkages with potential target-markets (especially important for BPO and education services) • abundant in historical, artistic, cultural and natural endowments (particularly important for tourism)	• low quality of human capital • mediocre electronic and physical infrastructures • poor standards and inadequacies in domestic regulations (particularly disadvantageous for accessing foreign markets) • limited financial and administrative resources • lack of adequate instruments and methodologies for market intelligence • information deficits • political instability • low brand recognition and difficulties in establishing credibility with international suppliers • lack of or excessive fragmentation of regulatory institutions • burdensome business environment • service exporters not highly motivated to participate in government consultations • government resources still focus on promoting merchandise trade • weak enforcement of copyright laws
OPPORTUNITIES	**THREATS**
• language skills (English for Philippines and former British colonies, European languages for North African countries) offer opportunities in BPOs, health and education services • geographical position (time difference) can provide opportunities in transport, financial and BPO services • high demand for health and education professionals • large diaspora in potential target markets	• increasing cost of business • increasing competition • increasing protectionist feelings in advanced economies towards offshoring of services • brain drain

Source: Elaboration of the Author based on several sources[124]

[124] Sáez, S., see note 3, p. 49,65, 66 and 79; Commonwealth Secretariat, 'Regional Capacity Building Workshop to Enhance Services Exports', Final Report, Mombasa, Kenya 7-9 June 2011, p. 13, 14;

4. CHAPTER 3 - MODE 1: CROSS-BORDER SUPPLY

According to GATS Article I, cross-border supply takes place when the supplier and the consumer remain in their own territories when the international transaction occurs. From a GATS-relevant statistical perspective, mode 1 transactions can be defined as those recorded in the category of balance of payments services minus travel, which corresponds to mode of supply 2 (consumption abroad), and minus government services, which are not covered by GATS.[125]

The Manual on Statistics of International Trade in Services (MSITS 2010) provides an internationally agreed framework for compiling statistics of international trade in services.[126] According to MSITS 2010, service transactions as recorded in the balance of payments broadly cover mode 1, mode 2 and mode 4 whereas FATS sales or outputs provide most information on the supply of services through mode 3.[127]

Allocating a service to a specific BOP component is not easy as a single service maybe be supplied through a combination of modes. Thus, MSITS 2010 suggests to allocate services in BOP statistics according to the dominant mode or, where there is no dominant mode, to the most significant. Albeit there are BOP services transactions which largely correspond to a specific mode of supply, there are some types of services where no single mode is dominant. For example, the distinction between mode 1 and mode 2 becomes less clear when the electronic supply of services is concerned. However, services where no single mode is found to be dominant generally involve mode 4 in combination with another mode of supply. Thus, according to the MSITS 2010, in order to make a proper assessment of the share of each combined mode of the BOP components it is necessary to establish where the supplier is located at the time when major transactions are delivered.[128]

4.1. Mode 1 dominated service exports

From a BOP statistical perspective, transportation and other commercial services are mainly allocated to mode 1 whereas travel is allocated to mode 2. Albeit other commercial services can be supplied through a combination of mode 1 and mode 4, statistical estimates show that

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[125] Karsenty, G., see note 8, p. 36.

[126] World Trade Organization, *A Review of Statistics on Trade Flows in Services – Data Compilation and Availability*, Council for Trade in Services, Note by the Secretariat, S/C/W/329, 22 December 2010, p. 1, footnote 3.

[127] Ibid, p. 17.

[128] As indicated in table 2.1, for mode 1 and 2 the service supplier is not within the territory of the Member receiving the service whereas for mode 4 the service supplier is. United Nations Statistical Division, *Manual on Statistics of International Trade in Services 2010 (MSITS 2010)*, Geneva, Luxembourg, New York, Paris, Washington, D.C.: United Nations, 2011, p. 125.

mode 4 is the least relevant mode of supply and thus its role tends to be secondary to cross-border supply.

A more in-depth analysis of the 'other commercial services' component shows that within this category there are some services which tend to be more mode 1 dominated whereas other tend to be more mode 3 dominated. For example, communication services, information and computer services, BPO services and telecommunications are supplied primarily through mode 1 whereas distribution services, construction services, banking and insurance services are supplied primarily through mode 3 or through a combination of mode 1 and 3. Mode 3 dominated services are not captured by BOP statistics.

4.2. Developing countries and Mode 1 services exports

High income countries remain the main services exporters through cross-border supply. As shown in Table 4.1., high income countries accounted for 83 per cent of cross-border supplied services in 2009 whereas middle income countries accounted for over 16 per cent.

Table 4.1.: Cross-border supply in 2009, income level composition (current US$)

	Cross-Borders supply *(Current US$)*	**Cross-Borders supply** *(%)*
World	**2.574.740.586.216,74**	
High income	***2.139.340.147.211,11***	***83,0%***
High income: OECD	*1.911.912.279.347,49*	*74,3%*
High income: nonOECD	*227.427.867.863,63*	*8,7%*
Low & middle income	***436.639.740.284,50***	***17,0%***
Middle income	*424.443.581.588,65*	*16,5%*
Upper middle income	268.418.923.106,80	10,3%
Lower middle income	162.182.721.721,96	6,2%
Low income	*12.196.158.695,84*	*0,5%*
Heavily indebted poor countries (HIPC)	-	

Source: Elaboration of the Author based on World Bank data (World Development Indicators)[129]

Table 4.2., however, shows that there are also two developing countries among the 10 top mode 1 service exporters: China and India. China's position is supported by a thriving transport sector and expanding exports of other commercial services whereas India's position is driven by other commercial services, primarily BPO services and computer and information services.[130] India indeed has rapidly become the leading BPO destination, providing remote

[129] World Bank, see note 85.
[130] World Trade Organization, *A Review of Statistics on Trade Flows in Services – Overview of Trade Flows in Commercial Services 2000-2010*, Council for Trade in Services, Note by the Secretariat, Addendum, S/C/W/329/Add.1, 7 January 2011, p. 2.

services such as interactive customer services (call centres), medical and legal transcription services, auditing, bookkeeping and tax consulting services.[131]

Table 4.2.: Main Mode 1 service exporters (2009)

Ranking	Country	Cross-Border supply *(current US$)*	Cross-Border supply *(percentage)*
	World	***2.574.740.568.216***	
1	United States	376.738.020.000	14,6%
2	United Kingdom	209.066.394.903	8,1%
3	Germany	196.480.413.636	7,6%
4	Japan	118.008.939.971	4,6%
5	France	94.024.096.067	3,7%
6	China	89.874.408.731	3,5%
7	Ireland	87.348.592.402	3,4%
8	Singapore	81.720.199.399	3,2%
9	Netherlands	80.909.551.106	3,1%
10	India	79.462.416.378	3,1%
27	Thailand	14.275.637.612	0,6%
30	Malaysia	12.971.573.316	0,5%
34	Egypt, Arab Rep.	10.764.500.000	0,4%
38	Philippines	7.772.000.000	0,3%
41	Chile	6.939.248.848	0,3%

Source: Elaboration of the Author based on World Bank data (World Development Indicators)[132]

The Philippines are also following in India's footsteps by becoming an alternative BPO location. The Philippines' emerging BPO industry is composed of over 600 IT and BPO companies which employ around 400,000 employees. With a 70 per cent share, call centres represent the largest segment of the Philippines' BPO industry.[133] With an annual growth of 46 per cent since 2006, the BPO industry in the Philippines has earned US$ 7.2 billion (21 per cent of total offshore BPO) in 2009 and US$ 9 billion in 2010 whilst in 2001 it had earned US$ 100 million.[134] Other emerging IT-BPO centres are Malaysia, Egypt, Morocco, Jordan, Poland, Indonesia, Thailand, and Vietnam.[135]

Among other commercial services supplied predominantly through mode 1, the BPO industry plays a significant role for many developing countries because it provides them with the greatest opportunities. Business Process Outsourcing occurs when business operations are contracted to a third party or outsourcing company.[136] As described in Table 4.3, there are

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[131] Ibid, p. 49.
[132] World Bank, see note 85.
[133] Business Processing Association Philippines (BPA/P) at www.bpap.org.
[134] Industry Blog, 'BPO Philippines: Why Outsource to the Philippines', June 2nd 2010, (last accessed on 24th August 2011), www.paeveryday.com/BlogRetrieve.aspx?BlogID=4587&PostID=83511
[135] BPAP, 'Philippines: The New Outsourcing Hub, A debrief on the International Outsourcing Summit 26–27 October 2010', (last accessed on 23rd August 2011), www.bpap.org/images/iosdebrieffinal.pdf, p. 10.
[136] Industry Blog, see note 134.

three types of BPO services: back-office outsourcing, front-office outsourcing and offshore outsourcing.

Table 4.3.: Business Process Outsourcing - Definitions

Back-Office Outsourcing	Contracting internal functions like human resource and finance
Front-Office Outsourcing	Contracting customer-related services
Offshore Outsourcing	Contracting business processes outside the company's country

Source: PA Everyday

BPO services include call centres, medical transcriptions, data entry, digitizing, animation and multimedia.[137]

The BPO-export industry is more accessible to many less developed countries because it has low entry barriers in terms of skills, technology, managerial capabilities, knowledge and scale.[138] According to the International Trade Centre, five advantages derive from a BPO-export industry for developing countries.[139] First of all, it creates jobs, especially for women. Thus, it could help many developing countries reduce their labour migration and brain drain. Secondly, the BPO-export industry is a source of foreign currency revenues. Thirdly, it improves the national business environment because BPOs service suppliers usually offer good working conditions. Also, the BPO-export industry leads to improvements in communication and physical infrastructures, health and education systems, with a positive effect on the overall domestic economy. Finally, the BPO-export industry allows for transfer of knowledge and technology, with positive effects on the productivity of the domestic market.

It should also be noted that the BPO industry has grown rapidly in the last decade due to the globalisation of the world economy and the advances in Information and Communication Technologies.[140] According to the World Trade Organization, 'other commercial services' was the most dynamic export sector in the period 2000-2008, with an average annual increase by 15 per cent.[141] Within this category, Business Process Outsourcing services performed better than others.

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[137] International Trade Centre, *Business Process Outsourcing: Key Lessons for Developing Countries*, Thematic Paper, Geneva: International Trade Centre, p. 2.
[138] Ibid, p. 1.
[139] Ibid, pp. 8-9.
[140] Ibid, p. 1.
[141] World Trade Organization, see note 130, p. 24.

4.3. Key lessons for developing countries

The developing countries that aim at becoming competitive services exporters can learn from the experience of other developing countries that have been most successful in exporting services through cross-border supply as well as from that of other countries that have not been able to fulfil their potential as mode 1 service exporters. For example, China, India and the Philippines belong to the former category whereas Malaysia, Thailand and Egypt better exemplify countries that belong to the latter category. The analysis will focus primarily the BPO-export industry because, as previously stated, it provides many developing countries with the greatest opportunities.

In accordance to the findings of Cattaneo[142], Goswani, Mattoo and Sáez[143], as well as IBM[144] and A.T. Karneys[145], five important lessons can be learnt from the analysis of the experience of the above mentioned countries, the factors that have contributed to or hindered their success and the competitiveness challenges that these countries were faced with.

The first lesson is that a successful export-oriented BPO-industry needs adequate human capital. Human capital refers to the skills, competences and knowledge acquired by the labour force. Education and training, thus, play a key role in developing human capital. The Indian government, in particular, strongly invested in education and human capital since the 1980s, through the establishment of the Indian Institutes of Technology, research institutes and private training institutes like NIIT.[146] The quality of its human capital is evident by India's ranking in the Global Services Location Index 2011[147]. As shown in Table 4.4. India, which ranks first, scored 2.76 in 'people skills and availability', the overall second highest score in the category and first among developing countries.

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[142] Cattaneo O., see note 1.
[143] World Bank, see note 2.
[144] IBM, 'Services and Global Competitiveness: Growth Opportunities for Developing Economies', *IBM Governmental Programs*, October 2006, (last accessed on 16th September 2011), www.ibm.com/ibm/governmentalprograms/developingcountries.pdf
[145] A.T. Kearney, *Offshoring for Long-Term Advantage: The 2007 A.T. Kearney Global Services Location Index*, USA: A.T. Kearney Inc., 2007
[146] World Bank, see note 2, p. 133.
[147] The Global Services Location Index analyses and ranks the top 50 locations worldwide that provide the most common remote functions, including IT services and support, contact centers and back-office support. A.T. Kearney, see note 145, p. 1.

Table 4.4.: 2011 Global Services Location Index (GSLI)

Top 20 countries in 2011 GSLI

Rank	Country	Financial attractiveness	People skills and availability	Business environment	Total score
1	India	3.11	2.76	1.14	7.01
2	China	2.62	2.55	1.31	6.49
3	Malaysia	2.78	1.38	1.83	5.99
4	Egypt	3.10	1.36	1.35	5.81
5	Indonesia	3.24	1.53	1.01	5.78
6	Mexico	2.68	1.60	1.44	5.72
7	Thailand	3.05	1.38	1.29	5.72
8	Vietnam	3.27	1.19	1.24	5.69
9	Philippines	3.18	1.31	1.16	5.65
10	Chile	2.44	1.27	1.82	5.52
11	Estonia	2.31	0.95	2.24	5.51
12	Brazil	2.02	2.07	1.38	5.48
13	Latvia	2.56	0.93	1.96	5.46
14	Lithuania	2.48	0.93	2.02	5.43
15	United Arab Emirates	2.41	0.94	2.05	5.41
16	United Kingdom	0.91	2.26	2.23	5.41
17	Bulgaria	2.82	0.88	1.67	5.37
18	United States	0.45	2.88	2.01	5.35
19	Costa Rica	2.84	0.94	1.56	5.34
20	Russia	2.48	1.79	1.70	5.34

Source: AT Kearney

Table 4.5.: Global Service Location Index – Metrics

Index metrics

Category	Subcategories	Metrics
Financial attractiveness (40%)	Compensation costs	• Average wages • Median compensation costs for relevant positions (call-center representatives, BPO analysts, IT programmers and local operations managers)
	Infrastructure costs	• Rental costs • Commercial electricity rates • International telecom costs • Travel to major customer destinations (New York, London and Tokyo)
	Tax and regulatory costs	• Relative tax burden • Corruption perception • Currency appreciation or depreciation
People skills and availability (30%)	Remote services sector experience and quality ratings	• Size of existing IT and BPO sectors • Contact center and IT center quality certifications • Quality ratings of management schools and IT training
	Labor force availability	• Total workforce • University-educated workforce • Workforce flexibility
	Education and language	• Scores on standardized education and language tests
	Attrition risk	• Relative IT and BPO sector growth and unemployment rates
Business environment (30%)	Country environment	• Investor and analyst ratings of overall business and political environment • A.T. Kearney Foreign Direct Investment Confidence Index™ • Security risk • Regulatory burden and employment rigidity • Government support for the information and communications technology (ICT) sector
	Infrastructure	• Overall infrastructure quality • Quality of telecom, Internet and electricity infrastructure
	Cultural exposure	• Personal interaction score from A.T. Kearney Globalization Index™
	Security of intellectual property (IP)	• Investor ratings of IP protection and ICT laws • Software piracy rates • Information security certifications

Source: A.T. Kearney Global Services Location Index™, 2011

As show in Table 4.5., language skills are an important component of human capital. Language can indeed act as a powerful barrier to success in cross-border supply service exports. Both India and the Philippines rely on a low-cost considerable pool of young generalist and specialist labour-force with strong English skills. Despite having a potential to do so, Malaysia and Thailand have not succeeded in exporting BPO services as much as India and the Philippines because of the lack of adequate language skills. Labour force in Malaysia and Thailand does not speak proper English and does not master the language well enough to provide adequate services such as call centre services or others.

The second lesson is that, in order to be competitive in exporting services, especially BPO services, through mode 1, the electronic infrastructure must be adequate in terms of both quality and quantity. Indeed, services traded cross-border depend on telecommunications infrastructures.[148] Poor infrastructure both in the exporting and in the destination country can prevent many developing countries from exploiting their full potential as BPO services hubs. Whilst Egypt and Thailand have mediocre infrastructures, India and the Philippines can rely on low cost, reliable electronic infrastructures. According to Goswami, Gupta and Mattoo, internet penetration can be used as a proxy for the quality of electronic infrastructure.[149] Their analysis shows that the effect of internet penetration on other commercial services exports, including BPOs, from India is significantly larger than for an average country.[150] In the Philippines, liberalisation in the telecommunication industry in 1993 increased the competitiveness in the industry by lowering communication costs and shifting the country's comparative advantage towards the more communication-intensive BPO industry.[151] In order to become competitive BPO services exporters, the quality of telecommunications in destination markets is also important. For example, e-learning Malaysian service providers cannot improve their exports because of the low quality of telecommunications networks in destination developing countries.

A third lesson regards services-related institutions: they play a key role in the development of the service sectors both as regulatory and as contract enforcing institutions. India's NASSCOM[152] and Philippine's BPAP[153] have played an important role in providing a unified voice for the BPO industry, supporting the industry's policymaking process and promoting the sector's interests. NASSCOM also proved instrumental in creating trustworthiness of

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[148] Sáez, S. 'Exporting Services: A Developing Country Perspective', World Bank, (last accessed on 22nd August 2011), http://docs.google.com/viewer?a=v&q=cache:pXaNLcx80EMJ:siteresources.worldbank.org/INTPHILIPPINES/Resources/ExportingServicesSebastianSaez.pdf+export+services+developing+countries&hl=en&pid=bl&srcid=ADGEESiDedw1MN2NC7F-vP723WTkuVWTVaiFIV-YGx7LDhWr9l2d2VUpKxpv_0lngOrnGH7GLK-Rm6LrONf2NkRjhx2E9j9TNsTiof40wFH0gK1gbnwX91_jImLNiRL7ZFmfLMe9qZex&sig=AHIEtbTDu36bHoKpPla0OEWbw_n8ksxV-w, slide 18.

[149] World Bank, see note 2, p. 74.

[150] Ibid, p. 74.

[151] Ibid, p. 106.

[152] National Association of Software and Services Companies.

[153] Business Process Association of the Philippines.

Indian companies as global sourcing service providers through the development of the Data Security Council of India.[154]

The forth lesson to be learnt is that adequate policies are often instrumental for a developing country to become a successful service exporter. Lack of adequate support from governments as well as lack of coordination between the private sector, institutions and governments can lead to dispersion of human, financial and administrative resources. Both India's and the Philippines' governments strongly supported the BPO and IT sectors. In India the State intervened more actively in information technology and business services than in manufacturing. Concerted policies were enacted by the Indian government, in collaboration with the industry, to promote software exports, transfer of technology and telecommunication links since the 1980s.[155] The Philippines also created a favourable trade facilitation environment by providing investment incentives and improving administrative transparency. In Thailand, on the other hand, there is lack of government vision and support, limited access to capital investment and lack of regulations governing security or privacy.[156]

Finally, the last lesson to be learnt is that a country must understand how to take advantage of its how history, culture and endowments. Both India and the Philippines take advantage of their English skills and cultural and legal proximity to their main destination markets, United Kingdom and United States.[157] Moreover, both countries have founded their competitiveness on the time difference with their destination markets. Egypt also has taken advantage of the language skills in Arabic and European languages as well as its strategic geographic position to export computer services via mode 1 to the Arab region and Europe.

4.4. Increasing competitiveness in Mode 1: the role of service enterprises

Services enterprises are the driving force of any service sector. No developing country can aim at becoming a strong service exporter without the active participation of its service enterprises. As SMEs can provide services exports through cross-border supply as successfully as multinational corporations (MNCs), SMEs and large corporations can both play a central role in increasing a developing country's competitiveness in mode 1.

4.4.1. How service enterprises can address competitiveness issues

In order to improve a country's competitiveness in mode 1 services exports, particularly BPO services, enterprises must identify all factors that might affect their ability to participate more

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[154] World Bank, see note 2, p. 80.
[155] Ibid, p. 76.
[156] SourcingLine, 'Thailand', (last accessed on 06th September 2011), www.sourcingline.com/outsourcing-location/thailand
[157] Industry Blog, see note 134.

actively in service exports, determine the areas where they can intervene directly and establish an agenda of actions to address the identified competitiveness issues.

There are two types of factors that affect the competitiveness of enterprises in service exports: internal and external. Internal factors include all competitiveness issues that depend on the enterprises itself, its organization, size, financial and human resources, innovation capacity and productivity. There are four main internal factors that might affect enterprises, primarily SMEs, in their ability to become competitive mode 1 service exporters, especially in most developing countries. First of all, services SMEs have limited capacity to invest human resources to investigate market opportunities abroad and regulatory conditions in target-markets.[158] Secondly, services SMEs have limited capacity to establish international brand and credibility, which are fundamental to services exports because services are intangible and cannot be tested.[159] Also, service enterprises might face limited access to financing for export and business development.[160] Moreover, services SMEs have limited R&D budgets which negatively affect the innovation capacity of the firms. As stressed by the IBM government program, "innovation in services is vital to maintaining competitiveness and taking advantage of new opportunities".[161]

External factors include all the elements that might affect the competitiveness of a company and that do not depend on the enterprise itself. Among the latter are a few of the issues described in section 4.3.. Indeed, external factors that might affect the competitiveness of service exporters in most developing countries regard the quality of human capital and the attractiveness of the business environment. With reference to human capital, many developing countries have a mediocre education system, which in turn leads to under-qualified labour force and insufficient talent supply. Moreover, lack of adequate language skills might hinder the competitiveness of many developing countries towards specific target-markets. As regards to the business environment the main problem that enterprises may face is the lack of competitive access, in terms of cost and reliability, to enabling infrastructure services such as finance, education and telecommunications as well as physical infrastructure (mainly affecting transportation services).

Service enterprises can take actions to solve competitiveness issues that arise from internal factors as well as external factors, albeit for the latter their sphere of activity might by more limited than for the former. With reference to internal factors, service enterprises can engage

[158] International Trade Centre, *Stepping Up ITC's Technical Assistance for Services Exports*, Draft, Geneva: International Trade Centre, February 2011, p. 12.
[159] Ibid, p. 12.
[160] Ibid, p. 12.
[161] IBM, see note 144, p. 15.

in promoting their brand and credibility abroad, improve their market intelligence and productivity and increase their financial and human resources. With reference to external factors, service enterprises can improve their competitiveness by improving the skills and competences of employees and increasing their talent supply.

4.4.2. Practical tools to improve competitiveness

As illustrated in Table 4.6., service enterprises in developing countries can use different tools and strategies to improve their competitiveness in cross-border supply, especially in BPO service exports, according to the type of factor they address and the objective they aim at achieving.

Table 4.6.: Increasing competitiveness – Practical tools for service enterprises

Objective	Tool/Strategy
FACTORS ADDRESSED: INTERNAL	
Promote brand and establish international credibility of the company	• participate to trade fairs and other promotional events; • adopt international standards; • participate to quality-related competitions
Improve marketing intelligence	• join trade associations/institutions to make use of resources and information provided by them • create consortia or temporary associations of enterprises to make use of common human resources with expertise in trade in service, legal issues, regulations and taxation system to identify target markets and evaluate cross-border supply business opportunities abroad
Increase human and financial resources	• clustering • collaborating with other enterprises in common projects to provide complementary services or competitive packages of services
FACTORS ADDRESSED: EXTERNAL	
Improve the quality of human capital	• establishing closer relationships with academia through technical seminars, on-the-job training and enterprises-sponsored internships: • participate to job trade fairs to promote the company and attract new employees in order to solve problems related to shortage of labour supply; • organise training courses to upgrade the skills of local workers (e.g. for BPO services, improve language skills to be able to supply a broader range of target markets) [162] • collaborate with private companies that offer training courses (e.g. Indian NIIT)
Improve the business environment	• create or join institutions to voice the concerns and needs of the service industry to policymakers on the quality and access to infrastructure and essential services • participate to surveys and specify problems and needs in order to inform institutions and policymakers so they can design an efficient strategy to improve the business environment • establish a dialogue with institutions and policymakers

[162] World Bank, see note 2, p. 152.

The list of tools presented in Table 4.6. is indicative and based primarily on observations made on BPO service exports. Most measures could be applied to other mode 1 dominated service sectors but others need to be introduced or amended in accordance to the needs of the specific sector at issue.

4.5. Increasing competitiveness in Mode 1: the role of institutions

As stated in section 4.3, institutions in most developing countries can play a key role in increasing competitiveness of service exports because they act as link between services enterprises and policymakers. Services enterprises need to present their positions with a unique voice because a government would better deal with a single interlocutor rather than a multitude of fragmented voices. Institutions provide enterprises with the single voice they need to represent their interests in front of policymakers.

4.5.1. How institutions can address competitiveness issues

Institutions in developing countries can address competitiveness issues at two levels. They can operate at the level of enterprises by supporting them in overcoming competitiveness problems related to human capital and the attractiveness of the business environment. Institutions can also operate at the level of governments by supporting the negotiating and policymaking processes.

In order to operate efficiently at both levels, however, institutions must also address their own weaknesses. Indeed, in many developing countries there is excessive fragmentation, lack of coordination and lack of adequate institutions and associations that support and pursue the interests of service exporters. Also, institutions in most developing countries often lack a strategic vision for services export promotion and development and have limited knowledge or technical capacity to deliver relevant and customer-oriented support for services exporters.[163] Moreover, institutions often have limited financial, organizational and technical strength for business advocacy which prevents them from developing the level of technical and sophisticated knowledge on trade policy and negotiations issues that is required to engage effectively with governments.[164]

4.5.2. Practical tools to support competitiveness

As illustrated in Table 4.7., institutions can use different tools and strategies to address competitiveness challenges affecting developing countries' capacity in mode 1 BPO service exports, according to the objective and the level of intervention.

[163] International Trade Centre, see note 158, p. 12.
[164] Ibid, p. 13.

The list of tools presented in Table 4.7. is indicative and based primarily on observations made on BPO service exports. Most measures could be applied to other mode 1 dominated service sectors but others need to be introduced or amended in accordance to the needs of the specific sector at issue.

Table 4.7.: Increasing competitiveness – Practical tools for institutions

Objective	**Tool/Strategy**
	LEVEL OF INTERVENTION: INSTITUTION
Reduce fragmentation and increase efficiency	• collaborate with other institutions and associations • improve coordination with other institutions • increase the membership by promoting the institution to the enterprises operating in the service sector at issue and merging with other institutions with similar competences and scope (avoid duplication of activities)
	LEVEL OF INTERVENTION: ENTERPRISES
Establish international credibility	• promote the 'industry brand' with brochures and participation to trade fairs (both domestically and abroad) • improve contract-enforcement
Provide market intelligence	• organize seminars and meetings with potential customers • collect data on potential target markets • disseminate data on potential target markets • organize training courses on market intelligence and domestic regulations in foreign markets for enterprises
Improve human capital	• organize training courses to upgrade the skills of labour force • provide assistance to enterprises with
	LEVEL OF INTERVENTION: POLICYMAKERS
Reduce information asymmetry	• design road maps on the evolution of the industry of reference, following the example of BPAP[165] • make surveys to inform governments on problems and needs of enterprises and to advise them on appropriate negotiating objectives for trade in services[166]

4.6. Fostering competitiveness in Mode 1: the role of policymakers

As illustrated in section 4.3., countries that have reached a greater level of success in exporting services through mode 1, particularly BPO services, have been strongly supported by the domestic government.

4.6.1. How policymakers can address competitiveness issues

Policymakers have the important task of ensuring that no external factors can prevent services enterprises from fulfilling their potential. In order to do so, they can address competitiveness issues by operating along three lines of action. First of all, policymakers can address the internal factors that prevent them from supporting services enterprises and institutions efficiently. Indeed, in most developing countries policymakers lack a strategic approach for the development of the service sector and analytical capacity to assess gains and losses from

[165] The Philippine IT-BPO Road Map 2011–2016: Driving Global Leadership" was developed by a joint venture between Everest Group and Outsource2 Philippines in collaboration with BPAP with funding provided by the Philippine government through the Commission on Information and Communications Technology –CICT.
[166] de Sousa, P. & Conrad, D., see note 5.

liberalization in services.[167] Moreover, they often lack information regarding the domestic capacity of promising services sectors and services regulations in target markets.[168] Also, most developing countries prefer to concentrate their efforts on promoting the manufacturing industry rather than services. Secondly, governments can foster competitiveness in service exports by collaborating with institutions to address policy-related competitive issues. Thirdly, they can support competitiveness of services enterprises by resolving problems arising from issues external to the enterprises themselves, such as access to and quality of infrastructure and the education system.

4.6.2. Practical tools to foster competitiveness

As illustrated in Table 4.8., policymakers can use different tools and strategies to address competitiveness challenges affecting developing countries' capacity in mode 1 BPO service exports, according to the objective and the level of intervention.

Table 4.8.: Increasing competitiveness – Practical tools for policymakers

Objective	Tool/Strategy
LEVEL OF INTERVENTION: INTERNAL	
Increase efficiency	• capture statistics on trade in services • promote specific policies for the service sector based on information gather through statistics and the dialogue with institutions and the private sector
LEVEL OF INTERVENTION: INSTITUTIONS	
Improve information asymmetry	• collaborate with institutions and associations • capture statistics on export of services
LEVEL OF INTERVENTION: ENTERPRISES	
Establish international credibility	• promote the 'country brand' to generate visibility for IT-BPO initiatives • promote the use of international standards
Support market access	• create financing programs specifically dedicated to support enterprises with limited financial capacity to export BPO services • accelerate liberalization commitments in order to help domestic enterprises access potential target markets • establish a one-stop shop to provide information to service exporters on regulations, taxation system, statistics regarding potential target markets
Improve the quality and supply of human capital	• reform the education system to guarantee greater access to tertiary education and better teaching level • attract diaspora back in the domestic market through incentives for the creation of new BPO export-oriented companies • introduce changes on teaching courses to support the needs of the BPO industry • promote language proficiency (following the example of the Filipino government) • support greater collaboration between academia and the private sector also with introduction of BPO-spefic courses of studies
Improve infrastructure	• ensure greater and better internet penetration at aggregate level • create BPO clusters with efficient and cost-competitive physical and electronic infrastructure and better socio-economic conditions

[167] International Trade Centre, note 158, p. 13.
[168] Ibid, p. 13.

The list of tools presented in Table 4.8. is indicative and based primarily on observations made on BPO service exports. Most measures could be applied to other mode 1 dominated service sectors but others need to be introduced or amended in accordance to the needs of the specific sector at issue.

5. CHAPTER 4 - MODE 2: CONSUMPTION ABROAD

GATS Article I establishes that consumption abroad (mode 2) occurs when the consumer residing in one territory moves to another to receive a service. This transaction between residents and non-residents is recorded under the balance of payments 'travel' category of the service account. Thus, according to Karsenty, 'travel' statistics can be used as an indicator for mode 2.[169]

Contrary to the balance of payments categories used to identify mode 1, 'travel' is a transactor-based component rather than a specific product.[170] According to the MSITS 2010, travel is "a range of goods and services consumed by non-residents in the economy that they visit".[171] MSITS 2010 recommends two alternative ways to present 'travel': by product or by purpose of the purchase. A presentation by product distinguishes 'travel' according to five categories: goods; local transport services; accommodation services; food and beverage-serving services; and other travel-related services. A presentation by purpose distinguishes between business travel and personal travel. According to the MSITS 2010, 'business travel' covers the acquisition of goods and services, for own use or to give away, by persons whose primary purpose of travel is business whereas 'personal travel' refers to purchases by people that go abroad for reasons other than business (e.g. education or health-related purposes, holidays, pilgrimage).[172]

5.1. Mode 2 dominated services exports

As MSITS 2010 points out, different GATS modes of supply may be involved when supplying tourism services to foreign consumers.[173] For example, a branch of a hotel chain might be established abroad (mode 3) and require the presence of a foreign manager (mode 4).[174] Also, if services are sold by international tourism operators through computer reservation systems, mode 1 is involved.[175] In general, however, the international supply of tourism services is often associated with mode 2, as well as health tourism and education services.[176] BPO services may also be supplied through mode 2.

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[169] Karsenty, G., see note 8, p. 41.
[170] United Nations Statistical Division, see note 128, p. 51.
[171] Ibid, p. 51.
[172] Ibid, p. 52.
[173] Ibid, p. 110.
[174] Ibid, p. 110.
[175] Ibid, p. 110.
[176] World Bank, see note 2, p. 17.

5.2. Developing countries and Mode 2 services exports

According to MSITS 2010, the BOP travel item can be used to measure trade in tourism services, albeit a few differences exist between EBOPS 2010[177] and IRTS 2008[178]. Analysis of travel exports summarized in Table 5.1., 5.2. and 5.3. show that, although high income developed economies remain the main destination for inbound tourism (travel exports), many developing countries tend to play a more active role in mode 2 services than in mode 1 services.

Table 5.1.: Consumption abroad in 2009, income level composition (current US$)

	Travel *(current US$)*	***Travel*** *(%)*
World	**858.144.675.932,17**	
High income	***609.892.180.987,17***	***71,1%***
High income: OECD	*525.288.203.050,49*	*61,2%*
High income: nonOECD	*84.603.977.936,67*	*9,9%*
Low & middle income	***244.733.668.892,72***	***28,5%***
Middle income	*237.091.977.584,50*	*27,6%*
Upper middle income	176.527.952.246,38	20,6%
Lower middle income	59.521.249.447,10	6,9%
Low income	*7.641.691.308,23*	*0,9%*
Heavily indebted poor countries (HIPC)	-	***0,0%***

Source: Elaboration of the Author based on World Bank data (World Development Indicators)[179]

Indeed, as shown in Table 5.1., in 2009 low and middle income countries accounted for over 28 per cent of total travel exports against 17 per cent of total mode 1 exports indicated in Table 4.1.. Moreover, Table 5.2. shows that in 2009 developing countries in East Asia and the Pacific, Latin America and the Caribbean as well as Sub-Saharan Africa contributed to travel exports (mode 2) more than they contributed to cross border (mode 1) exports. This finding is not surprising because, as Karsenty points out, inbound tourism is a demand-oriented activity that reflects the importance of tourism destinations.[180] It depends on geographical, historical and cultural factors as well as on the quality of educational and health-related services of tourism destinations. Countries such as Thailand, South Africa, Maldives and the Caribbean are sought-after tourist destinations primarily because of their natural endowments. Egypt, on the other hand, is a favourite tourist attraction because of its historical and cultural treasures.

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[177] EBOPS stands for Extended Balance of Payments Services Classification. It is an extension of the main services components of the Balance of Payments classification. United Nations Statistical Division, see note 128, p. 2.

[178] IRTS stands for International Recommendations for Tourism Statistics. It is compiled by the World Tourism Organization to provide a comprehensive methodological framework for collection and compilation of tourism statistics. Ibid, p. 17.

[179] World Bank, see note 85.

[180] Karsenty, G., see note 8, p. 42.

Table 5.2.: Consumption abroad in 2009, geographical composition (percentage)

	Cross-Border supply	*Travel*
World		
Europe & Central Asia (all income levels)	***53,2%***	***48,3%***
Europe & Central Asia (developing only)	*3,5%*	*5,7%*
East Asia & Pacific (all income levels)	***19,4%***	***20,2%***
East Asia & Pacific (developing only)	*5,3%*	*9,9%*
North America	***16,4%***	***15,7%***
Latin America & Caribbean (all income levels)	***2,4%***	***5,6%***
Latin America & Caribbean (developing only)	*2,3%*	*5,0%*
Sub-Saharan Africa (all income levels)	***0,8%***	***2,2%***
Sub-Saharan Africa (developing only)	*0,8%*	*2,2%*
South Asia	***3,4%***	***1,5%***
Middle East & North Africa (all income levels)	**-**	**-**
Middle East & North Africa (developing only)	**-**	**-**

Source: Elaboration of the Author based on World Bank data (World Development Indicators)[181]

Statistical trends for the period 2000-2008 also seem to suggest that many developing countries participate more actively to mode 2 service exports. Between 2000 and 2008, African, Asian and Latin American travel exports grew on annual average by 14 per cent, 12 per cent and 8 per cent, respectively, whereas European and North American travel exports grew only by 9 per cent and 4 per cent, respectively.[182] It must be noted that, according to the World Trade Organization, the value of Africa's travel exports almost tripled between 2000 and 2008 and, since 2005 it started exceeding the region's receipts from exports of agricultural products.[183] Many African countries experienced a considerable growth in the ratio of travel exports to GDP between 2000 and 2008. In Cape Verde, the contribution of tourism to GDP rose from 8 per cent in 2000 to 23 per cent in 2008 whereas in the Seychelles it reached almost 30 per cent in 2008.[184]

Following the global financial crisis, the demand for tourist services declined in 2009, affecting primarily Europe, North America and the Commonwealth of Independent States (CIS), whose exports decreased by 13 per cent, 11 per cent and 22 per cent, respectively.[185] Albeit African and Asian economies were, on average, less affected by the crisis, small islands, which are heavily dependent on tourism revenues, suffered great losses in international travel exports.[186] International travel exports in Maldives, Fiji, Mauritius and

[181] World Bank, see note 85.
[182] World Trade Organization, see note 130, p. 18.
[183] Ibid, p. 18.
[184] Ibid, p. 18.
[185] Ibid, p. 19.
[186] Ibid, p. 21.

Seychelles and Cape Verde fell by 8 per cent, 27 per cent, 23 per cent and 18 per cent, respectively.[187]

Travel is one of the major sources of revenue, foreign currency and employment for many developing countries, especially small islands in the Caribbean and the Pacific.[188] As shown by Table 5.3., several developing countries such as Thailand, Malaysia, India and Egypt rank among the 20 top tourist destinations in the world.

Table 5.3.: Main Mode 2 service exporters (2009)

Ranking	Country	Travel *(Current US$)*	Travel *(%)*
	World	***858.144.675.932,17***	
1	United States	121.131.159.000,00	14,12%
2	Spain	53.337.397.109,00	6,22%
3	France	49.450.246.129,09	5,76%
4	Italy	40.311.142.315,03	4,70%
5	China	39.675.000.000,00	4,62%
6	Germany	34.781.088.004,83	4,05%
7	United Kingdom	30.497.539.396,49	3,55%
8	Turkey	21.250.000.000,00	2,48%
9	Austria	19.176.010.817,85	2,23%
10	Macao SAR, China	17.885.776.849,10	2,08%
11	Malaysia	15.797.476.084,45	1,84%
12	Thailand	15.664.841.881,85	1,83%
18	India	11.135.941.273,57	1,30%
19	Egypt, Arab Rep.	10.755.300.000,00	1,25%
26	Singapore	9.200.199.275,69	1,07%
29	South Africa	7.624.449.913,15	0,89%
31	Morocco	6.626.075.910,63	0,77%
36	Brazil	5.304.560.800,00	0,62%
51	Philippines	2.329.000.000,00	0,27%
72	Ghana	968.040.000,00	0,11%
127	Zambia	97.680.000,00	0,01%

Source: Elaboration of the Author based on World Bank data (World Development Indicators)[189]

As noted by Ashley and Mitchell, tourism is important also in the lowest income countries as "in 41 of the 50 poorest countries in the world tourism constitutes over 5% of GDP and/or over 10% of exports".[190]

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[187] Ibid, p. 21.
[188] Karsenty, G., see note 8, p. 42.
[189] World Bank, 'Data: Indicators', (last accessed on 14th September 2011), http://data.worldbank.org/indicator.
[190] Ashley, C. & Mitchell, J. 'Can tourism accelerate pro-poor growth in Africa?', *Overseas Development Institute*, November 2005, (last accessed on 17th September 2011), www.odi.org.uk/resources/download/504.pdf, p. 1.

5.3. Key lessons for developing countries

Albeit several developing countries participate actively in tourism and many others have the capacity to do so, the level of success experienced by most developing countries in inbound tourism is still limited compared to their potential. According to Table 5.3., Egypt accounted for only 1.25 per cent of total travel exports in 2009, notwithstanding its impressive cultural and historical attractions. Zambia, which is rich in natural parks and wildlife, accounted for about 0,01 per cent of total travel exports in 2009, whereas South Africa, which has less spectacular parks and is not seen as a safari destination, accounted for almost 1 per cent of total travel exports in the same year.[191]

In accordance to the findings of Mattoo[192], Cattaneo[193], Goswani, Mattoo and Sáez[194], five main lessons can be learnt from the analysis of the experience of several developing countries that have reached a certain level of success in becoming travel services exporters, such as Malaysia and Thailand, and that of Zambia, Egypt and the Philippines, which have not fulfilled their potential as well as from the analysis of the factors that have contributed to or hindered the success and the competitiveness challenges the countries were faced with.

First of all, physical infrastructure must be adequate, both in terms of access and costs. Travel services strongly rely on physical infrastructure, in particular transport. A country rich in natural and wildlife endowments or cultural sites or a country with a strong potential for business travel exports cannot exploit its comparative advantage if the road or railroad networks do not adequately connect to the tourist attractions or if transport is too costly. Zambia has problems of both access to and cost of infrastructure. For example, there exist only one direct flight to Europe, which, alongside South Africa, is the main market for Zambian tourism trade exports, and all other long-haul flights are operated in cooperation with South Africa.[195] Moreover, Zambian road and railroad networks are inefficient and inadequate and domestic air transport is too costly.[196] Egypt and the Philippines also have weak infrastructures, especially ground infrastructure.[197] The Malaysian government, on the other hand, in order to support travel services exports, approved the establishment of Air Asia, the country's first low cost carrier (LCC), in 2001, which proved to be the most successful

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[191] Mattoo, A. & al. *Services trade and development : the experience of Zambia,* New York: Palgrave Macmillan, Washington (D.C.): World Bank, 2007, p. 218.
[192] Ibid.
[193] Cattaneo, O., see note 1.
[194] World Bank, see note 2.
[195] Mattoo, A. & al., see note 191, p. 245.
[196] Ibid, p. 245.
[197] World Bank, see note 2, p. 185.

low cost carrier in South East Asia.[198] The emergence of Air Asia made regional travel more affordable than before and facilitated inflows of tourists in the country.[199]

The second lesson is that lack of policy coordination can negatively affect the quality of the service provided. Zambia's tourism sector is represented by a dozen private associations which are unable to lobby efficiently for the sector's interests because of lack of coordination and common strategy.[200] Moreover, according to Mattoo, private associations in Zambia are considered obstructive, inefficient and unprofessional by most enterprises operating in the tourism business.[201] Also Egypt faces problems related to lack of coordination among institutions overseeing tourism activities, which results in delays in the issuing of permits and licenses and difficulties in dealing with local operators.[202]

The third lesson to be learnt is that the quality of the service provided is important. According to Cattaneo, Thailand has become one of the top six medical tourism destinations because its hospitals have established a reputation for high-quality services.[203] Egypt's tourism, on the other hand, suffers greatly from the negative reputation that arose from the lack of control on the behaviour of vendors.[204]

The forth lesson regards the business environment: the less attractive the business environment, the more difficult for travel services to flourish. In Zambia, the Philippines and Egypt the business environment is little conducive to growth in the tourism sector. According to the Doing Business Index, Zambia, the Philippines and Egypt rank 76th, 148th and 94th respectively.[205] Enforcing contracts, starting a business and dealing with construction permits are among the main administrative barriers that businesses operating in the tourism sector must face. Moreover, corruption, security and safety concerns as well as health and hygiene issues also contribute to making the business environment less appealing for tourism activities.

The last lesson is that human capital is a key factor in the growth of travel services. Tourism is based on the direct contact between tourism service providers and customers. Thus, the skills and competences of labour force operating in tourism activities play a key role in attracting tourists and making travel services flourish. Zambia and Egypt in particular suffer

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[198] Ibid, p. 143.
[199] Ibid, p. 140.
[200] Mattoo, A. & al., see note 191, p. 240.
[201] Ibid, p. 240.
[202] World Bank, see note 2, p. 187.
[203] Cattaneo, O. see note 1, p. 118.
[204] World Bank, see note 2, p. 186.
[205] Doing Business, 'Economy Rankings', June 2010, (last accessed on 12th September 2011), www.doingbusiness.org/rankings

from the low quality of their labour force which results from weak educational systems and mismatches between the outputs of the educational system and the needs of the economy. The tourism sector needs specific training and qualifications to meet international standards.[206] Many developing countries are often unable to provide such specific training.

5.4. Increasing competitiveness in Mode 2: the role of services enterprises

As previously stated, services enterprises are the driving force behind the services sector. With regards to the competitiveness of developing countries in supplying services through mode 2, the role of enterprises is even more crucial than it is for cross-border supply because travel services require a direct contact between service suppliers and consumers. In most developing countries the largest group of service sector units is composed by SMEs, which have inherent disadvantages due to their size and limited resources.[207] Thus, in order to increase competitiveness in mode 2 service exports, enterprises must pay even more attention to solving such disadvantages.

5.4.1. How services enterprises can address competitiveness issues

As already stated in section 4.4.1., in order to address their competitiveness issues enterprises must identify all factors that might affect their ability to participate more actively in service exports, determine the areas where they can intervene directly and establish an agenda of actions to address the identified competitiveness issues.

Enterprises must deal with two types of factors: internal and external to the firms themselves. Internal factors affecting service export competitiveness concern the size, organization and management of enterprises. External factors refer, among others, to the quality of infrastructure, the attractiveness of the business environment, the efficiency of institutions and the role of the government.

As consumption abroad requires a closer relationship between supplier and consumer, enterprises must address more strongly internal factors in order to become more competitive in mode 2 service exports. In particular, firms can address more actively and directly three issues, illustrated in section 5.3., that are inherent to the nature of enterprises themselves: reputation, quality of service and human capital. Following Thailand's example, enterprises in numerous developing countries can become competitive at international level if they provide high quality services which enable them to build a good reputation abroad. Well

[206] Mattoo, A. & al., see note 191, p. 247.
[207] Wignaraja, G. 'Promoting SME Exports from Developing Countries', First Draft, Maxwell Stamp PLC, 23 November 2003, last accessed on 18th September 2011), www.oecd.org/dataoecd/12/54/20167784.pdf, p. 2.

trained, competent and professional human resources are crucial to provide services which require a close relationship between consumer and supplier.

5.4.2. Practical tools to improve competitiveness

As illustrated in Table 5.4., service enterprises in developing countries can use different tools and strategies to improve their competitiveness in mode 2 service exports, according to the type of factor they address and the objective they aim at achieving.

The list of tools presented in Table 5.4. is indicative and based primarily on observations made on tourism exports. Most measures could be applied to other mode 2 dominated service sectors but others need to be introduced or amended in accordance to the needs of the specific sector at issue.

Table 5.4.: Increasing competitiveness – Practical tools for service enterprises

Objective	Tool/Strategy
FACTORS ADDRESSED: INTERNAL	
Improve human capital	• organise training courses for local workers • establish agreements with training schools in order to let students work in hotels, restaurants and travel agencies
Provide high-quality services	• innovate and upgrade accommodation infrastructure • get quality certifications of international standard • provide travel packages comprehensive of accessory services such as local transport and guide or education or health-related services • improve hygiene standards
Improve credibility abroad	• get quality certifications of international standard • improve tourism marketing by creating or upgrading travel services websites presenting accommodation and transport services in particular • participate to trade fairs
FACTORS ADDRESSED: EXTERNAL	
Improve infrastructure	• lobby the government to improve infrastructures such as roads and railroads
Improve business environment	• lobby the government to improve infrastructures such as roads and railroads • lobby the government to improve health conditions

5.5. Increasing competitiveness in Mode 2: the role of institutions

Institutions act as a *trait d'union* between enterprises and policymakers. They play a key role in ensuring that the private sector develops service export capabilities and that the government promotes suitable and efficient policies to foster service export competitiveness.

5.5.1. How institutions can address competitiveness issues

Industry associations, regulatory agencies and institutions in general can address competitiveness issues by pursuing three objectives. First of all, institutions should aim at reducing fragmentation and increasing collaboration, not only among themselves but also with enterprises and policymakers. Institutions must pursue a common strategy, which is fundamental in order to defend more strongly the needs and interests of the travel sector.

Excessive fragmentation leads to dispersion of human and financial resources, lack of coordination, asymmetry of information and inability to tackle problems adequately. Zambia's experience perfectly illustrates the problem. Despite its incredible natural endowments (wildlife, landscapes and nearly 2000 archaeological and historic sites), Zambia has not fulfilled its promise in the tourist sector because it lacks an adequate regulatory regime, its administrative system is too bureaucratic, regulations are too numerous and complicated and industry associations do not collaborate and are too fragmented to provide adequate support to travel services.

Secondly, institutions should also aim at promoting the country brand and increase the reputation of the travel services of the country. As already stated in section 5.3, reputation is fundamental for the tourism sector, education and health-related services, because of the close relationship between supplier and consumer that consumption abroad requires.

Finally, institutions should improve market intelligence evaluation, acting as a bridge between SMEs and the government. Better market intelligence allows institutions to understand more clearly the needs of enterprises and lobby the government to address such needs. The more updated and complete the information is, both on the domestic market as well as on target markets, the easier it is for the government to elaborate an adequate strategy to promote travel services.

5.5.2. Practical tools to support competitiveness

As illustrated in Table 5.5., institutions in developing countries can use different tools and strategies to improve their competitiveness in mode 2 service exports, according to the level of intervention and the objective they aim at achieving.

The list of tools presented in Table 5.5. is indicative and based primarily on observations made on tourism exports. Most measures could be applied to other mode 2 dominated service sectors but others need to be introduced or amended in accordance to the needs of the specific sector at issue.

Table 5.5.: Increasing competitiveness – Practical tools for institutions

Objective	Tool/Strategy
	LEVEL OF INTERVENTION: INSTITUTION
Reduce fragmentation and ensure a common strategy	• create a single or a limited number of institutions, each with specific regulatory competences and coordinated by a single authority in order to ensure a common strategy; • strengthen negotiating capacity by increasing representation/membership, improving human capital and reducing lack of coordination
	LEVEL OF INTERVENTION: ENTERPRISES
Increase credibility and improve reputation abroad	• publish advertisements on specialised travel magazines to promote the tourism industry; • participate in trade fairs to promote the tourism industry • establish collaborations with foreign institutions in target markets
Support improvements in quality of service	• provide market support in the form of information on target markets, incentives for innovation, collective participation to trade fairs, issuance of quality certifications
Improve business environment	• reduce the administrative burden by decreasing the number of documents needed for licenses and permits and ensuring contract enforceability; • act as a single point of reference for administrative problems
Support improvement in human capital	• organize training courses
	LEVEL OF INTERVENTION: POLICYMAKERS
Reduce information asymmetry	• act as a single voice to lobby the government in favour of the tourism industry • making surveys on the current status of the domestic tourism sector and its main competitors abroad as well as on the main barriers to the growth of inbound tourism and travel exports in order to understand the needs and shortcomings of the industry and elaborate adequate strategies to satisfy the needs and solve the problems;

5.6. Fostering competitiveness in Mode 2: the role of policymakers

Compared to mode 1, mode 2 services exports require a greater participation of the government. Personal travel depends primarily on natural endowments, historical and cultural attractions as well as on the quality of the educational and health system. The former can be considered public goods whereas the latter are public services strictly linked to governmental policies. Business travel, on the other hand, is driven primarily by the business environment. The latter is highly influenced by policies regarding taxation, infrastructure, entrepreneurial freedom and regulatory reforms.

It should also be noted that policies aimed at increasing competitiveness of mode 2 service exports may also have a positive impact on the local population. Indeed, improvements in the access and quality of physical infrastructure, health-care services and education system benefit both the domestic population and foreign consumers.[208] Of course, this holds true as long as policymakers ensure that travel services are successfully exported not to the detriment of the domestic market, especially with regards to education and health-related services.[209]

[208] Cattaneo, O., see note 1, p. 122.
[209] Ibid, p. 123.

5.6.1. How policymakers can address competitiveness issues

In order to increase competitiveness in travel services exports, policymakers should identify a strategy of intervention, establishing priorities and areas of intervention, based on the needs of the travel industry as well as on the interests of the domestic market. There are three main areas of intervention for the government: access and quality of physical infrastructure; quality of the education system; country promotion (branding). Zambia and Thailand prove that a developing country must have an efficient infrastructure to be competitive. Thus, governments should aim at improving the access and quality of physical infrastructure. Also, the competitiveness of a country in travel services depends on its human capital. Policymakers should introduce policies aimed at increasing the quality of the education system and focused on enhancing the supply of labour force with competences in travel services. Moreover, governments must ensure that its competitiveness is recognised abroad. Thus, promoting its own country's travel services is fundamental for a government.

In terms of priorities of intervention, needs and interests of the travel industry, governments must interact closely with institutions and enterprises in order to reduce information asymmetries that prevent them from implementing efficient policies.

5.6.2. Practical tools to foster competitiveness

As illustrated in Table 5.6., governments in developing countries can use different tools and strategies to improve their competitiveness in mode 2 service exports, according to the type of objective they aim at achieving.

Table 5.6.: Increasing competitiveness – Practical tools for policymakers

Objective	**Tool/Strategy**
Improve physical infrastructure	• increase access to road, railroad and air transport (especially connecting cultural/historical/natural attractions, hospitals, business venues, training centres to hotel accommodations) • upgrade quality of road and railroad transports • upgrade quality of hospitals and education centres
Improve human capital	• introduce training courses specialised in tourism, health care and education • promote foreign languages proficiency (English and other languages of target markets) to increase range and quantity of foreign consumers
Reduce information asymmetry	• interact more closely with institutions and enterprises • gather information on the needs, performance and interests of domestic travel services • gather information on potential target markets
Promote the country	• establish agreements with neighbouring countries which are more competitive in travel activities in order to offer combined travel packages, in order to increase travel services exports • promote the country's tourism industry through awareness programs, televised advertisements, participation to trade fairs and internet advertising • improve the reputation of vendors, travel guides, nurses, doctors, teachers by promoting the use of international certifications or recognised certifications of quality • interact more closely with institutions and enterprises

The list of tools presented in Table 5.6. is indicative and based primarily on observations made on tourism exports. Most measures could be applied to other mode 2 dominated service sectors but others need to be introduced or amended in accordance to the needs of the specific sector at issue.

6. CHAPTER 5 - MODE 3: COMMERCIAL PRESENCE

According to GATS Article I, commercial presence (mode 3) requires that a service supplier in one country (home country) establishes a commercial presence in the country (host country) where the services must be supplied. The commercial presence entity (foreign affiliate) must be owned or controlled by the entity in the home country (parent company).[210]

As already mentioned in the Introduction, BOP statistics do not record commercial presence. FATS can be used instead as statistical indicators of mode 3. However, FATS are available only for a few countries (mainly OECD economies) that compile them and in most cases data collected are of recent vintage.[211] Thus, FATS cannot be used to analyse general trends and regional shares, with particular reference to developing countries' trends and shares. As an alternative, Karsenty suggests that outward foreign direct investment (FDI) stock can be used as a proxy of mode 3 on the ground that the output of a foreign affiliate is a function of the size of related foreign investments.[212]

Commercial presence usually takes the form of branches, agencies, wholly owned subsidiaries or joint ventures between domestic and foreign partners.

6.1. Mode 3 dominated service exports

Environmental services, financial services, construction services and distribution services are traded primarily through mode 3 because they require physical proximity between the consumer and the supplier. Indeed, establishing a commercial presence abroad is a means used by service suppliers to provide services in a host country where there is need for proximity with the consumer and, for companies, to benefit from the specialization in specific sectors in order to supply better and cheaper services.[213] In some cases, mode 3 exports can be used as a vehicle for mode 1 or as a way to overcome barriers to the movement of natural persons. In some sectors, such as environmental and construction services, mode 3 is often used in combination with mode 4 supply to provide skilled and professional services directly to projects and to maintain local offices.[214]

6.2. Developing countries and Mode 3 services exports

For most developing countries mode 3 services exports (outward FDI) are negligible whereas inward FDI are often significant. Albeit commercial presence is the preferred mode of supply,

[210] Karsenty, G., see note 8, p. 45.
[211] Ibid, p. 47.
[212] Ibid, p. 47.
[213] World Trade Organization, see note 130, p. 8.
[214] Cattaneo, O., see note 1, p. 338.

as shown in Table 2.2., most developing countries do not employ mode 3 to export services for two main reasons. First of all, they often lack resources and managerial skills to establish a commercial presence abroad. Secondly, rules and regulations on the establishment of foreign affiliates are often too restrictive and burdensome in foreign target markets in respect of the resources that developing countries can employ to export services through mode 3.

An overview of the few case studies regarding a commercial presence established abroad by a developing country highlights the importance of inward FDIs in stimulating competitive service exports. Thus, before proceeding further in analysing how competitive most developing countries are in mode 3 service exports, it is necessary to understand the role and importance of inward FDIs.

6.2.1. Inward FDI

Inward FDIs can stimulate a developing country's competitiveness in services exports because they have an impact on the overall competitiveness of the host country. According to Lipsey and Sjöholm, the impact of inward FDIs depends on the country and the sector at issue.[215] In general, inward FDIs tend to have a positive impact because they increase domestic capital for exports, encourage transfer of technology, facilitate access to new markets and upgrade the technical and management skills of the host country's labour force.[216] More specifically, they promote trade in the host country via introduction of new technology and management techniques, diffusion of market information, greater market access and stimulation of competition.[217]

In light of the potential benefits that derive from inward FDIs, developing countries could resort to attracting FDIs as part of their strategy to increase their competitiveness in services exports, following the example of Chile. The latter, indeed, implemented a voluntary foreign investment framework in the 1970s in order to encourage foreign investments in the country. Inward FDIs coupled with trade reforms created advantages for certain Chilean services activities, which received, on average, nearly 54 per cent of total inward FDIs, leading to outward investments and services exports to other Latin American countries.[218] On the other hand, according to Abidin, Yean and Heng, the limitations on FDI inflows in Malaysia, due to

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[215] Lipsey, R.E. & Sjöholm, F., 'The impact of inward FDI on host countries: why such different answers?', (last accessed on 13th September 2011), www.iie.com/publications/chapters_preview/3810/02iie3810.pdf, p. 40.
[216] World Bank, see note 2, p. 38.
[217] Ibid, p. 38.
[218] Mainly banking, insurance, energy and retail services. Ibid, pp. 265 and 277.

limitations on equity ownership, might have retarded the growth of the Malaysian service sector.[219]

An attractive business environment, efficient infrastructures, adequate inward investment policies, a good reputation in terms of business partnership reliability, a stable political system and a sound economy can all contribute to attract foreign direct investment. Thus, developing countries should take into consideration also these factors when implementing a strategy to increase service exports in all four modes of supply.

Developing countries should also consider the possible downside of attracting FDIs: the diversion of human and financial resources to the detriment of the local market. For example, the World Health Organization points out that inward FDIs in the health sector might divert health system reforms, funds and personnel towards setting-up high-level technology, institutions and services which do not address broader social needs in the host country.[220]

6.2.2. Outward FDI

A few developing countries are participating more actively as service exporters through the establishment of a commercial presence abroad. Chile, for example, exports retail services primarily through commercial presence in neighbouring countries of Latin America. About 60 per cent of total revenues in the retail sector come from foreign affiliates.[221] According to Goswami, Prieto and Sáez, Chile is an interesting example of a developing country which has been able to become rather successful in exporting retail services through foreign affiliates albeit its overall services export performance is rather modest.[222] Indeed, albeit the retail sector leads Chilean investments abroad, Chile represents only 0.21 of world service exports.[223]

India and Malaysia also have increased their mode 3 service exports, in terms of outward FDIs. According to Goswami, Gupta and Mattoo, India's outward FDIs have increased at a high rate since 2000, with an average annual growth of 98 per cent between 2004 and 2007.[224] Services account for almost 30 per cent of total outward FDI between 2000 and 2007, with software and information technology enabled services accounting for almost 14 per cent of

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219 Ibid, p. 146.

220 World Health Organization, 'Modes of Delivery of Health Services', (last accessed on 21st September 2011), www.whoindia.org/LinkFiles/Trade_Agreement_06-18.pdf, p. 2.

221 World Bank, see note 2, p. 263.

222 Ibid, p. 253.

223 Ibid, p. 257; Gobierno deChile, 'Chile Abroad', (last accessed on 20th September 2011), http://chileabroad.gov.cl/en/sobre-chile/asi-es-chile/panorama-actual/economia.

224 World Bank, see note 2, p. 71.

India's total outward FDI.[225] Likewise, in Malaysia the share accruing to services in the cumulative outward FDI grew from 49% in the period 1995-1999 to 70% in the period 2000-2009.[226]

6.3. Key lessons for developing countries

Albeit experiences of developing countries in exporting services through the establishment of a commercial presence abroad are still limited, it is possible to make a few considerations and draw some lessons from such experiences, in addition to those illustrated in section 6.2.. First of all, establishing a commercial presence abroad requires adequate financial and human resources. For example, construction services, which are exported primarily through mode 3, are dominated by large firms from developed countries. Construction companies in many developing countries are often too small to take on large size projects and tend to outsource their services to bigger international contractors.[227] According to Engman, China, India and Egypt are among the few developing countries that export construction services through mode 3 because their companies are of sufficient size and possess the necessary expertise to take on large projects.[228]

Secondly, the establishment of a commercial presence can be encouraged by migration in the host country. For example, as highlighted by Goswami, Mattoo and Sáez, India, Brazil and Egypt have export services through mode 3 to better serve their migrants in the host countries.[229]

Also, government policies aimed at supporting outward FDIs can have a positive impact on the competitiveness of developing countries in mode 3 service exports. For example, in the late 1990s the Brazilian Development Bank started offering programs especially designed to provide financing to construction service exports to compete at global level.[230] As a result, three Brazilian firms are the only Latin American representatives among the world largest infrastructure-engineering companies.[231]

6.4. Improving competitiveness in Mode 3: the role of enterprises

As previously stated, some of the competiveness challenges that developing countries face in exporting services through the establishment of a commercial presence abroad derive from the

[225] Ibid, p. 72.
[226] Ibid, p. 136.
[227] Cattaneo, O., see note 1, p. 18.
[228] Ibid, p. 177.
[229] World Bank, see note 2, p. 110.
[230] Ibid, p. 234.
[231] Ibid, p. 234.

fact that their service enterprises are mostly SMEs. Thus, because of their very nature, enterprises play a role in addressing competitiveness issues.

6.4.1. How enterprises can address competitiveness issues

Enterprises can address competitiveness issues mode 3 service exports with the same approach described in section 4.4.1. More precisely, enterprises must identify all internal[232] and external[233] factors that might affect their ability to participate more actively in service exports, determine the areas where they can intervene directly and establish an agenda of actions to address the identified competitiveness issues.

With reference to internal factors, enterprises in developing countries should actively intervene to solve competiveness issues arising from the inadequacy of their human and financial resources of as well as the quality of the service provided. With reference to external factors, firms should act to reduce the negative impact of burdensome and discriminatory regulations on commercial presence in the host country and lack of institutional and governmental support have on mode 3 service exports.

6.4.2. Practical tools to improve competitiveness

As illustrated in Table 6.1., enterprises in developing countries can use different tools and strategies to improve their competitiveness in mode 3 service exports, according to the type of objective they aim at achieving.

Table 6.1.: Increasing competitiveness – Practical tools for service enterprises

Objective	Tool/Strategy
Increase financial resources	• establish collaborations and consortia with other firms for specific projects in order to create a greater pool of human and financial resources • establish links with migrants in target markets to identify opportunities for financial collaboration
Provide a high-quality service	• carry out in-depth research on foreign markets to identify opportunities and niches and, if possible, adapt the supply of the service to the target market • adopt international standards and qualifications (especially in construction and environmental services) • establish credibility as business partner
Encourage institutional and governmental support	• lobby the government, directly and through institutions, to create financing programs in support of service outward FDI • lobby the government, directly and through institutions, to promote the reliability and credibility of the country as business partners

[232] As described in section 4.4.1, internal factors include all competitiveness issues that depend on the enterprises itself, its organization, size, financial and human resources, innovation capacity and productivity.
[233] As described in section 4.4.1., external factors include all the elements that might affect the competitiveness of a company and that do not depend on the enterprise itself.

The list of tools presented in Table 6.1. is indicative and based primarily on observations made on construction and retail services exports. Most measures could be applied to other mode 3 dominated service sectors but others need to be introduced or amended in accordance to the needs of the specific sector at issue.

6.5. Improving competitiveness in Mode 3: the role of institutions

Institutions can play a very important role in addressing competitiveness challenges that developing countries face when exporting services through mode 3. Indeed, the establishment of a commercial presence abroad strongly relies on the capacity of enterprises to access the market and institutions are often instrumental in providing firms with the tools to access foreign markets. Moreover, institutions allow enterprises to have a voice and to participate in the policymaking process while, at the same time, they provide governments with the information they need to implement adequate policies and carry out efficient GATS negotiations.

6.5.1. How institutions can address competitiveness issues

Industry associations, regulatory agencies and institutions in general can address competitiveness issues by pursuing two main objectives. First of all, they can help enterprises overcome financial and managerial problems by proving assistance in terms of market intelligence, training programs and promotion of collaborations among enterprises. Secondly, institutions can help enterprises by encouraging the government to implement policies in support of service outward FDIs.

6.5.2. Practical tools to support competitiveness

As illustrated in Table 6.2., institutions in developing countries can use different tools and strategies to improve their competitiveness in mode 3 service exports, according to the type of objective they aim at achieving.

The list of tools presented in Table 6.2. is indicative and based primarily on observations made on construction and retail services exports. Most measures could be applied to other mode 3 dominated service sectors but others need to be introduced or amended in accordance to the needs of the specific sector at issue.

Table 6.2.: Increasing competitiveness – Practical tools for institutions

Objective	Tool/Strategy
Assist firms in accessing foreign markets	• organize training courses to improve the managerial skills and competences of enterprises • study foreign markets and identify opportunities abroad • disseminate market intelligence information to enterprises interested in establishing a commercial presence abroad • assist enterprises in scouting possible partners in the domestic partners for the creation of consortia or temporary associations of enterprises (in order to overcome financial and human resources restrictions) with the aim of establishing together a commercial presence abroad • assist enterprises in scouting possible partners in target markets (in order to overcome financial and human resources restrictions)
Assist firms in lobbying the government	• establish a dialogue with enterprises to understand issues, needs and interest they want to be presented to the government • encourage the government, on behalf of enterprises, to implement policies to promote service outward FDI and to enter into negotiations with other countries to reduce barriers to commercial presence in their domestic market

6.6. Fostering competitiveness in Mode 3: the role of policymakers

Governments play an crucial role in addressing the competitiveness issues that developing countries face in exporting services through mode 3. Commercial presence abroad relies strongly on market access, which governments are instrumental in achieving through negotiations.

6.6.1. How policymakers can address competitiveness issues

Governments can address competitiveness issues by pursuing two main objectives. On the one hand, policymakers can assist enterprises in establishing a commercial presence abroad, by providing funding and promoting investment abroad. On the other hand, as a prerequisite for the achievement of the first objective, governments can act to increase market access and reduce burdensome and discriminatory barriers to the establishment of commercial presence in target economies. Negotiations are fundamental to achieve the objective.

6.6.2. Practical tools to foster competitiveness

As illustrated in Table 6.3., policymakers in developing countries can use different tools and strategies to improve their competitiveness in mode 3 service exports, according to the type of objective they aim at achieving.

The list of tools presented in Table 6.3. is indicative and based primarily on observations made on construction and retail services exports. Most measures could be applied to other mode 3 dominated service sectors but others need to be introduced or amended in accordance to the needs of the specific sector at issue.

Table 6.3.: Increasing competitiveness – Practical tools for policymakers

Objective	Tool/Strategy
Assist enterprises in establishing commercial presence abroad	• identify potential partners in target markets to help enterprises establish a commercial presence abroad • provide financing to enterprises which aim at establishing a commercial presence abroad • collect and disseminate information to institutions and enterprises on potential opportunities, regulations on equity, barriers to establishment of commercial presence in target markets • promote managerial skills and competences through the establishment or improvement of business management courses in the education system • support clustering and networking programs to help enterprises overcome competitiveness issues arising from lack of sufficient human and financial resources
Increase market access	• collect market information and carry out in-depth research on target markets to decide priorities and interests to defend at the negotiating table • negotiate reduction of barriers to the establishment of commercial presence

7. CHAPTER 6 - MODE 4: PRESENCE OF NATURAL PERSONS

GATS Article I establishes that presence of natural persons (mode 4) takes place when an individual of a Member is present in the territory of another Member to supply a service. Mode 4 covers two major categories of natural persons: self-employed service suppliers (independent suppliers) and people who are employed by a service supplier (contractual service supplier.[234] According to Cattaneo, mode 4 covers also intra-corporate transferees and business visitors and salespersons.[235] However, as Magdeleine and Maurer point out, only the value of services trade originating from contractual service suppliers (self-employed and employees) is relevant for mode 4 because for intra-corporate transferees and foreign employees directly recruited by foreign established companies the service transaction takes place via mode 3 whereas for service sellers and persons responsible for setting up commercial presence there is no service transaction.[236] Moreover, according to the Annex on Movement of Natural Persons Supplying Services under the Agreement, mode 4 does not concern persons seeking access to the employment market in the host member, nor does it affect measures regarding citizenship, residence or employment on a permanent basis.[237]

According to Magdeleine and Maurer, the Manual on Statistics of International Trade in Services adopted by the United Nations Statistical Commission stops short of developing a conceptual framework for measuring mode 4 trade flows.[238] Experts are divided on which indicators constitute an adequate proxy for mode 4. According to Karsenty, income in compensation for employees could be used to measure mode 4.[239] In economic literature also workers remittances and personal transfers are described as statistical indicators to estimate the size of mode 4 trade.[240] However, albeit it recognises that the value of mode 4 trade is recorded in the balance of payments service transactions, the World Trade Organization states that the value of mode 4 trade is not recorded under the BOP items ‘compensation of employees’ and ‘workers remittances/personal transfer’.[241] According to the WTO these items cannot be used to measure mode 4 trade because they are labour income measures which

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[234] World Trade Organization, ‘Movement of Natural Persons’, (last accessed on 19th September 2011), www.wto.org/english/tratop_e/serv_e/mouvement_persons_e/mouvement_persons_e.htm

[235] Cattaneo, O., see note 1, p. 37.

[236] Magdeleine, J. & Maurer, A. *Measuring GATS Mode 4 Trade Flows*, Geneva: World Trade Organization, Staff Working Paper ERSD-2008-05, October 2008, p. 8.

[237] General Agreement on Trade in Services, Marrakesh Agreement Establishing the World Trade Organization, Annex 1B, World Trade Organization, *The legal texts: the results of Uruguay Round of multilateral trade negotiations*, 16th printing, Cambridge: Cambridge University Press, 2010, p. 309.

[238] Magdeleine, J. & Maurer, A., see note 236, p. 3.

[239] Karsenty, G., see note 8, p. 50.

[240] World Trade Organization, see note 126, p. 21.

[241] Ibid, p. 21.

often do not cover the mode 4 population.[242] Indeed, both compensation of employees and workers remittances provide income flows originating from the movement of people or migration. For example, the BOP component 'compensation for employees "records the earnings of all natural persons established abroad for less than one year, regardless of whether they work in goods or services sectors."[243] Thus, according to Magdeleine and Maurer, compensation for employees and workers remittances cannot substitute BOP indicators which measure transactions that are specified and originating from service contracts between consumers and suppliers.[244]

7.1. Mode 4 dominated services exports

According to the World Trade Organization, the only services which are predominantly delivered through mode 4 are services incidental to agriculture and mining.[245] Mode 4, indeed, is often used in combination with other modes of supply. For example, combined mode 1 and mode 4 transactions are found in computer and information services, other business services and telecommunications whereas combined mode 2 and mode 4 service transactions take place for waste treatment and de-pollution.[246]

Contrary to the other modes of supply, no reliable estimate exists on the value of mode 4 trade.[247]According to the World Trade Organization, quantitative assessment of mode 4 is difficult because, although mode 4 data are included in BOP statistics, given the small size of mode 4[248] it is problematic to estimate it separately from other modes of supply and measure which share of BOP service transactions should be allocated to mode 4 rather than mode 1 or mode 2.[249] Relevant information can be found in tourism and migration statistics but the level of detail is often inadequate.[250]

India is one of the few countries that is able to provide estimates of its services exports according to the four modes of supply, including mode 4. Since 2005 the Reserve Bank of India has collected data on the country's computer software and Information Technology enabled services exports, which are considered the driving force behind the growth of the Indian economy. As shown in Table 7.1., in 2008-2009 the movement of natural persons accounted for almost 27 per cent of India's total international supply of computer software

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[242] Ibid, p. 21.
[243] World Trade Organization, *A Review of Statistics on Trade Flows in Services*, Council for Trade in Services, Note by the Secretariat, Addendum, S/C/W/27/Add.1, 30 October 2000, p. 16
[244] Magdeleine, J. & Maurer, A., see note 236, p. 4.
[245] World Trade Organization, see note 126, p. 18.
[246] Magdeleine, J. & Maurer, A., see note 236, p. 9.
[247] World Trade Organization, see note 126, p. 17.
[248] Mode 4 accounts for less than 5 per cent of total international supply of services. See Table 2.2..
[249] World Trade Organization, see note 126, p. 17.
[250] Ibid, p. 21.

and ITeS. Thus, in India mode 4 is second preferred mode of supplying computer software services and ITeS to foreign markets.

Table 7.1.: Indian international supply of computer software and ITeS by mode, 2008-09

Size of Transactions (million US$)	Amount (million US$)					Per cent Share in Total			
	Mode 1	Mode 2	Mode 3	Mode 4	Total	Mode 1	Mode 2	Mode 3	Mode 4
< 0.2	37	0	6	1	44	83,2	0,0	13,9	3,0
0.2-2.2	447	5	43	18	513	87,1	0,9	8,4	3,6
feb-22	1930	0	225	111	2266	85,2	0,0	9,4	4,9
> 22	22194	28	7051	11592	40865	54,3	0,1	17,3	28,4
Total	**24607**	**32**	**7326**	**11723**	**43688**	**56,3**	**0,1**	**16,8**	**26,8**

Source: Reserve Bank of India (2010), Survey on Computer Software & IT Services Exports: 2008-09. (converted to US dollars by the WTO Secretariat)[251]

7.2. Developing countries and Mode 4 services exports

The absence of reliable and appropriate data on mode 4 supply of services makes it difficult to analyse the role of developing countries with respect to the movement of natural persons. No adequate classification of the major mode 4 services exporters is possible. Nor it is possible to efficiently classify mode 4 services exports according to type of service provided.

Economic literature and case studies, however, point out that a wide range of services, including construction, health, education, IT and accountancy, are increasingly being internationally supplied through the presence of natural persons and that countries in South Asia are among the main mode 4 services exporters.[252] Chanda points out that several developing countries, such as Bangladesh, India, Mexico, Pakistan and the Philippines are "prominent exporters of labour-intensive services, at various skill levels, through mode 4".[253] Indeed, according to Chanda, countries like India, Bangladesh, Pakistan and Sri Lanka have a comparative advantage in exporting services through movement of natural persons because of their large endowment of labour force at all skill levels.[254] For example, India and Malaysia provide respectively software professionals to the US and UK and health and education workers to Singapore, and many South Asian countries provide temporary movement of maids, technicians and construction workers to the Gulf Region.[255] Also the Philippines are considered among the top mode 4 service exporters, with workers' deployments that include

[251] Ibid, p. 19.
[252] Chanda, R., *Movement of Natural Persons: A Case Study of South Asian Countries*, India: CUTS Centre for International Trade, Economics & Environment, 2004, p. 8.
[253] Chanda, R., *Movement and Presence of Natural Persons and Developing Countries: Issues and Proposals for the GATS Negotiations*, Trade-Related Agenda, Development and Equity, Working Papers, 19, South Centre, May 2004, p. 1.
[254] Chanda, R., see note 252, p. 8.
[255] Ibid, p. 8.

nurses, teachers and domestic helpers and whose geographical destinations are very diversified.[256] Moreover, according to Cattaneo, the Caribbean countries and Ghana are some of the countries that send large numbers of health professionals to serve abroad.[257]

7.3. Key lessons for developing countries

GATS Mode 4 is the least important mode of supply in terms of share of total services exports and it is the least liberalised of all modes of supply both in developed and in developing countries. Numerous barriers to the movement of natural persons contribute to this result. For examples, many countries maintain limitations to mode 4 in the form of 'economic needs tests (ENTs)', whose purpose is to limit the number of service suppliers via quotas on natural persons working in certain sectors or via variable quotas related to unemployment levels.[258] Also, mode 4 services exports might by limited by discriminatory or unduly burdensome domestic licensing and qualification requirements as well as cumbersome documentation or work permit requirements in the destination market.[259] Thus, mode 4 service exporters might be negatively affected by immigration policies, domestic regulations concerning recognition of qualifications, taxation, government procurement, and discriminatory treatment of foreign service providers.[260]

In accordance to the findings of Cattaneo[261], Goswani, Mattoo and Sáez[262], developing countries can learn two main lessons from the experience of other developing countries, such as the Philippines and Egypt, that have attempted (and partially succeeded) to overcome some of the above mentioned barriers to the movement of natural persons.

The first lesson is that adequate policymaking can be instrumental in fostering the competitiveness of a country in exporting services through mode 4. For example, the government of the Philippines actively negotiated bilateral labour agreements and dedicated two agencies, the Philippines Overseas Employment Administration and Overseas Workers Welfare Administration, to deal with worker migration-related issues, in order to assist workers move abroad.[263] Egypt also adopted a regulatory framework that encourages export of health and education services through mode 4. In particular, the government of Egypt undertook several policies to enhance short-term migration to Arab countries, via conclusion

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[256] World Bank, see note 2, pp. 90-91.
[257] Cattaneo, O., see note 1, p. 10.
[258] Sauvé P., *Fostering Trade Through Public-Private Dialogue: Moving Goods, Services and People Across Borders, Part II – Temporary Labour Mobility*, Roundtable Report, Geneva: International Trade Centre, 2007, p. 5.
[259] Ibid, p. 5.
[260] Chanda, R., see note 252, p. 9.
[261] Cattaneo, O., see note 1.
[262] World Bank, see note 2.
[263] Ibid, p. 102.

of bilateral agreements with Sudan, Qatar, Libya and Jordan, regulating the right of entry, movement, ownership and work.[264] Several developing countries such as Colombia, Morocco, Barbados, Jamaica and South Africa have also stipulated bilateral agreements with developed countries, which suffer from shortage of labour supply, in order to promote and regulate the flow of unskilled or semiskilled workers.[265]

The second lesson is that several developing countries have a greater potential to export services in countries, especially developed countries, which face labour shortages, both professional and low-skilled labour. The Philippines, for example, became specialized in training nurses as export labour because target countries such as Canada, United States, United Kingdom, Saudi Arabia and the Netherlands face increasingly severe shortages in health personnel.[266] However, it should be noted that specializing should not happen to the detriment of the domestic population. Indeed, a developing country should estimate which labour force capacity can be dedicated, for example, to export health services abroad without affecting the country's own health system, as it occurred in the Philippines in the early 2000s.[267]

7.4. Improving competitiveness in Mode 4: the role of enterprises

The role of enterprises (including self-employed professionals) in improving competitiveness of mode 4 services exports is limited primarily to addressing issues related to human capital. The availability of labour force with adequate skills and competences is the key to a country's competitive advantage in exporting services through the movement of natural persons. According to Adibin, Yean and Heng, only by improving the supply of skilled human capital can exports of knowledge based services be enhanced.[268] In order to achieve their objective, enterprises need to assess their capacity to diversify their target-markets and to specialise in a specific niche, through adequate market intelligence.

7.4.1. How enterprises can address competitiveness issues

Human capital issues related primarily to the level of skills and competences as well as to their quality. Enterprises can address competitiveness issues by operating on two fronts: education and quality assurance. In terms of education enterprises can contribute to increasing competitiveness by training and training and upgrading the skills of local workers. In terms of

[264] Ibid, p. 176.
[265] Cattaneo, O., see note 1, p. 59.
[266] Ibid, p. 120.
[267] Santos, J. 'DoH Also Exports Filipino Nurses Abroad', Volume 2, Number 38, October 27 - November 2, 2002, (last accessed on 19th September 2011), http://bulatlat.com/news/2-38/2-38-nurses.html
[268] World Bank, see note 2, p. 152.

quality assurance enterprises can intervene by adopting international recognised quality assurance standards, wherever possible.

7.4.2. Practical tools to improve competitiveness

As illustrated in Table 7.2., enterprises in developing countries can use different tools and strategies to improve their competitiveness in mode 4 service exports, according to the type of objective they aim at achieving. The list of tools presented in Table 7.2. is indicative and based primarily on observations made on education- and health-related service exports. Most measures could be applied to other mode 4 dominated service sectors but others need to be introduced or amended in accordance to the needs of the specific sector at issue.

Table 7.2.: Increasing competitiveness – Practical tools for service enterprises

Objective	Tool/Strategy
Identify potential opportunities	• identify target markets and sectors/niches where to concentrate efforts (independently or with the support of trade associations, development agencies or export promotions agencies)
Improve service provided	• establish enterprise/self-employee capacity to supply markets abroad and identify areas where improvements are needed (e.g. credibility, qualifications) • upgrade the skills and competences of employees in relation to target niche/markets • establish close relationships with academia in order to ensure that the educational system prepares for the labour market • obtain quality certifications and recognised qualifications

7.5. Improving competitiveness in Mode 4: the role of institutions

With reference to the movement of natural persons, the role of institutions does not differ from that played to address competitiveness issues in all other modes of supply. Institutions, indeed, still act as a *trait d'union* between enterprises and policymakers. Thus, they play a crucial role in assisting the other stakeholders overcome competitiveness problems, especially in the area of human capital.

7.5.1. How institutions can address competitiveness issues

The approach that institutions can take to solve competitiveness challenges that most developing countries face in mode 4 service exports comprises the achievement of three objectives. First of all, institutions should focus their action on increasing their efficiency by avoiding fragmentation and improving coordination among themselves in order to limit dispersions of human and financial resources. Secondly, institutions should aim at solving problems related to the quality and skills of the labour force because human capital is a key competitiveness issue in mode 4 service exports. Finally, institutions should aim at providing support to enterprises and professionals that aim at exporting their services abroad through mode 4 by means of market intelligence and assistance on foreign regulations, administrative issues and opportunities abroad.

7.5.2. Practical tools to support competitiveness

As illustrated in Table 7.3., institutions in developing countries can use different tools and strategies to improve their competitiveness in mode 4 service exports, according to the type of objective they aim at achieving. The list of tools presented in Table 7.3. is indicative and based primarily on observations made on education- and health-related service exports. Most measures could be applied to other mode 4 dominated service sectors but others need to be introduced or amended in accordance to the needs of the specific sector at issue.

Table 7.3.: Increasing competitiveness – Practical tools for institutions

Objective	**Tool/Strategy**
Increase efficiency of institutions	• avoid excessive fragmentation • improve coordination among institutions and with government
Identify target markets and trade niche of specialisation	• carry out market intelligence regarding the competences and skills in the country as well as possible shortages of labour force; • carry out marketing intelligence regarding target-markets and their shortages of labour force
Improve human capital	• establish collaborations and linkages with international networks in quality assurance (e.g. International Network for Quality Assurance Agencies in Higher Education) [269] • establish specific bodies to carry out accreditation based on international standards[270]

7.6. Fostering competitiveness in Mode 4: the role of policymakers

Governments play an crucial role in addressing the competitiveness issues that developing countries face in exporting services through mode 4. Indeed, the movement of natural persons is a highly sensitive political issue which results in still persisting and widespread barriers to trade in mode 4. For example, countries like Malaysian mode 4 service exports suffer primarily from barriers in the form of immigration issues (visa-related barriers), discriminatory treatment of foreign service providers and inadequate recognition of qualifications.[271] As a consequence, the intervention of policymakers becomes instrumental to solve competitiveness problems arising from barriers to the movement of natural persons.

7.6.1. How policymakers can address competitiveness issues

Policymakers can play an active role in fostering competitiveness in mode 4 service exports by addressing human capital and immigration issues. With reference to the latter, governments can act to reduce the impact of visa-related issues and discriminatory treatment

[269] Ibid, p. 148.
[270] Ibid, p. 148.
[271] Ibid, p. 150.

of foreign service providers by collaborating directly with the target-countries. A similar approach could also be undertaken to improve the recognition of qualifications.

In terms of human capital, policymakers could act on two fronts. On the one hand, they could aim at improving the quality of the domestic human capital to satisfy the needs of the target markets. On the other, they could engage in promoting the skills and competences of the domestic labour force in order to strengthen the credibility and reputation of the country as mode 4 service exporter.

7.6.2. Practical tools to foster competitiveness

As illustrated in Table 7.4., policymakers in developing countries can use different tools and strategies to improve their competitiveness in mode 4 service exports, according to the type of objective they aim at achieving. The list of tools presented in Table 7.4. is indicative and based primarily on observations made on health-related service exports. Most measures could be applied to other mode 4 dominated service sectors but others need to be introduced or amended in accordance to the needs of the specific sector at issue.

Table 7.4.: Increasing competitiveness – Practical tools for policymakers

Objective	Tool/Strategy
Improve human capital to satisfy the needs of the target markets	• reform the education system to improve quality and access and better satisfy the needs of the labour market • develop local training programs for the specific skills required in the target markets[272] • enact policies aimed at reducing the inflow of low-skilled migrant workers to force companies to train and upgrade the skills of local workers[273]
Increase credibility and reputation abroad	• promote the country capacity as provider of mode 4 services through awareness programs, televised advertisements, participation to trade fairs and internet advertising which highlight the quality, reliability, skills and competences of the country's labour force[274] • improve the reputation of engineers, health professionals, teachers by promoting the use of international certifications or recognised certifications of quality • interact more closely with institutions and enterprises domestically • sign agreements with host countries for the recognition of qualifications
Increase market access	• carry out in-depth market research on the capacity of the domestic market as well as on target markets to identify potential promising niches and establish priorities and interests to defend at the negotiating table • Negotiate bilateral agreements to reduce barriers to the movement of natural persons, at least in specific sectors, such as health-related and education services, where the movement of natural persons is essential for the service to be supplied and which represent the most promising niches of specialisation for the developing country that is interested in exporting services through mode 4[275]

[272] Cattaneo, O., see note 1, p. 64.
[273] World Bank, see note 2, p. 152.
[274] Cattaneo, O., see note 1, p. 63.
[275] Ibid, p. 63.

8. CONCLUSION

In conclusion, a developing country could have the potential to compete with developed countries in exporting services, as long as it undertakes appropriate measures to improve its competitiveness and exploit its potential. Enterprises, institutions and policymakers all play a role in supporting the developing country's quest to become a credible competitor of developed countries in exporting services.

Many developing countries have the potential to become exporters of BPO services, tourism, health- and education-related services because they have the basic resources upon which these services are founded: an abundant labour force, impressive artistic and natural resources, adequate language skills and strong historical linkages with their target markets. However, numerous developing countries fall short of their potential because such basic resources are necessary but not sufficient to be competitive service exporters. Indeed, the analysis highlighted that, in accordance to most economic literature on the topic, a developing country can be a credible competitor of developed countries in service exports if it fulfils four main conditions. First of all, it should have a high quality human capital. Indeed, its labour force should be well trained and possess high quality skills and competences. Secondly, a developing country should have efficient physical and electronic infrastructures. Thirdly, it should implement adequate policies in support of service exporters. Finally, efficient institutions are necessary to solve information asymmetries and support enterprises and governments in their quest to become competitive service exporters.

The analysis has shown that there exist different measures and tools that a developing country could adopt in order to address its competitiveness issues in service exports. The measures and tools vary in accordance to the type of service to be exported, the mode of supply, the competitiveness issue to be addressed and the type of stakeholder implementing the measure. The measures are not exhaustive and do not exclude one another. On the contrary, most measures can be complementary to the others, reflecting the complexity of services exports.

Albeit the research has shown that a developing country could become a competitive service exporter, its results should be assessed very carefully in light of the limits that the research itself uncovered. Indeed, there are three main issues that should be taken into consideration with regards to the competitiveness challenges that most developing countries face in exporting services and the measures and tools that can be used to address such challenges. First of all, the measures identified during the analysis refer to an heterogeneous group of countries, developing countries, which includes a wide range of states spanning small land locked economies such as Zambia and large fast-growing economies such as India. Thus, the measures and tools that countries can use to increase their competitiveness in exporting services may lead to different results according to the specific developing country implementing the measures. Secondly, statistics on trade in services are still quite limited and subject to an ongoing debate over their compilation and scope, especially for mode 3 and mode 4. Therefore, assessing the competitiveness of developing countries in service exports can be distorted by the lack of appropriate statistics. Finally, the measures and tools identified in Chapters 4, 5, 6 and 7 of the research were based on the analysis of a few specific sectors upon which more case studies and statistical data were available. Albeit service sectors exported through the same mode of supply share common competitiveness issues, each service sector has characteristics of its own that distinguish it from the others. Thus, a developing country that aims at increasing its competitiveness in exporting services other than those analysed in Chapters 4, 5, 6 and 7, should evaluate if and how the instruments and tools identified by the research can be implemented to reach such aim.

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ANNEX 1 - SERVICES SECTORAL CLASSIFICATION LIST

Source: World Trade Organization, *Guidelines for the scheduling of specific commitments under the General Agreement on Trade in Services (GATS)*, S/L/92, 28 March 2001

SECTORS AND SUB-SECTORS		CORRESPONDING CPC
1.	BUSINESS SERVICES	Section B
A.	Professional Services	
a.	Legal Services	861
b.	Accounting, auditing and bookeeping services	862
c.	Taxation Services	863
d.	Architectural services	8671
e.	Engineering services	8672
f.	Integrated engineering services	8673
g.	Urban planning and landscape architectural services	8674
h.	Medical and dental services	9312
i.	Veterinary services	932
j.	Services provided by midwives, nurses, physiotherapists and para-medical personnel	93191
k.	Other	
B.	Computer and Related Services	
a.	Consultancy services related to the installation of computer hardware	841
b.	Software implementation services	842
c.	Data processing services	843
d.	Data base services	844
e.	Other	845+849
C.	Research and Development Services	
a.	R&D services on natural sciences	851
b.	R&D services on social sciences and humanities	852
c.	Interdisciplinary R&D services	853
D.	Real Estate Services	
a.	Involving own or leased property	821
b.	On a fee or contract basis	822
E.	Rental/Leasing Services without Operators	
a.	Relating to ships	83103
b.	Relating to aircraft	83104
c.	Relating to other transport equipment	83101+83102+83105
d.	Relating to other machinery and equipment	83106-83109
e.	Other	832
F.	Other Business Services	
a.	Advertising services	871
b.	Market research and public opinion polling services	864
c.	Management consulting service	865

d.	Services related to man. consulting	866
e.	Technical testing and analysis serv.	8676
f.	Services incidental to agriculture, hunting and forestry	881
g.	Services incidental to fishing	882
h.	Services incidental to mining	883+5115
i.	Services incidental to manufacturing	884+885(except for 88442)
j.	Services incidental to energy distribution	887
k.	Placement and supply services of Personnel	872
l.	Investigation and security	873
m.	Related scientific and technical consulting services	8675
n.	Maintenance and repair of equipment (not including maritime vessels, aircraft or other transport equipment)	633+8861-8866
o.	Building-cleaning services	874
p.	Photographic services	875
q.	Packaging services	876
r.	Printing, publishing	88442
s.	Convention services	87909*
t.	Other	8790

2. COMMUNICATION SERVICES

A.	Postal services	7511
B.	Courier services	7512
C.	Telecommunication services	
a.	Voice telephone services	7521
b.	Packet-switched data transmission services	7523**
c.	Circuit-switched data transmission services	7523**
d.	Telex services	7523**
e.	Telegraph services	7522
f.	Facsimile services	7521**+7529**
g.	Private leased circuit services	7522**+7523**
h.	Electronic mail	7523**
i.	Voice mail	7523**
j.	On-line information and data base retrieval	7523**
k.	electronic data interchange (EDI)	7523**
l.	enhanced/value-added facsimile services, incl. store and forward, store and retrieve	7523**
m.	code and protocol conversion n.a.	
n.	on-line information and/or data processing (incl.transaction processing)	843**
o.	other	
D.	Audiovisual services	
a.	Motion picture and video tape production and	9611

* The (*) indicates that the service specified is a component of a more aggregated CPC item specified elsewhere in this classification list.

** The (**) indicates that the service specified constitutes only a part of the total range of activities covered by the CPC concordance (e.g. voice mail is only a component of CPC item 7523).

	distribution services	
b.	Motion picture projection service	9612
c.	Radio and television services	9613
d.	Radio and television transmission services	7524
e.	Sound recording n.a.	
f.	Other	
E.	Other	
3.	CONSTRUCTION AND RELATED ENGINEERING SERVICES	
A.	General construction work for buildings	512
B.	General construction work for civil engineering	513
C.	Installation and assembly work	514+516
D.	Building completion and finishing work	517
E.	Other	511+515+518
4.	DISTRIBUTION SERVICES	
A.	Commission agents' services	621
B.	Wholesale trade services	622
C.	Retailing services	631+632
		6111+6113+6121
D.	Franchising	8929
E.	Other	
5.	EDUCATIONAL SERVICES	
A.	Primary education services	921
B.	Secondary education services	922
C.	Higher education services	923
D.	Adult education	924
E.	Other education services	929
6.	ENVIRONMENTAL SERVICES	
A.	Sewage services	9401
B.	Refuse disposal services	9402
C.	Sanitation and similar services	9403
D.	Other	
7.	FINANCIAL SERVICES	
A.	All insurance and insurance-related services	812**

a.	Life, accident and health insurance services	8121
b.	Non-life insurance services	8129
c.	Reinsurance and retrocession	81299*
d.	Services auxiliary to insurance (including broking and agency services)	8140
B.	<u>Banking and other financial services</u> (excl. insurance)	
a.	Acceptance of deposits and other repayable funds from the public	81115-81119
b.	Lending of all types, incl., inter alia, consumer credit, mortgage credit, factoring and financing of commercial transaction	8113
c.	Financial leasing	8112
d.	All payment and money transmission services	81339**
e.	Guarantees and commitments	81199**
f.	Trading for own account or for account of customers, whether on an exchange, in an over-the-counter market or otherwise, the following:	
	- money market instruments (cheques, bills, certificate of deposits, etc.)	81339**
	- foreign exchange	81333
	- derivative products incl., but not limited to, futures and options	81339**
	- exchange rate and interest rate instruments, inclu. products such as swaps, forward rate agreements, etc.	81339**
	- transferable securities	81321*
	- other negotiable instruments and financial assets, incl. bullion	81339**
g.	Participation in issues of all kinds of securities, incl. under-writing and placement as agent (whether publicly or privately) and provision of service related to such issues	8132
h.	Money broking	81339**
i.	Asset management, such as cash or portfolio management, all forms of collective investment management, pension fund management, custodial depository and trust services	8119+** 81323*
j.	Settlement and clearing services for financial assets, incl. securities, derivative products, or and other negotiable instruments	81339** 81319**
k.	Advisory and other auxiliary financial services on all the activities listed in or Article 1B of MTN.TNC/W/50, incl. credit reference and analysis, investment and portfolio research and advice, advice on acquisitions and on corporate restructuring and strategy	8131 8133
l.	Provision and transfer of financial information, and financial data processing and related software by providers of other financial services	8131
C.	<u>Other</u>	

8.	HEALTH RELATED AND SOCIAL SERVICES	
	(other than those listed under 1.A.h-j.)	
A.	Hospital services	9311
B.	Other Human Health Services	9319 (other than 93191)
C.	Social Services	933
D.	Other	
9.	TOURISM AND TRAVEL RELATED SERVICES	
A.	Hotels and restaurants (incl. catering)	641-643
B.	Travel agencies and tour operators services	7471
C.	Tourist guides services	7472
D.	Other	
10.	RECREATIONAL, CULTURAL AND SPORTING SERVICES	
	(other than audiovisual services)	
A.	Entertainment services (including theatre, live bands and circus services)	9619
B.	News agency services	962
C.	Libraries, archives, museums and other cultural services	963
D.	Sporting and other recreational services	964
E.	Other	
11.	TRANSPORT SERVICES	
A.	Maritime Transport Services	
a.	Passenger transportation	7211
b.	Freight transportation	7212
c.	Rental of vessels with crew	7213
d.	Maintenance and repair of vessels	8868**
e.	Pushing and towing services	7214
f.	Supporting services for maritime transport	745**
B.	Internal Waterways Transport	
a.	Passenger transportation	7221
b.	Freight transportation	7222
c.	Rental of vessels with crew	7223
d.	Maintenance and repair of vessels	8868**
e.	Pushing and towing services	7224
f.	Supporting services for internal waterway transport	745**

C.	<u>Air Transport Services</u>	
a.	Passenger transportation	731
b.	Freight transportation	732
c.	Rental of aircraft with crew	734
d.	Maintenance and repair of aircraft	8868**
e.	Supporting services for air transport	746
D.	<u>Space Transport</u>	733
E.	<u>Rail Transport Services</u>	
a.	Passenger transportation	7111
b.	Freight transportation	7112
c.	Pushing and towing services	7113
d.	Maintenance and repair of rail transport equipment	8868**
e.	Supporting services for rail transport services	743
F.	<u>Road Transport Services</u>	
a.	Passenger transportation	7121+7122
b.	Freight transportation	7123
c.	Rental of commercial vehicles with operator	7124
d.	Maintenance and repair of road transport equipment	6112+8867
e.	Supporting services for road transport services	744
G.	<u>Pipeline Transport</u>	
a.	Transportation of fuels	7131
b.	Transportation of other goods	7139
H.	<u>Services auxiliary to all modes of transport</u>	
a.	Cargo-handling services	741
b.	Storage and warehouse services	742
c.	Freight transport agency services	748
d.	Other	749
I.	<u>Other Transport Services</u>	
12.	<u>OTHER SERVICES NOT INCLUDED ELSEWHERE</u>	95+97+98+99