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## SMALL STATES IN TRANSITION – FROM VULNERABILITY TO COMPETITIVENESS

# BARBADOS

## EXPORT OF SERVICES: HIGH POTENTIAL OR WISHFUL THINKING

## **INTRODUCTION**

During the last twenty (20) years Barbados' economy has been transformed from an agricultural-based economy to a service-based economy. In order for the Barbados economy to grow it is paramount that the export of services be increased over time. It is therefore essential that Barbados strive to develop competitive advantage in the export of services.

### **What is a Service?**

The term services encompasses a wide range of industries that perform various functions for buyers, but does not involve or only involves incidentally the sale of a tangible product.

To identify the activities that are covered under the services sector, one can use the WTO classification system and the United National Central Product Classification System. The WTO Services classification system broadly classifies as follows:

- 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
- Other services not included elsewhere

### **Services Export – How?**

The General Agreement on Trade in Services and the Revised Treaty of Chaguaramas state that there are four ways to export a service:

- **Cross border** – The service provider and the consumer remain in separate jurisdictions and only the service moves.
- **Consumption aboard** – The consumer goes to the jurisdiction of the service provider, consumes the services and returns to the home territory.
- **Commercial Presence** – A business operation is established in the jurisdiction of the consumer and the service is sold through that entity.
- **Temporary Movement of Natural Persons** – The service provider temporarily enters the jurisdiction of the consumer, sells the services and returns to his/her country of residence.

### **Contribution of Services to Region**

Statistical data highlights<sup>1</sup> that the services sector positively contributes to the economies of CARICOM Member States. According to the data, CARICOM's trade balance for the services sector

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<sup>1</sup> Caribbean Regional Negotiating Machinery (2002)

during the period 1992 – 2000 recorded a net surplus. This is often compared with the merchandise trade balance, which consistently records a net loss.

CARICOM'S MERCHANDISE TRADE BALANCE 1992-2000 US \$ m									
	1992	1993	1994	1995	1996	1997	1998	1999	2000
CARICOM	-987	-	-	-	-	-	-	-	-
		1,716	1,108	1,459	1,48	3,180	3,539	2,869	2,299
MDCs	-319	-988	-308	-683	-	-	-	-	-
					1,104	2,225	2,524	1,784	1,129
LDCs	-688	-747	-800	-777	-844	-955	-	-	-
							1,015	1,085	1,170
CARICOM'S BALANCE OF SERVICES 1992-2000 US \$ m									
	1992	1993	1994	1995	1996	1997	1998	1999	2000
CARICOM	1,449	1,496	1,555	1,712	1,823	1,906	2,115	2,099	1,958
MDCs	984	951	1,068	1,181	1,270	1,309	1,482	1,441	1,308
LDCs	485	545	587	531	664	597	633	658	649

Source: CARICOM Secretariat Statistics Division \*The Bahamas not included

This surplus in the trade balance highlights the fact that local and regional firms are already exporting more services than they export merchandise goods. Barbados' intention to increase its levels of services exports will however be determined by its competitiveness in an increasing liberal environment.

### **Defining Competitiveness**

Competitiveness can be evaluated at the national level and at the level of the firm. National competitiveness is a country's ability to produce goods and services, which meet international market standards while maintaining and expanding real incomes over the long term. A firm's competitiveness relates to its ability to earn and retain market share for its products based on pricing, quality standards and service<sup>2</sup>.

### **Why Competitiveness in Services Sector?**

Competitiveness is important at this particular juncture because of the international and regional commitments CARICOM Member States have made in the area of trade. At the multilateral level, Barbados and other CARICOM Member States have agreed to liberalise more services by 2005 under the Doha Development Agenda. At the Hemispheric level, CARICOM Member States have agreed to negotiate a Services Chapter under the FTAA, which will also entail some measure of liberalization. Governments are also negotiating a new trading arrangement with the European Union and it is expected that this Arrangement will be concluded by 2007. At the regional level, the Revised Treaty of Chaguaramas mandates the Member States (excluding Bahamas) remove all restrictions affecting the provision of services throughout the Community.

These negotiations will create the framework under which the private sector must operate. They will expose our local service suppliers to regional and international competition in the domestic

<sup>2</sup> Source: Private Sector Trade Team (2003)

market place. Likewise, it will allow our service suppliers to enter new markets in the region and beyond. Building competitiveness is therefore critical if local service suppliers are to survive in this environment.

### **Barbados Private Sector Already Exports**

A number of Barbados' firms already have experience a number of services. These include:

- Distribution services
- Information processing
- Catering services
- Construction services
- Engineering services
- Tourism and related services
- Consultancy services
- Veterinary services
- Architectural services
- Health related services
- Other Business services

### **What are the relevant issues affecting the Competitiveness of Barbados' Services Exports?**

#### ○ **Productivity**

High productivity is an essential component of competitiveness. Generally, productivity is measured by examining, *inter alia*, the following components, labour output, return on equity and technical capacity.

#### ○ **Cost**

Cost is another major component that affects the competitiveness of any firm. Ensuring that the provision of services is done in a cost effective manner will therefore have an impact of its ability to compete

#### ○ **Quality of Services**

The ability to produce high quality services is important if the Barbados service supplier is to effectively compete in the new trade environment. Particular attention should to be paid to the following:

- Customer Service
- Reliability
- Levels of Output
- Standards

#### ○ **Access to Financing**

Access to affordable financing is another factor affecting the competitiveness of local service firms. Service providers indicate that commercial banks will not lend in areas where the risk is perceived to be high and if there are no tangible assets that could be held as collateral<sup>3</sup>. It must be noted however that there are many financing and credit guarantee schemes available

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<sup>3</sup> Caribbean Export Development Agency (2000)

through a number of agencies. In many cases the potential entrepreneur is unaware of these outlets or fails to explore these options.

- **Skills**

The provision of services is skills based, therefore when a service is provided on a commercial basis, the higher the skills the more value is offered to the customer. Therefore, skills development at the level of the firm and country is critical if Barbados is to be competitive in the future.

- **Access to Technology**

Access to affordable Information Communications Technologies (ICT) is often regarded as one of the primary factors that determine a firm's competitiveness. ICT can be used as effective cross-border tools that will help service providers reach potential markets in a cost effective manner. It will also improve the quality of the service offered to customers. Furthermore, a sound ICT infrastructure can not only enhance the competitive advantage of a firm but can also present Barbados with as number of opportunities for attracting foreign direct investment.

- **Institutional Support**

In the past, Barbados has made a good effort to build institutions to support the traditional areas of business activity. National and regional institutional support assists our business firms to reach their fullest potential. From a national perspective, institutions such as the Barbados Investment Development Corporation (BIDC), The Small Business Association and the Barbados Chamber of Commerce offer programmes targeted at strengthening our firms' competitiveness. Regional agencies such as the Caribbean Export Development Agency also assist firms in reaching their export markets.

- **Collaboration with Stakeholders**

Strategic collaboration between the private sector and Government, labour and the University of the West Indies in areas such as statistical data gathering, productivity, standards, etc, would assist in strengthening Barbados' competitiveness in the services sector.

- **Trade facilitation**

Making Barbados business friendly will create a more competitive environment. The quality of government services, for instance in the area of licensing procedures, can make the country lose potential investment. Service providers often indicate that governmental red tape and bureaucracy often hurts their firm's ability to compete. Barbados will have to create the appropriate balance of developing a well-regulated services regime, while making it as business friendly as possible.

- **Marketing**

Being able to effectively market your product is critical to the success of a business. Establishing reliable contacts through networking in the export market is one method of marketing in an export market. Gathering the relevant market intelligence can also have an impact in the firm's ability to gain access to and penetrate an export market. Trade fairs and missions organized by the BIDC and the Small Business Association have in the past, assisted services providers in this context.

- **Intellectual Property Issues**

The development of a strong intellectual property regime will strengthen the competitiveness of our service providers. Matters relating to franchising, trademarks and copyrights can strengthen our services providers' brand, ensure legal protection and can be used creatively to export. It should be noted that the costs associated with intellectual property could become prohibitive

- **Product Development**

Developing innovative products is critical if Barbados service providers are to enhance their competitiveness. There is need for greater emphasis on niche marketing, branding and research and development.

- **Standards**

Standards add value to products and services and lead to high customer satisfaction. In a liberalized environment, closer attention must be paid to the extent to which local services providers can meet international best practices. Many local service providers have inconsistent standards and as a result lack the competitive advantage that will be required to penetrate the export market.

### **What are some of the Obstacles and Constraints?**

- **Barriers to Entry**

Service providers continue to face a number of barriers when trying to export their trade. A number of the barriers they face are due to the regulations within the export market. A number of regulatory barriers they face include:

- Citizenship requirements
- Residency requirements
- In-state or Providence requirements
- Slow processing of the US H-1B visas
- Ownership restrictions
- Local experience requirements
- Non-mutual recognition of qualifications
- Capital and security requirements
- Differential taxation requirements (national treatment)

- **Access to Financing**

- **Lack of export culture and little or no innovation**

- **Technology Costs**

The cost of state of the art technology is often prohibitive and this can have a negative impact on the export potential of many service firms.

- **Standards**

The imposition of internationally derived standards can be burdensome for small and medium enterprises and can act as a technical barrier to trade. Technical standards sometime do not take into consideration the local and regional realities confronting our service providers and act as an obstacle to reaching the export market.

- **Language**

The FTAA and the WTO processes will offer greater opportunity to gain access to markets in non-English speaking territories. One of the greatest barriers to these markets is language. To effectively compete in these markets, acquire working knowledge of these language would be an asset.

### **Strategies to improve competitiveness**

To enhance competitiveness there are specific and distinct roles for Government and for the Private Sector. However strategic public and private sector alliances will also be important. Government's role includes:

1. The need to devise and implement economic policies through legislation, regulations, etc.
2. Provision of efficient support services such as customs, town planning, provision for capital movement, etc.
3. Resource allocation including appropriate incentives and technical assistance.
4. Trade facilitation, which includes development of adequate infrastructure.

The Private Sector's role will be to focus on the following:

1. Expanding businesses to the appropriate size required for them to be able to compete.
2. Reducing costs while increasing production levels (productivity)
3. Re-tooling and upgrading
4. Identifying obstacles and bringing them to the attention of Government that they may be dealt with in bi-lateral or other trade negotiations.

The role for Private/public Sector alliance would include:

- **Product development**

Product development will be an important part of new strategies for the services sector. This may include either developing completely new products where possible, or re-engineering and adding value to existing products so that their appeal to niche markets can be enhanced. Technical research and market analysis would be major forces in driving product development.

- **Market Penetration**

To achieve market penetration, target markets and specific services need to be identified. Attention also needs to be paid to the requirements of these individuals markets and the ways in which the service provider must go about meeting these requirements.

- **Private Sector Advocacy and Participation**

The level of structured dialogues between the private sector agencies and Government should also be targeted and strengthening Barbados' competitiveness. The social partnership needs to be fully engaged in trade related talks. Once negotiations are complete the private sector participation will be critical to ensure that trade rules are adhered to.

- **Special and Differential Treatment**

The Private sector supports Government's insistence that special and differential treatment be a major principle underpinning international trade negotiations. This is necessary if small and medium sized enterprises are to effectively compete in the trade environment. Some of the issues of relevance include:

- Longer time frames for the implementation of commitments
- Fewer commitments
- Technical Assistance
- Cost-sharing

- **Develop programmes that builds services sector**

Barbados will have to establish programmes and policies that speak to the following:<sup>4</sup>

- The efficient provision of infrastructural services including telecommunication, road, air, maritime and other transportation services, statistical data generation and financial services.
- The development of capacity-enhancing services including educational services and research and development services
- The development of services which enhance cross-sectoral competitiveness
- The facilitation of cross-border services, which enhance the competitiveness of the services sector.
- The development of informatics and other knowledge based services.

### **Levels of Success of Strategic action taken**

- **Private Sector Development**

A number of initiatives were taken to strengthen the private sector participation in the area of trade negotiation. One of the major achievements was the establishment of the Barbados Private Sector Trade Team, which will research and document the private sector views on matters relating to trade. There has also been the establishment of the Barbados Coalition of Services Industries, whose mandate is to assist in the development of a new services regime in Barbados. There have also been a number of private sector based consultations that address the importance of competitiveness in the global trading environment.

- **Incentive Regime**

The Private sector recognizes that its level of competitiveness will also depend on the incentive regime governing the services sector. The inclusion of services to BDC technical Assistance programme is an initiative that can support a firm's ability to compete.

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<sup>4</sup> See the Revised Treaty of Chaguaramas

- **Liberalisation of the telecommunications sector**

It is anticipated that the liberalization of the telecommunications sector will result in the reduction of the high operating cost and provide new technical options.

- **Enabling legislation has been progressively introduced and upgraded.**

- **Government is actively promoting the exportation of services and the attraction of investment in the area through the BDC.**

### **What are the Lessons Learnt?**

- The Social Partnership should be included in trade discussions;
- Barbados will have to implement appropriate regulations and competition policy;
- Adjustment costs might be burdensome for individual companies and could lead to restructuring that includes job retrenchment and loss of market share;
- Business advocacy will be critical to indicate the demands of the private sector;
- The Private sector will have to use trade information strategically;
- Government will have to devise more efficient business facilitation procedures; and
- Skills development and training is necessary to achieve competitiveness.