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Challenges Faced by Business in Maximising Export and Investment Opportunities Derived from Special and Differential Treatment

Given the small size of their domestic markets, service industries in developing countries, especially small and low-income ones, often need to be able to export in order to be able to reap economies of scale. However, they face a number of obstacles in doing so. Target countries may simply not permit access to the relevant service markets in their GATS schedules, at least in the supply modes that are of most interest to small service suppliers. Even where access is allowed, service suppliers may be impeded in their efforts to export by factors such as lack of information about export opportunities, difficulties in building an international reputation, lack of government support and high costs. Negotiation of an RTA can help in this regard. It may provide market access in sectors of interest to the exporting country. And the private sector can learn a great deal about potential export markets in the other country or countries that are party to the agreement if, as is often the case, it is closely involved in the negotiation process.

Small service suppliers are primarily interested in gaining market access under Modes 1 and 4, since they are unlikely to have the resources to establish Mode 3 commercial presence in other countries (Hoekman, 2009).[50] Target countries may not have made any Mode 1 market access commitments in the relevant sectors in their GATS commitments, or they may have made market access conditional on commercial presence, which reduces or eliminates the value of the Mode 1 commitments. Negotiation of an RTA can provide Mode 1 access in more sectors and remove the commercial presence requirements.[51]

Mode 4 market access is highly restricted by all countries in their GATS schedules, and the majority of RTAs are also quite limited in this respect. As discussed in section 2.4.1, most countries limit Mode 4 entry to highly skilled individuals, and many only permit it when associated with Mode 3 entry. And even in the few cases where Mode 4 access includes independent service suppliers, there may be regulatory barriers to delivery of services or a refusal to recognise professional qualifications which make it impossible as a practical matter for individuals to enter the market.

Even where trade barriers do not exist, service suppliers in small countries may not have the resources to be able to investigate market opportunities in other countries on their own.[52] In larger economies, these functions are often carried out by specialised trade associations, but many small economies lack such organisations. (Riddle, 2002b). And even if a small service company has been able to identify market opportunities in other countries. it may lack the resources to devote time and effort to develop these opportunities, and to build up an international reputation.[53] It will need to send key personnel to those countries to attend conferences where they may meet potential clients. It will also need to follow up on leads, and to negotiate contracts. This involves expense and time away from revenue-generating work on the part of senior personnel. As noted above, Mode 4 access may not be permitted for independent service suppliers, and even if it is, obtaining the necessary visas may be difficult and time-consuming, resulting in lost opportunities (Riddle, 2002b).

Another issue, particularly in small and low-income countries, is lack of government support. Governments are often unaware of the abilities of small service exporters, and therefore fail to promote them. This may be because export promotion has traditionally focused on goods rather than services, so that many service exporters have not used government support (Riddle, 2002a). For this reason, governments often do not have an accurate database of service suppliers, and are not in a position to promote them in other countries. Where service suppliers play a role in the negotiation of an RTA, this can educate the government as to their export potential.

Even where governments are aware of the capabilities of service exporters, capacity constraints in smaller economies can mean that there are no government officials responsible for service issues who can assist in identifying market opportunities and in dealing with obstacles to service exports in the target countries. Also, responsibility for service issues is often spread over as many as 20 different government agencies (Riddle, 2002b; te Velde *et al.*, 2004), and there may well be a lack of co-ordination between them. This is often true in developed as well as in developing countries, but developing countries tend to co-ordinate less well, and often do not have a services unit in their trade ministry.

Another problem is lack of human resources. There may simply not be enough workers in the country with the necessary skill sets. Even in Canada and the UK, small service suppliers have difficulty finding fully trained workers, especially in the areas of construction and business services (Riddle, 2002b). The problem will be exacerbated if foreign service suppliers have been allowed into the market, as they may have drained away the best talent, particularly if they offer higher compensation than local firms.

Service suppliers in small and low-income countries may face considerable disadvantages vis-a-vis local suppliers they are competing with in foreign markets. They may not have access to quick and flexible credit, and they may pay higher interest rates and bank charges (te Velde, 2005; te Velde *et al.*, 2004).[54] They may not have access to fast and inexpensive internet access or to the latest technology. The cost of office equipment and supplies, much of which may have to be imported, is likely to be higher than in higher-income countries.

Finally, it should be noted that small economies are particularly vulnerable to natural disasters, in part because many are located in hurricane or cyclone belts or in earthquake zones, and because their small size means that a natural disaster can effect an entire country, rather than simply a region of the country (Horscroft, 2006).