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Introduction

This book examines the promotion of knowledge-based and service industries in small states. It was commissioned by the Small States section of the Economic Affairs Division of the Commonwealth Secretariat. This request followed the Small States Agenda proposed in the Commonwealth/World Bank Joint Task Force Report of April 2000. The review of this agenda, entitled 'Toward an outward-oriented development strategy for small states: issues, opportunities and resilience building', was prepared in August 2006. Both reports identify serious challenges for development in small states due to their small size, remoteness and vulnerability. The review suggests that over the past few years, the prospects for small states have deteriorated further due to (future) preference erosion and the emergence of new, large competitors. It proposes that small states need to reposition themselves in the global economy and move into knowledge-based and service industries. Growth strategies in the new competitive environment will also increasingly rely on the promotion of knowledge-based and service industries. The study highlighted in this book suggests how this might be done.

Part I of the book provides an overview of general factors stimulating or constraining the development of services and trade in services in an outward-oriented development strategy in small states. It also identifies key trends in the services sectors of these states. The analysis reveals that for many small states, trade in services, especially tourism-related services, is an important foreign exchange earner. Tourism is highly important for low- and middle-income small states due to their relatively less diversified services as compared to those of the high-income states. Generally, the more developed a country, the more it is engaged in knowledge-based services.

Part II discusses how some small states have promoted knowledge-based and service industries in their economies on the basis of six case studies of countries from different geographical locations and income groups: Botswana, Mauritius, Singapore, St Lucia, United Arab Emirates and Vanuatu. The studies covered the performance and supporting factors in five promising services sectors: financial services; information and communications technology (ICT); educational services; professional business services; and tourism.

The authors pay specific attention to St Lucia. This is a particularly interesting case study as, on the one hand, it offers a successful example compared to the rest of the Organisation of Eastern Caribbean States (OECS). For instance, it has successful event tourism such as carnivals, musical and sports events, and important marina services, information technology (IT) call centres, offshore schools, a cultural foundation and a services coalition. On the other hand, St Lucia also has the potential to benefit by

learning from the experience of other successful countries in terms of, for example, developing appropriate human resources for service industries. Developing its services further is particularly important considering that the country faces the constraints listed in the small states report review, including a rapid erosion of preferences (in agriculture).

Part III of the book concludes and provides policy implications, emphasising that it makes economic sense for small states to concentrate on the development of knowledge-intensive services. In order to create a vision for the development of a country's services sector, strong leadership is required. This in turn may cause a change in mindset throughout the economy towards one that is more competitive and service-dependent. Key factors could also be consistent support from government for knowledge-based services over a number of years or decades, at the same time as maintaining an economy that is flexible to meet new challenges.

Changes in policy might also be required at all levels: in trade negotiations, the development of supply capacity, and building an appropriate domestic regulatory framework. Relationships between the public and private sectors need to be strengthened so that the businesses benefit further from initiatives undertaken by the government. At the same time, engagement with the international economy is crucial, so that lessons can be learnt from other countries – particularly from the experiences of successful small states. In addition, the international community can help by supporting such initiatives and assisting small states technically as well as financially to build the domestic capacity necessary to support the services sectors.

The views presented in this book are those of the authors and do not necessarily represent the views of the Commonwealth Secretariat. The authors are grateful to Constance Vigilance for her support and Maura Felix for organising the consultations. They also appreciate the comments made by officials during consultations in June 2007, as well as the suggestions provided during a Commonwealth Secretariat meeting of High Commissioners in July 2007 and those of an anonymous reviewer.

PART I

The Importance of Services for Small States

