Lessons from the Commonwealth No.3

Promoting IT Enabled Services

Edited by
Nikhil Treebhoohun

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Commonwealth Secretariat

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Abbreviations

ACP	African, Caribbean and Pacific
AFR	Sub-Saharan Africa
ASEAN	Association of Southeast Asian Nations
BCI	Business Continuity Institute
BCSI	Barbados Coalition of Services Industries
BPO	Business process outsourcing
CAGR	Compound annual growth rate
CARICOM	Caribbean Community and Common Market
CARIFORUM	Caribbean Forum of ACP States
CIB	Central Informatics Bureau
CII	Confederation of Indian Industry
CMI	Chartered Management Institute
COMESA	Common Market for Eastern and Southern Africa
CPC	Central product classification
DSL	Digital Subscriber Line
EAC	East African Community
EAP	East Asia and Pacific
EC	European Community
ECA	Europe and Central Asia
ENT	Economic needs test
EPAs	Economic partnership agreements
EPZs	Export processing zones
EU	European Union
FATS	Foreign Affiliates Trade Statistics
FDI	Foreign direct investment
FTAA	Free Trade Agreement of the Americas
GATS	General Agreement on Trade in Services
GATT	General Agreements on Trade and Tariffs
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product

GSLI	Global Services Location Index
ICT	Information and communications technology
IDRC	International Development Research Centre
IPR	Intellectual Property Rights
ISO	International Organization for Standardization
IT	Information technology
ITES	IT enabled services
ITO	Information Technology Outsourcing
ITU	International Telecommunications Union
KPO	Knowledge Process Outsourcing
LAC	Latin America and Caribbean
LDCs	Least developed countries
MENA	Middle East and North Africa
MFN	Most favoured nation
MNCs	Multinational corporations
NAFTA	North American Free Trade Agreement
NGOs	Non-governmental organisations
OECD	Organisation for Economic Co-operation and Development
PSDC	Professional Services Development Corporation
R&D	Research and Development
SAARC	South Asia Association for Regional Cooperation
SADC	Southern Africa Development Community
SAR	South Asia
SIDA	Swedish International Development Agency
SMEs	Small and medium enterprises
STRI	Services Trade Restrictiveness Index
TRIPS	Trade-Related Aspects of Intellectual Property Rights
UNCTAD	UN Conference on Trade and Development
VoIP	Voice over Internet Protocol
WTO	World Trade Organization

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Introduction

Nikhil Treebhoohun

> *When one door closes another door opens; but we so often look so long and so regretfully upon the closed door that we do not see the ones which open for us...*
>
> Alexander Graham Bell (1847–1922)

The services sector, even excluding tourism, has been growing rapidly in the decade since 2000. While there are issues about the reliability of the statistics, still the trend is clear: according to World Bank statistics, trade in services makes up about 20 per cent of the total world cross-border trade and about 16 per cent of developing economies trade. Services sector exports grew faster than merchandise exports since 2000 (over 15% p.a.), and from 2006 to 2009, in both developed and developing countries, more than half the annual foreign direct investment (FDI) flows was in services. Furthermore, in the period 2000–2007, computer and information services recorded an average annual growth of 19 per cent, followed closely by financial and insurance (17% each), other business services (15%) and construction (14%).[1]

The UN Conference on Trade and Development (UNCTAD) 2009 Information Economy Report, estimated that total services reached the US$3 trillion mark in 2007 (see Table 1).

Table 1. World trade in services and IT enabled services (selected years)

Item	*1990*	*1995*	*2000*	*2005*	*2007*
A. Total Services (US$ bn)	826.7	1,234.9	1,524	2,557.2	3,410.4
B. Total ITES (US$ bn)	269	441.7	648.8	1,163.3	1,635.1
B/A (%)	32.5	35.8	42.6	45.5	47.9

Source: UNCTAD (based on IMF data)

Significantly, trade in information technology enabled services (ITES)[2] represents almost 50 per cent of total services. Indeed, the rapid pace of globalisation over the last few decades would not have been possible without the great strides in the field of information technology as a result of increased broadband connectivity in a growing number of countries. This has resulted in the fragmentation of services, as producer and consumer no longer need physical proximity to do business. For example, technology has facilitated the development of telemedicine and the outsourcing of business as well as legal processes. The emergence of these 'new' services coincided with the drive towards greater trade openness, which accelerated with the setting up

of the World Trade Organization (WTO) in 1995. The WTO General Agreement on Trade in Services (GATS) created the basic framework for trade in services. GATS defines the international supply of services in terms of four delivery modes:

Mode 1 – Cross-border supply takes place when only the service being provided crosses the border, i.e. the supplier is not within the border of the consumer. This includes all services that are IT enabled, from call centres to telemedicine.

Mode 2 – Consumption abroad refers to services consumed in a country other than the home country of the consumer. Examples include tourism, medical treatment, higher education and ship repairs.

Mode 3 – Commercial presence refers to a situation where a supplier opens a branch or a representative office in the country where it is selling its services or from which it sells to another country. These suppliers are known as 'foreign affiliates' (FATS). Examples of services supplied through commercial presence are financial (provided by a branch or subsidiary of a foreign bank or insurance company), medical (provided by a foreign-owned hospital) and educational (provided by a foreign-owned school).

Mode 4 – Temporary movement of natural persons is when nationals of one country go to another for temporary work on a contractual basis. It should not be confused with migration. It applies to any skill level – from the farm worker who goes to another country for picking fruits to the engineer who is sent for maintenance work or the computer analyst who is posted in the branch for a given contractual period.

It is estimated that the bulk of ITES trade is provided under Mode 1.

What are ITES?

The WTO has classified services under 12 categories and some 155 sub-sectors (Annex 1). The classification is not based on statistical requisites but rather on a framework for assisting negotiators. This creates a host of problems for the measurement of services from a development perspective. Unless the classification system is harmonised and all countries start using the same definitions, discrepancies in trade figures will persist. To simplify matters in the case of this book, since we use UNCTAD figures we shall also use its definitions.

In UNCTAD's definitions IT services consist of programming, systems integration, application testing, IT infrastructure management and maintenance, IT consulting, software development and implementation services, data processing and database services, IT support services, data warehousing, and content management and development. ITES fall into two categories:

Front and back office services – Front office services comprise call centres and customer contact centres (inbound and outbound) while back office services consist of data entry, human resources, payroll, finance and accounting, procurement and transcription.

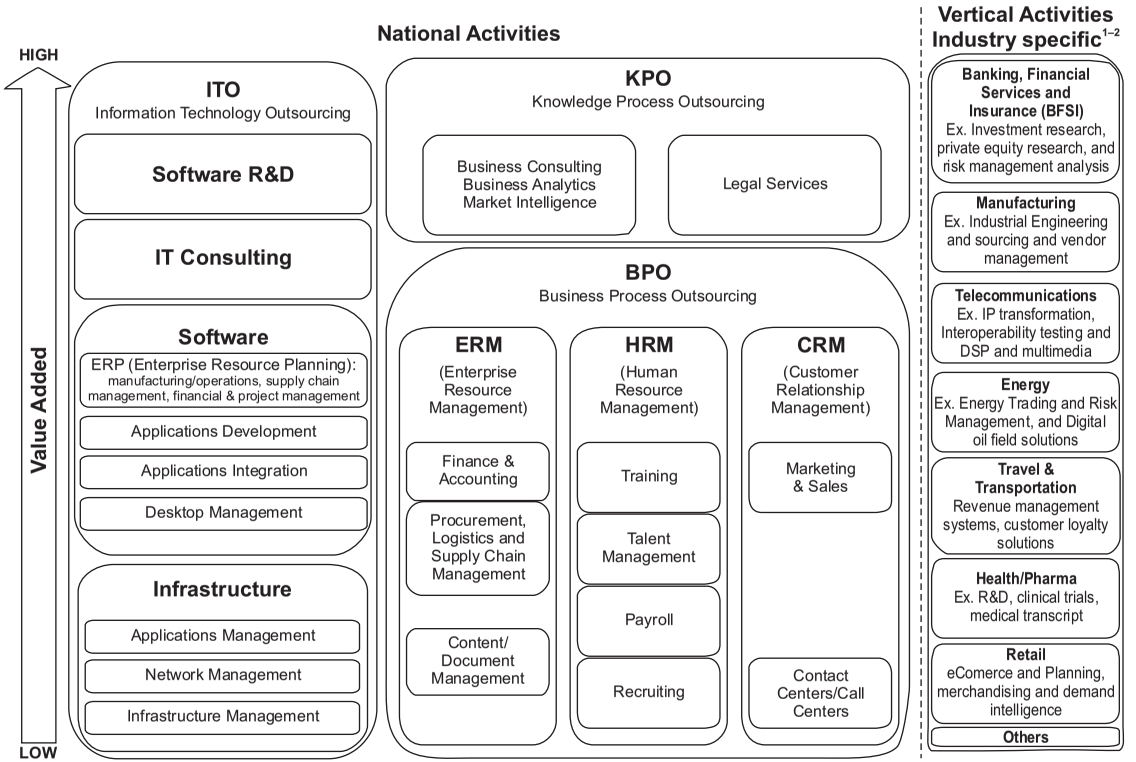


Figure 1. Offshore services value chain

Source: CGGC, Duke University

[1] Vertical Activities – Industry specific: Each industry has its own value chain. Within each of these chains there are associated services that can be offshored. This diagram identifies the industries with the highest demand for offshore services.

[2] This graphical depiction of vertical activities does not imply value levels. Each industry may include ITO, BPO, KPO and other advanced activities.

Knowledge process outsourcing (KPO) – Financial analysis, data mining, engineering, research and development, insurance claims processing, architectural design, remote education and publishing, medical diagnostics, journalism.

Therefore, policy-makers and entrepreneurs in developing countries must be aware of the whole gamut of 'verticals' and 'horizontals' that make up the value chain to be able to carve out their own niche. Figure 1 reproduces the value chain of the ITES sector, as described in Gereffi and Fernandez-Stark (2010).[3]

Figure 1 is useful for policy-makers as it presents a picture of the different activities in the supply chain in terms of their value addition. Call centres are at the bottom of the value chain as minimal skills are required while activities requiring specialist knowledge are at the top of the chain. Therefore, depending on the existing educational level within a country, a roadmap for the development of ITES exports can be elaborated. As Gereffi and Fernandez-Stark (2010) put it,[4] the Figure 1 categorisation can provide development agencies with an instrument for market entry based on the current educational and skill levels of their workforce. It also provides an initial blueprint for economic upgrading strategies within the industry. Developing countries that aim to provide services within certain segments of the value chain must evaluate their workforce development strategies and implement policies to build human capital for those segments, be it language skills for the call centre market or promoting a doctoral programme or advanced training for research and development (R&D) activities in a specific industry.

ITES in the world

Developing countries must be aware of the increasing opportunities for penetrating the ITES export markets as a result of the increasing trend to offshore activities, whereby enterprises in (mostly) developed countries contract out services that were previously internal company functions (e.g. billing, help-desk) to another company. The most important driver of offshoring is arbitrage related to labour cost saving. The availability of skilled personnel is often the pivotal element. Even more important, however, is the work ethic and the recognition that the quality expectations of the client have to be met if enterprises and countries are to be competitive.

According to the UNCTAD 2009 Information Economy Report 2009 and citing studies conducted by NASSCOM and McKinsey,[5] the long-term growth prospects for offshoring IT enabled services are promising for early starters (such as India) as well as many other emerging locations. These sources predict that newcomers will have enough space to develop a sizeable export-oriented services industry if they can meet the needs of companies for complementary assets in terms of skills and time zones. The scope of industries and business functions that become subject to offshoring is also expected to expand in the longer term. A recent assessment of the long-term prospects of the offshoring industry suggests that as much as 80 per

cent of its incremental revenue up to 2020 is expected to come from new industries (such as health care, media and utilities), the public sector (national, federal as well as local governments), businesses (especially small and medium enterprises) and new countries that may start outsourcing.

In 2008, prior to the financial crisis, the OECD estimated the annual growth rates of the various segments between 2005 and 2010 to be as follows: knowledge process outsourcing services (58%); localisation and language services (28%); R&D engineering (27%); IT outsourcing services (26%); business process outsourcing services (25%); and call centres (14%). The good news for most developing countries is that the geography of offshoring is shifting, according to A.T. Kearney's Global Services Location Index (GSLI) 2009 (Table 2). The GSLI analyses and ranks the top 50 countries worldwide for locating outsourcing activities, including IT services and support, contact centers and back-office support. Each country's score is composed of a weighted combination of relative scores on 43 measurements. These are grouped into three categories: financial attractiveness, people and skills availability, and business environment. The detailed list of measurements (Table 3) provides a good guide for policy planning.

The report[6] notes that while India, China and Malaysia retain the top three spots they have occupied since the inaugural GSLI in 2004, a fundamental shift in the index has taken place as once strong Central European countries have yielded ground to countries in Asia, the Middle East and North Africa. For instance Poland, the Czech Republic, Hungary and Slovakia, once among the premier offshoring destinations for Western Europe companies, have fallen significantly due to a rapid increase in costs driven by both wage inflation and currency appreciation against the dollar. Meanwhile, low-cost countries in Southeast Asia and the Middle East made significant gains in 2009 as the quality and availability of their labour forces improved. Egypt, Jordan and Vietnam ranked in the GSLI's top 10 for the first time.

Other highlights from the 2009 GSLI:

- The Middle East and North Africa is emerging as a key offshoring region because of its large, well educated population and its proximity to Europe. In addition to Egypt and Jordan, ranked at 6 and 9, respectively, Tunisia (17), United Arab Emirates (29) and Morocco (30) all rank among the top 30 countries.
- Sub-Saharan Africa also showed strength; Ghana was ranked at 15, Mauritius 25, Senegal 26 and South Africa 39.
- Countries in Latin America and the Caribbean continue to capitalise on their proximity to the US as near-shore destinations. Chile (8) ranked highest on the strength of its political stability and favourable business environment. Other strong performers in the region included Mexico (11), Brazil (12) and Jamaica, which climbed 8 places to 24.

- India, China and Malaysia continue to lead the index by a wide margin through a unique combination of high people skills, favourable business environment and low cost. In particular, India has remained at the forefront of the outsourcing industry and become an enabler for industry growth through expansion of Indian offshoring firms into other countries.
- The US, as represented by the on shoring potential of smaller 'tier II' cities such as San Antonio, rose to 14 in the rankings due to the financial benefits of a falling dollar. The country is the leader in the people skills category and the combination of rising unemployment and political pressure to create jobs is increasing interest in on shoring possibilities among smaller inland locations. Similar trends are evident in France, Germany and the UK, all of which also rose in the GSLI.

Table 2. Global Services Location Index 2009

1. *India* (1)	26. Senegal (39)
2. China (2)	27. Argentina (23)
3. *Malaysia* (3)	28. *Canada* (35)
4. Thailand (4)	29. United Arab Emirates (20)
5. Indonesia (6)	30. Morocco (36)
6. Egypt (13)	31. *United Kingdom* (Tier II)* (42)
7. Philippines (8)	32. Czech Republic (16)
8. Chile (7)	33. Russia (37)
9. Jordan (14)	34. Germany (Tier II)* (40)
10. Vietnam (19)	35. *Singapore* (11)
11. Mexico (10)	36. Uruguay (22)
12. Brazil (5)	37. Hungary (24)
13. Bulgaria (9)	38. Poland (18)
14. United States (Tier II)* (21)	39. *South Africa* (31)
15. *Ghana* (27)	40. Slovakia (12)
16. *Sri Lanka* (29)	41. France (Tier II)* (48)
17. Tunisia (26)	42. Ukraine (47)
18. Estonia (15)	43. Panama (41)
19. Romania (33)	44. Turkey (49)
20. *Pakistan* (30)	45. Spain (43)
21. Lithuania (28)	46. *New Zealand* (44)
22. Latvia (17)	47. *Australia* (45)
23. Costa Rica (34)	48. Ireland (50)
24. *Jamaica* (32)	49. Israel (38)
25. *Mauritius* (25)	50. Portugal (46)

(number in parenthesis indicates ranking in the 2007 GSLI)
* Based on lower cost locations in each country: San Antonio (US), Belfast (UK), Leipzig (Germany) and Marseilles (France).
The countries in italics are Commonwealth member states.
Source: A.T. Kearney

Table 3. A.T. Kearney index metrics

Category	*Sub-categories*	*Metrics*
Financial attractiveness (40%)	Compensation costs	• Average wages • Median compensation costs for relevant posters representatives. IT programmers and local operations managers), as reported in the Meaner Human Resources Consulting Global Pay Summary
	Infrastructure costs	• Rental costs • Commercial electricity costs • International telecom costs • Travel to major customer destinations
	Tax and regulatory costs	• Relation tax burden • Costs of corruption • Currency appreciation or depreciation
People skills and availability (30%)	Remote services sector experience and quality range	• 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 world force • University-educated world force • World force 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 rating 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, internal, and electricity infrastructure
	Cultural exposure	• Personal interaction score from A.T. Kearney/ Foreign Policy Globalization Index™
	Security of intellectual property (IP)	• Investor ratings of IP protection and ICT laws • Software piracy rates • Information security certification

Source: A.T. Kearney

- While the global financial crisis has slowed recent offshoring moves, the percentage of staff offshore may very well increase as a result of the crisis. Layoffs at home are not translating to layoffs among offshore workers as companies seek to maintain service but reduce costs. Additionally, offshore facilities tend to be more efficient because they are newer and lack years of inefficiencies often built up in onshore facilities.

ITES in the Commonwealth

How do the countries of the Commonwealth fare in the ITES sector? Only 13 of the 54 member states appear among the 50 in the GSLI: five from Asia (India, Malaysia, Pakistan, Singapore, Sri Lanka); three from Africa (Ghana, Mauritius, South Africa); two from the Pacific (Australia, New Zealand); one from the Caribbean (Jamaica); and Canada and the United Kingdom. The Index is a useful indicator to potential investors about the enabling environment in specific countries, and countries also use it as a promotional tool. However, its coverage is still limited to a small group of countries.[7]

More relevant is the performance of the member states in exporting IT and IT enabled services. Table 4 has been compiled from the 2009 UNCTAD Information Economy Report and gives the export figures for 2000, 2006, and 2007. Not all member states exported during those years. The statistics give an idea of who the main players are, and reveal those who have made the most progress between 2000 and 2007. In 2000, the four main exporters were the UK, Canada, Singapore and India with the UK exporting almost eight times more than India. By 2007, UK was still the leader with an export value about three times that of India, but India had climbed to second place while Canada had dropped to fourth. The total exports from Commonwealth countries represented 18 per cent of world exports in 2000 and this increased to 23 per cent in 2007.

It is no surprise that the 'developed' countries of the Commonwealth account for the bulk of these exports. However, almost all countries and regions (except the Pacific) recorded growth in their exports in the period (Table 5). By comparison, the developed countries saw a 205 per cent increase in exports whereas Asia's exports grew by 314 per cent – a quite incredible growth rate. Asia's growth was fuelled mainly by India, which saw a sevenfold increase in its exports, followed by Singapore, which had a threefold rise. Other high flyers (albeit from a low base) in terms of percentage increase over the period are: Cyprus (x3) and Malta (x11) in Europe; Botswana (x9), Ghana (x6), Kenya (x4) and Uganda (x13) in Africa; and Bangladesh (x4) and Pakistan (x2) in Asia. The Caribbean and Pacific regions have not performed as well, although in the case of the former the absence of data for Trinidad and Tobago and Barbados skewed the figures downwards. Elsewhere in the Caribbean, Guyana increased its exports from a low base of US$87 million in 2000 to US$113.7 million in 2007 and The Bahamas doubled its exports within the same period.

These statistics would suggest that Commonwealth countries do represent a significant proportion of world trade in IT enabled services. But they are at different stages of expansion and development. The Commonwealth Secretariat provides a platform for the different countries to interact as well as technical assistance, which it is hoped will contribute to developing a vibrant ITES sector in the Commonwealth, leading to the creation of better jobs for its youth. However, all these figures pre-date the financial crisis. The key question here is whether the services sector is resilient enough for countries to move to the knowledge-based economy. Developing the services sector, as will be shown later in the book, requires a departure from some traditional policy postures regarding regulation of economic activities and a labour force that is adaptable to the new requirements of a sector in which time (working hours) has different connotations from an agricultural society where activities are regulated by the rising and setting of the sun.

Table 4 also provides the import figures for Commonwealth member countries. (Data are not available for all countries.) An interesting point worth noting is that net exports are negative or only marginally positive for all countries except Cyprus, India, Malta, Singapore and the UK. However, total world imports of ITES in 2007 had already reached US$1.3 trillion with the top importers being China, France, Germany, Ireland, Italy, Japan, Spain, the UK and the US. Therefore, there is a market that Commonwealth countries can tap. They will need to assess their strengths and develop their capacity to penetrate targeted markets/market niches.

Table 4. Commonwealth exports/imports of IT enabled services (US$ millions)

	ITES EXPORTS				*ITES IMPORTS*			
				CAGR %				*CAGR %*
	2000	*2006*	*2007*	*2003–2006/2007*	*2000*	*2006*	*2007*	*2000–2006/2007*
AMERICA								
Canada	20,736.0	32,382.2	34,238.1	7.4	21,706.1	34,160.2	36,008.4	7.5
EUROPE								
Cyprus	1,090.0	2,534.4	3,295.1	17.1	268.8	784.6	918.7	19.2
Malta	187.2	1,470.5	2,024.3	40.5	215.8	1,077.2	1,482.0	31.7
United Kingdom	77,317.0	166,267.8	205,232.1	15.0	34,416.6	71,172.9	86,389.7	14.1
OCEANIA								
Australia	5,781.3	8,128.2	9,973.1	8.1	5,875.5	8,575.7	11,223.3	9.7
New Zealand	856.4	1,386.6	1,285.2	6.0	1,548.9	2,518.2	2,842.9	9.1
	105,967.9	**212,169.7**	**256,047.9**		**64,031.7**	**118,288.8**	**138,865.0**	
AFRICA								
Botswana	30.8	144.5	280.3	37.1	112.7	218.3	283.0	14.1
Cameroon	373.7	214.9	112.6	-15.7	501.4	540.2	381.5	-3.8
The Gambia	..	9.8	11.3	..	..	53.6	32.7	..
Ghana	56.8	191.7	392.9	31.8	142.1	357.7	394.5	15.7
Kenya	33.1	301.8	142.4	23.2	192.3	386.5	196.2	0.3
Lesotho	11.2	23.0	24.4	11.7	0.0	1.5	2.7	122.9
Malawi					29.1	..	..	..
Mauritius	291.7	277.7	452.0	6.5	305.3	446.9	590.8	9.9
Mozambique	153.5	85.0	93.9	-6.8	137.5	182.2	283.3	10.9
Namibia	12.8	22.6	25.5	10.3	116.5	128.2	122.9	0.8
Nigeria	1,511.6	..	..	..	1,929.3	..	6,019.8	17.7
Rwanda	3.4	12.8	24.7	32.7	8.7	68.0	101.1	41.9
Seychelles	10.3	20.4	21.6	11.2	55.9	78.3	70.8	3.4
Sierra Leone	10.7	5.9	4.8	-10.9	32.3	21.1	23.5	-4.4
South Africa	1,028.9	2,308.5	2,943.3	16.2	1,130.8	3,930.8	4,706.6	22.6
Swaziland	231.4	186.7	406.2	8.4	234.1	266.7	367.7	6.7
Uganda	8.1	117.1	112.6	45.6	309.6	372.1	423.1	4.6
United Republic of Tanzania	141.9	173.1	305.5	11.6	75.2	127.6	229.6	17.3
	3,909.9	**4,095.5**	**5,354**		**5,312.8**	**7,179.7**	**14,229.8**	
ASIA								
Bangladesh	141.2	411.2	499.2	19.8	218.5	362.8	415.1	9.6
Brunei Darussalam	..	139.5	..	..	..	257.3	..	..
India	10,089.5	58,091.3	69,000.8	31.6	7,375.1	29,597.8	..	26.1
Malaysia	5,684.2	6,026.1	6,863.7	2.7	7,547.1	8,581.9	9,858.5	3.9
Maldives	4.5	10.6	7.3	7.2	8.2	32.6	35.5	23.4

Pakistan	363.0	847.0	808.0	12.1	342.0	3,464.5	3,520.0	39.5
Singapore	11,129.1	32,145.4	37,059.9	18.8	12,199.1	30,261.8	35,208.0	16.3
Sri Lanka	267.6	413.5	433.6	7.1	371.3	517.4	556.2	5.9
	27,679.1	**98,084.6**	**114,672.5**		**28061.3**	**73,076.1**	**49,593.3**	
CARIBBEAN								
Antigua and Barbuda	49.4	58.6	65.4	4.1	57.0	91.0	102.2	8.7
The Bahamas	153.4	289.4	321.7	11.2	357.4	551.4	575.0	7.0
Barbados	304.9	..	..	..	200.4	..	..	..
Belize	13.4	46.8	50.4	20.8	38.3	45.7	59.4	6.5
Dominica	32.1	23.2	24.1	-4.0	16.4	15.3	16.4	0
Grenada	48.0	23.6	24.3	-9.3	41.4	29.5	31.7	-3.7
Guyana	87.0	113.1	113.7	3.9	81.0	126.1	129.5	6.9
Jamaica	326.9	284.5	312.4	-0.6	586.4	805.8	929.9	6.8
St Kitts and Nevis	24.5	27.7	29.1	2.5	26.8	37.9	40.7	6.2
St Lucia	28.8	26.1	27.5	-0.7	39.7	45.5	47.5	2.6
St Vincent and the Grenadines	47.6	44.0	46.8	-0.3	17.6	26.8	29.6	7.7
Trinidad and Tobago	122.8	..	..	..	42.9	..	..	..
	1,238.8	**937.0**	**1,015.4**		**1,505.3**	**1,775**	**1,961.9**	
PACIFIC								
Fiji Islands	86.6	57.7	..	-6.6	84.0	114.9	..	5.4
Papua New Guinea	223.6	..	..	..	559.1	..	..	..
Samoa	..	35.3	23.8	..	..	14.2	20.1	..
Solomon Islands	39.7	34.5	..	-2.3	24.9	32.3	..	4.5
Tonga	..	4.6	7.7	..	..	7.4	4.2	..
Vanuatu	32.7	24.0	26.4	-3.0	28.9	13.9	14.2	-9.6
	382.6	**156.1**	**57.9**		**696.9**	**182.7**	**38.5**	

Source: UNCTAD Information Economy Report 2009

Table 5. Commonwealth IT enabled services exports by region (US$ millions)

	2000	*2006*	*2007*	*Change 2000–2007 (%)*
Developed	83,955	212,170	256,048	205
Africa	3,910	4,096	5,354	37
Asia	27,679	98,085	114,673	314
Caribbean	811	878	1,015	25
Pacific	297	98	58	

Note: Figures for Africa do not include Nigeria and those for the Caribbean do not include Barbados and Trinidad and Tobago, as 2007 data were not available for those countries.

Table 6. Economies with the largest increase/decline in market share of ITES

	Market share of ITES		*% Change*
	2000	*2007*	
India	1.56	4.22	2.66
Ireland	2.21	4.58	2.37
China	1.49	2.92	1.43
Germany	5.54	6.78	1.24
Sweden	1.68	2.38	0.7
Spain	2.05	2.73	0.68
United Kingdom	11.92	12.55	0.63
Singapore	1.72	2.27	0.55
Russia	0.37	0.87	0.5
Kuwait	0.01	0.33	0.32
Hungary	0.46	0.51	0.28
Romania	0.26	0.37	0.27
Finland	0.88	0.87	0.23
Austria	1.32	1.41	0.15
Argentina	0.23	0.25	0.14
Largest Declines in Market Share			
US	19.61	16.5	-3.11
Japan	5.16	4	-1.16
France	4.3	3.17	-1.14
Canada	3.2	2.09	-1.1
Turkey	1.18	0.17	-1.01
Taiwan	1.84	1.15	-0.69
Denmark	1.43	0.87	-0.56
Israel	1.32	0.79	-0.53
Hong Kong	3.29	2.8	-0.49
Malaysia	0.88	0.42	-0.46
Mexico	0.17	0.17	-0.43
Australia	0.6	0.61	-0.28
Saudi Arabia	0.54	0.48	-0.25
Egypt	0.17	0.15	-0.25
Netherlands	3.26	3.11	-0.25

Source: UNCTAD Information Economy Report 2009

Impact of the Financial Crisis

In the absence of up-to-date and reliable data it is difficult to answer the question of whether the services sector can bring more stability to developing countries than commodities exports. But research work done by both UNCTAD and the World Bank seems to indicate that the services sector has demonstrated resilience. It may be too early to reach a definite conclusion as developing countries always experience a lag before feeling the impact of any crisis. Indeed, in Chapter 1 of this book, Gianni Zanini explains that services trade has proved to be more resilient than manufacturing in the recent financial crisis. This is mainly because demand for services imports is less cyclical as producer services (business process outsourcing) are an integral part of the production function of OECD firms and outsourcing is also a way to cut costs in a very competitive environment. Furthermore, services trade is less dependent on external finance, as in the example of Indian firms that are fully internally financed. In addition, there has not been a protectionist backlash because growing economic inter-dependence and reliance on imported intermediate services makes protection directly costly; and the dependence on foreign markets creates concerns about retaliation.

Gereffi and Fernandez-Stark (2010)[8] come to the same conclusion. In essence, the crisis has created two opposing effects: general contraction of demand by existing customers due to the recession and, at the same time, new services are being moved from developed countries to emerging economies in search of cost reduction. Their paper concludes that the offshore services industry will continue to offer growth opportunities for developing countries not only among existing market players, but also a range of new countries. The industry has the potential to become an important source for employment and economic growth around the globe.

In line with the above, UNCTAD surveys have found that while there has been retrenchment in the developed countries, hiring trends have been upward in developing countries. We should recall here that firms initially turned to offshoring to reduce costs. Therefore, so long as they can reap competitive costs advantage from outsourcing some of their processes to offshore locations, enterprises in the developed markets will persist with the strategy. Governments and public opinion may not condone such strategies. However, unless globalisation is reversed and the world moves back to a pre-World Trade Organization configuration, offshore activities will continue to provide another avenue for growth to many developing countries. As the 2009 UNCTAD Information Economy Report notes,

> *Overall, the economic crisis has had varied effects on offshore services. Some clients have frozen contracts, while others have demanded additional services in order to reduce costs. Providers have responded to the changing demand by employing a number of different strategies to reduce their own costs including lowering salaries, opening offices in cheaper locations and finding innovative solutions to enhance efficiency. As a result, even more activities are being moved to developing countries, both from developed nations to India, and also from India to other*

developing countries, due to labour arbitrage (substituting cheaper workers for more expensive ones) and the search for talent. The structural changes that facilitated the initial development of the offshore services industry have accelerated during the economic crisis and these changes will likely become entrenched in future years…' (p. 20)

Services Development and the Commonwealth Secretariat

From an economic development perspective the key question is whether the growth in the services sector worldwide can act as a springboard to a new economic trajectory for many resource poor developing countries. The traditional view was that countries had to go through stages of growth, from primary to secondary to tertiary production. However, with the pace of globalisation quickening as a result of the great strides in telecommunications, especially the internet, a new avenue seems to be opening up for latecomers to development. Ghani (2010)[9] sums up the new context:

The growth experience of India and other South Asian countries suggests that a Service Revolution – rapid income growth, job creation, gender equality, and poverty reduction led by services – is now possible. What is Service Revolution? Can service be as dynamic as manufacturing? Can latecomers to development take advantage of the globalization of service? Can service be a driver of sustained growth, job creation, and poverty reduction? What kind of policies and institutions do developing countries need to benefit from a service-led growth?

We have also been grappling with these questions at the Commonwealth Secretariat. Many of our members – especially the small states, which were mostly mono-product economies (sugar, bananas, cocoa) in a period when they had guaranteed market access – now face the challenge of diversifying their economies while maintaining the living standards of their citizens, whose aspirations for 'better' jobs have been increasing with the rise in literacy levels. The world services exports figures would tend to confirm that a potential engine of growth – or at the very least another engine – is available for those who understand how it operates; who are ready to make the transition to a knowledge-based economy, which needs a different enabling environment from commodities-based economies.

The Trade Section of the Special Advisory Services Division of the Commonwealth Secretariat has been assisting member states in the area of services development by carrying out the following activities:

- Assessment of export capacity;
- Business climate and institutional review;
- Benchmarking;
- Identifying target markets;
- Elaborating strategic plans, i.e. road maps for entire sectors or sub-sectors;
- Networking, capacity building and learning events.

Since 2004, the Secretariat has received requests from 18 Commonwealth member states for assistance to formulate strategies aimed at enhancing their export of services (excluding tourism). Eight of these countries are in the Caribbean (Antigua, Barbados, Belize, Dominica, Guyana, Jamaica, St Lucia, Trinidad and Tobago), six in Africa (Ghana, Kenya, Malawi, Mauritius, Nigeria, Uganda), and four in Europe and Asia (Cyprus, Malaysia, Malta, Sri Lanka).

Most of these countries were at the initial stage of developing services exports and the same issues came up in almost all of them, the only difference being the intensity. These issues can be grouped under four broad headings: Ease of Doing Business, Infrastructure, Human Resources, and Critical Mass. In some countries the regulatory framework is not geared towards facilitating the services sector, either because of an absence of dialogue between the public and private sector or because the government does not consider it as a priority. In small states, this is compounded by lack of continuity in public policies as a result of the over politicisation of government structures. Corruption also adds to the difficulty of doing business. Cost advantage may be further eroded by the existence of non-competitive utility and financial services, which are often the result of inadequate or poor quality of infrastructure arising either because the size of the internal market has led to natural monopolies or because of the fear of opening up to foreign investors. Attracting foreign direct investment in the services sector is not usually the mandate of investment promotion organisations, which tend to focus on manufacturing. Furthermore, there is no authority (ministry) responsible for services development as it is only recently that politicians and policy-makers have been waking up to the potential of the sector. But while there is a need to change the mindset of such public officials, the weakness of institutional support is not solely the responsibility of the public sector. The private sector often lacks knowledge of the international markets for services and the means to penetrate these. It is also not organised as an industry; firms usually operate in isolation as existing chambers of commerce and industry tend to be controlled by the traditional sectors focused on merchandise trade.

In brief, the main challenges confronting most of the states are:

- Scarcity of skilled human resources;
- Poor infrastructure;
- High telecommunications costs;
- Inadequate knowledge of product and market;
- Lack of capacity in the public sector to adapt to the fast-changing international environment (i.e. the persistence of a control mindset, as opposed to facilitation);
- Governance issues;

- Lack of economies of scale;
- Poor trade in services statistics;
- Inadequate language proficiency;
- Insufficient institutional support (trade promotion agencies as well as private-sector institutions still focus on traded goods);
- Lack of co-ordination among private sector suppliers of services.

Trade barriers have discouraged attempts to export services. Such barriers include:

- Non-recognition of qualifications by states;
- High costs of accreditation as only a few bodies are recognised;
- Nationality and residency requirements;
- Restrictive visas and work permits;
- Government procurement laws;
- Slow and inadequate legal processes;
- Lack of transparency (e.g. non-publication of regulations);
- Excessively high fees for obtaining services;
- Inadequate protection of intellectual property (copyrights, patents and trademarks).

The conference

Policy-makers have only recently begun to recognise the importance of the service sector as a potential generator of foreign exchange earnings – they often viewed services as ancillary industries, as inputs to other sectors. It was therefore considered necessary to initiate activities to raise awareness about the sector. In February 2008, the Commonwealth Secretariat organised a first Pan Commonwealth Conference on Professional Services in Kuala Lumpur, Malaysia, in collaboration with the Professional Services Development Corporation of Malaysia, a public-funded institution that was set up to promote the exports of professional services and had benefited from the assistance of the Secretariat in reviewing its structure.

The conference provided a platform for Commonwealth member states to learn, network and share experiences. The participants recommended that the Secretariat organise such events on a more regular basis to facilitate the networking and sharing of experiences aimed at enhancing the competitiveness of services trade. The 2nd Pan Commonwealth Conference on Services Trade was held in Mauritius in April 2010. While retaining the objective of raising awareness generally, the Secretariat decided it

would be useful to focus on a specific sub-sector that in its view holds good prospects for Commonwealth member states. The theme, 'Creating an enabling environment for trade in IT services', was chosen. It is planned to hold a Pan Commonwealth conference every two years, each time focusing on a specific niche relevant to a maximum number of countries. The conferences will be complemented by regional symposia/workshops. The main problems to be addressed are:

- Limited capacity to effectively implement programmes aimed at improving the export of services;
- Weak linkages between policy-making, regulation, investment promotion and export growth;
- Limited understanding of the intricacies of services trade and the role that services can play in enhancing productivity, job creation and income growth;
- Lack of data on services, and limited understanding and application of tools developed by agencies such as the WTO;
- Lack of a mechanism to exchange information on existing and planned donor programmes to support the sector at the regional level.

This publication, based mainly on the presentations made by practitioners at the second conference, forms part of the process to raise awareness and share lessons from the Commonwealth so as to develop a common understanding of the issues. The conference benefited from the inputs of various organisations, notably the World Bank Institute, UNCTAD, Common Market for Eastern and Southern Africa (COMESA), Regional Multidisciplinary Centre of Excellence in Mauritius, WTO, Confederation of Indian Industries and NASSCOM from India, Outsourcing and Telecommunications Association of Mauritius (OTAM), and the Government of Mauritius.

The programme focused on the key issues that make up the enabling environment, namely the policies, the regulatory framework, the infrastructure as well as the human capital. It consisted of a mixture of theoretical papers, country experience, case studies, site visits and private sector perspectives. The session topics were as follows:

1. Issues and Trends in Services Trade
2. Services Trade – A Regional Outlook
3. The ITES Revolution – Challenges and Opportunities
4. ICT Enabled Development, Innovation and Business Transformation
5. Enabling ITES Export Development
6. The Mauritian ITES Experience
7. Human Capital for ITES Sector Development

8. The Role of International Trade Negotiations for ITES Export Development
9. ITES in India

The main message underlying all the presentations was that the services sector, especially ITES, could be an engine of growth for many economies if they get the regulatory framework right and they have in place the right policies to promote competition, and to develop the telecommunications infrastructure and the required human capital. It is also important to get the sequencing right. However, it was also made clear that the elaboration of the proper regulations should not restrict the development of the sector. The participants had the opportunity to obtain the viewpoints of regulators, investors, policy-makers and donors.

The presentations included examples of economic partnership agreements from the Caribbean and Africa while the interventions from WTO and UNCTAD described the status of the negotiations and the importance of telecom reforms. The significance of institutional support was highlighted in Malaysia's public sector experience while Barbados elaborated on the need for private sector players to organise themselves in 'coalitions of service industries' and the process for setting up such coalitions.

Participants learned about how regional collaboration on ITES has been promoted in South Asia and the building blocks for developing a country programme. There were also presentations on the experiences of the following countries: India, Kenya, Malaysia, Mauritius, Sri Lanka, South Africa and Uganda.

The encouraging message was that the ITES sector is huge and there is a market for everybody provided each country plays to its strengths and develops entrepreneurship, and the private sector takes the lead rather than expecting government to show the way. But the public sector must work in close collaboration with the private sector to ensure that the proper regulatory bodies and the appropriate infrastructure are in place.

From the discussions it was clear that services do provide Africa with a new route to development: productivity growth in services can be higher than in manufacturing; many services thought to be non-tradeable can now be exchanged across borders (banking, insurance, telecoms and also business services, education and health); technological change is important for services and thus provides an enormous potential for catch-up in Africa; significant learning and knowledge spillovers are possible through clustering, which is easier for services firms than manufacturing firms because they require less space and cause less congestion and pollution. However, despite the potential, services in Africa are generally less efficient, more costly and less widely available than in other regions. There is a lack of data on output, production and regulatory policies and a lack of capacity to design and implement effective regulations, which is a key constraint to competitiveness in both goods and services.

The challenge is how to catalyse co-ordinated regulatory and trade reform, and the required capacity building.

Risks of close-shoring for developing countries

Although there is an upbeat feeling about the immense potential of the ITES sector for developing countries, this must be tempered by the recognition that these opportunities will be exploited only by those who are able to prepare for them, to keep abreast of the trends in the market and to monitor the behaviour of potential investors. For example, while offshoring was the trend before the crisis, it would seem that (using McKinsey's term[10]) 'close-shoring', meaning locations in or near to the home market, is a new strategy being employed by many IT service providers. This is driven by the need to meet financial and privacy regulations as well as security requirements. The research has found that these companies are going to second-tier cities in Europe and the US not only because of lower relative wages but also because these regions offer skilled engineers in specialised areas where demand is high, such as infrastructure management or application development and maintenance for new and legacy IT systems. Furthermore, faced with high unemployment as a result of the economic crisis, local authorities in developed countries, in a bid to attract IT investments, are offering incentives such as training grants, tax abatements and subsidised loans.

However, there is no cause for panic regarding offshore locations as the researchers found that companies are adopting a hybrid approach of using close-shore locations for high skilled restricted work and large offshore centres for low costs. The researchers recommend that when determining the suitability of an onshore investment versus an offshore one, companies should adopt a granular[11] approach segmenting their IT workforce by job type, skill level and wage cost. Policy-makers in developing countries know what the essential criteria are and they will have to take the necessary steps to make their economies attractive to investors.

Moreover, opportunities for developing countries may emerge as a result of an approach advocated in another research paper by McKinsey.[12] It was found that 70 per cent of offshore delivery centres were located in a limited number of geographic areas (India, China or Philippines) exposing them to risks of currency fluctuations, and wage inflation as a result of competition for skills. The data reveal that costs spiral and performance begins to deteriorate when a delivery centre in a large Indian city grows beyond 3,000 employees. Therefore, it is recommended that companies diversify their operations by adopting a network approach to offshore delivery management through increasing their global footprint and broadening the scale and range of activities conducted in any one centre. It was found that a Paris-based company managed to reduce its risks while still making cost savings by locating its activities in four centres: Paris (100 employees costing US$40,000), Bangalore (1,300 for US$20,000), Romania (300 for US$25,000) and Cairo (300 for US$20,000). The risks were reduced by

27 per cent as a result of having this portfolio of locations. It is clear therefore that new entrants can carve niches for themselves if in addition to costs advantage they find themselves in the appropriate time zone for their target markets, and they have a suitable local skills base and the right incentives.

Structure of the book

This book is divided in six sections. Section One provides a general background to the services sector as a whole, the prospects and issues. It also looks at a crosscutting problem, namely the absence of reliable statistics, and it shares the experience of Malaysia in developing a framework for the measurement of services statistics.

Section Two covers three regions – Africa, the Caribbean and Asia. The focus of the first two regions is on the role of economic partnership agreements while the Asian experience describes the components of a successful World Bank project to promote regional collaboration on ITES in South Asia.

Section Three presents the challenges and opportunities emerging from the ITES revolution, both for governments and the corporate sector. However, it will be important for countries to identify key enablers, the most important of which is human capital. Section Four examines that issue as well as the institutional support framework that is required for success, referring not only to public institutions but also to how the private sector organises itself along industry lines to maximise economies of scale. Section Five considers market access issues, more specifically the role of international trade negotiations for ITES export development. The final section consists of country experiences with a deeper analysis of Mauritius that holds useful lessons for small states in particular.

Notes

1. Additional data can be found at: www.worldbank.org/wti.
2. The term 'information technology enabled services (ITES)', used throughout this book, is synonymous with the term 'information and communication technology enabled services (ICT-ES)'.
3. Gereffi, G and K Fernandez-Stark (2010). The Offshore Services Value Chain: Developing Countries and the Crisis. Policy Research Working Paper Series. Center on Globalization, Governance & Competitiveness, Duke University. Available online: http://econ.worldbank.org
4. Ibid.
5. NASSCOM is the premier trade body in India; McKinsey is the IT/ITES sector's leading management consulting firm.
6. Online available at: www.atkearney.com
7. For example, the World Economic Forum compiles a different index, The Networked Readiness Index based on different factors. See Annex 2.

8. Gereffi, G and K Fernandez-Stark (2010). The Offshore Services Value Chain: Developing Countries and the Crisis. Policy Research Working Paper Series. Center on Globalization, Governance & Competitiveness, Duke University. Available online: http://econ.worldbank.org
9. Ghani, E (ed) (2010). *The Service Revolution in South Asia.* Washington, DC: World Bank.
10. Finnemore, I, G Kim and A Pande (2010). 'IT services: The new allure of onshore locales'. McKinsey on Business Technology, Number 20, Summer.
11. The concept of granularity is starting to be used in domains other than physics. For example, in business it has been written about in the book, *The Granularity of Growth: Making choices that drive enduring company performance*. Its authors, Patrick Viguerie, Sven Smit, and Mehrdad Baghai say there is a problem with the broad-brush way that many companies describe their business opportunities. They argue that real opportunities for company growth can emerge only from a much finer understanding of market segments, their needs, and the capabilities required to serve them. According to the authors, to uncover these small 'pockets of opportunity', executives need to dig down to a deeper level of their organisation, which in large companies introduces the challenge of making broad choices at a refined 'granular level' without losing focus.
12. Daub, M, B Maitra and T Mesey (2009). 'Rethinking the model for offshoring services'. McKinsey on Business Technology, Number 16, Summer.

Annex 1. Services Sectoral Classification List – GNS/W/120

Sectors and sub-sectors/Corresponding provisional central product classification (CPC) 124

1. Business services

A. Professional services

a. Legal services 861
b. Accounting, auditing and bookkeeping 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 paramedical 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. Database 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 services 865
d. Services related to management consulting 866
e. Technical testing and analysis services 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 database retrieval 7523**
k. Electronic data interchange (EDI) 7523**
l. Enhanced/value added facsimile services (including store and forward, store and retrieve) 7523**
m. Code and protocol conversion n.a.
n. On-line information and/or data processing (including transaction processing) 843**
o. Other

D. Audiovisual services

a. Motion picture and videotape production and distribution services 9611
b. Motion picture projection services 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 broker and agency services) 8140

B. Banking and other financial services
(excluding insurance)

a. Acceptance of deposits and other repayable funds from the public 81115-81119
b. Lending of all types (including, 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 (including, but not limited to, futures and options) 81339**
- exchange rate and interest rate instruments (including 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 (including 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 (including securities, derivative products, and other negotiable instruments) 81339** or 81319**
k. Advisory and other auxiliary financial services on all the activities listed in 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 or 8133
l. Provision and transfer of financial information, and financial data processing and related software by providers of other financial services 8131

C. Other

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 (including catering) 641–643

B. Travel agencies and tour operator services 7471

C. Tourist guide 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. *Air transport services*

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. Space transport 733

E. Rail transport services

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. Road transport services

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. *Pipeline transport*

a. Transportation of fuels 7131
b. Transportation of other goods 7139

H. Services auxiliary to all modes of transport

a. Cargo-handling services 741
b. Storage and warehouse services 742
c. Freight transport agency services 748
d. Other 749

I. Other transport services

12. Other services not included elsewhere 95+97+98+99

Note: An asterisk (*) indicates that the service specified is a component of a more aggregated CPC item specified elsewhere in the present classification list; two asterisks (**) indicate 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).

Computer software transactions

3.285. *The computer software transactions* complementary grouping includes transactions relating to computer software goods and computer software services. It therefore includes:

- *Computer services;*
- *Licences to reproduce and/or distribute software; and*
- Computer software goods that are not covered by the above items (the list of goods needs to be defined consistently with the products defined in the services categories).

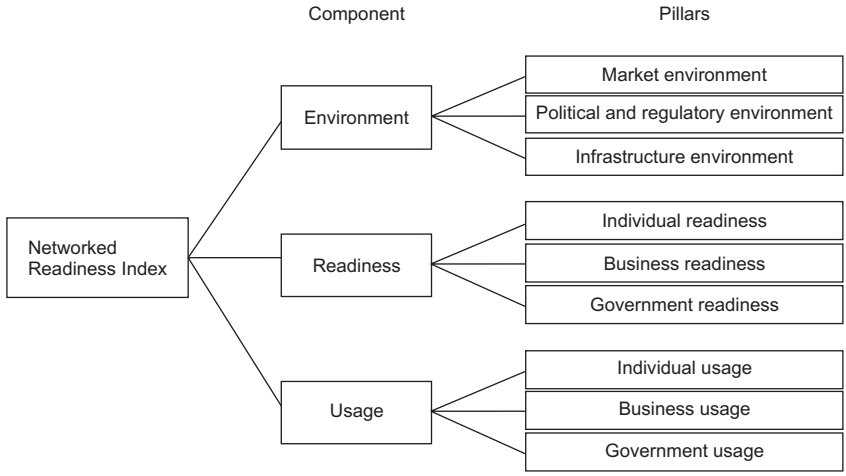
3.286. *Computer software transactions* includes sales of customised software (however delivered) and related licences to use; the development, production, supply and documentation of

customised software, including operating systems made to order for specific users; non-customised (mass-produced) software downloaded or otherwise electronically delivered, whether with a periodic licence fee or a single payment; non-customised (mass-produced) software provided on physical media with a periodic licence fee; sales and purchases of originals and ownership rights for software systems and applications; charges for licences to reproduce and/or distribute intellectual property embodied in produced computer software; software installation; and non-customised software provided on physical media with right to perpetual use.

Call centre services is not identified as a separate category in the BPM6 or EBOPS 2010, which is why it is suggested as a complementary grouping (4) in *MSITS 2010*. These transactions are included under the service item corresponding to the service actually provided, e.g. computer technical support, debt collection and marketing services.

Source: 2010 WTO Manual of Statistics for International Trade in Services (MSITS). Available online: http://www.wto.org/english/res_e/statis_e/its_manual_e.htm

Annex 2. The Networked Readiness Index 2009–2010: The framework



Source: Global Information Technology Report 2009–2010, World Economic Forum

Table 1. The Networked Readiness Index 2009–2010 and 2008–2009 comparison

	NRI 2009–2010				*NRI 2008–2009*	
Country/Economy	Rank	Score	Rank within income group*		Rank	Score
Sweden	1	5.65	HI	1	2	5.84
Singapore	2	5.64	HI	2	4	5.67
Denmark	3	5.54	HI	3	1	5.85
Switzerland	4	5.48	HI	4	5	5.58
United States	5	5.46	HI	5	3	5.53
Finland	6	5.44	HI	6	6	5.53
Canada	7	5.36	HI	7	10	5.41
Hong Kong SAR	8	5.33	HI	8	12	5.30
Netherlands	9	5.32	HI	9	9	5.48
Norway	10	5.22	HI	10	8	5.49
Taiwan, China	11	5.20	HI	11	13	5.30
Iceland	12	5.20	HI	12	7	5.50
United Kingdom	13	5.17	HI	13	15	5.27
Germany	14	5.16	HI	14	20	5.17
Korea, Rep.	15	5.14	HI	15	11	5.37
Australia	16	5.06	HI	16	14	5.29
Luxembourg	17	5.02	HI	17	21	5.10
France	18	4.99	HI	18	19	5.17
New Zealand	19	4.94	HI	19	22	5.04
Austria	20	4.94	HI	20	16	5.22
Japan	21	4.89	HI	21	17	5.19
Belgium	22	4.86	HI	22	24	5.02
United Arab Emirates	23	4.85	HI	23	27	4.76
Iceland	24	4.82	HI	24	23	5.03
Estonia	25	4.81	HI	25	18	5.19
Malta	26	4.75	HI	26	26	4.79
Malaysia	27	4.65	UM	1	28	4.76
Israel	28	4.58	HI	27	25	4.98
Bahrain	29	4.58	HI	28	37	4.38
Qatar	30	4.53	HI	29	29	4.68
Slovenia	31	4.51	HI	30	31	4.57
Cyprus	32	4.48	HI	31	33	4.52
Portugal	33	4.41	HI	32	30	4.63
Spain	34	4.37	HI	33	34	4.50
Barbados	35	4.36	HI	34	36	4.38
Czech Republic	36	4.35	HI	35	32	4.53
China	37	4.31	LM	1	46	4.15

Saudi Arabia	38	4.30	HI	36	40	4.28
Tunisia	39	4.22	LM	2	38	4.34
Chile	40	4.13	UM	2	39	4.32
Lithuania	41	4.12	UM	3	35	4.40
Montenegro	42	4.10	UM	4	71	3.79
India	43	4.09	LM	3	54	4.03
Jordan	44	4.09	LM	4	44	4.19
Puerto Rico	45	4.07	HI	37	42	4.23
Hungary	46	3.98	HI	38	41	4.28
Thailand	47	3.97	LM	5	47	4.14
Italy	48	3.97	HI	39	45	4.16
Costa Rica	49	3.95	UM	5	56	3.99
Oman	50	3.91	HI	40	50	4.08
Croatia	51	3.91	HI	41	49	4.09
Latvia	52	3.90	UM	6	48	4.10
Mauritius	53	3.89	UM	7	51	4.07
Vietnam	54	3.87	LO	1	70	3.79
Slovak Republic	55	3.86	HI	42	43	4.19
Greece	56	3.82	HI	43	55	4.00
Uruguay	57	3.81	UM	8	65	3.85
Panama	58	3.81	UM	9	66	3.84
Romania	59	3.80	UM	10	58	3.97
Colombia	60	3.80	UM	11	64	3.87
Brazil	61	3.80	UM	12	59	3.94
South Africa	62	3.78	UM	13	52	4.07
Brunei Darussalam	63	3.77	HI	44	63	3.87
Azerbaijan	64	3.75	LM	6	60	3.93
Poland	65	3.74	UM	14	69	3.80
Jamaica	66	3.73	UM	15	53	4.02
Indonesia	67	3.72	LM	7	83	5.62

* Income groups: HI = high income; UM = upper-middle income; LM = lower-middle income; LO = low income. Country classification by income group is from the World Bank (situation as of December 2009).
Source: Global Information Technology Report 2009–2010, World Economic Forum.

Section One
Issues and Trends in Services Trade

This section provides an overview of the services sector as a whole. Gianni Zanini situates the growing importance of services trade and draws parallels with developments in trade in goods, especially with regard to the fragmentation of processes. If a country can assess its endowments (skills, land, capital, location, technology, climate etc.) and its comparative advantage, it should be able to gain from services trade. The World Bank estimates the gains that can be shared between developed and developing countries at more than US$150 billion. Therefore, countries should not worry about whether they will be crowded out when giants like China, India and the developed countries join in – the market is big enough for each one to find a niche.

The performance of the services sector during 2008–2010 proves that the sector is resilient. This may be due to contractual reasons (i.e. tasks had been outsourced and contracts are too costly to break) or because it is very difficult to bring some activities back to the centre after they have been outsourced. In fact, the nature of the services sector, which brings greater interdependence between supplier and provider, makes for a lower degree of protectionist backlash. However, since services are embedded in various activities, measurement is difficult. The World Bank Research Unit and the Organisation for Economic Co-operation and Development (OECD) have recently completed the construction of a Services Trade Restrictiveness Index (STRI).

Obtaining reliable statistics on services contribution to the national economy is difficult as very few countries have comprehensive statistics on the output of services, the evolution of prices, and the evolution of exports and imports of services. Malaysia is one Commonwealth member country that has requested the assistance of the Secretariat to develop a framework for measuring services. In Malaysia, the services sector accounted for around 54 per cent of GDP in 2008 and is targeted to reach 70 per cent by 2020 as it is expected that a substantial amount of consumer spending, at home and abroad, will be on services in the years to come. Given the growing importance of services in terms of potential contribution to GDP, it is vital to produce relevant indicators or measurements for services industries similar to what already exists for the manufacturing industries. This will enable policy-makers to monitor the competitiveness of the relevant sectors and to participate more effectively in the WTO negotiations process.

Professor Sieh Lee Mei Ling explains the process that Malaysia went through to address the issue. The Government of Malaysia initiated the process under the Third Industrial Master plan. A task force was set up to address data deficiency and improve

the database for the services sector as a basis to formulate policies and programmes to further develop the sector.

To have an idea of the difficulty of measuring services, it took eight years for the UK Office of National Statistics to develop its Index of Services. The major problems relate to definitions and data collection. As the 2010 UNCTAD Manual of Statistics for International Trade in Services (MSITS) notes:

Measurement of trade in services is inherently more difficult than measurement of trade in goods. Services are more difficult to define. Some services are defined through abstract concepts rather than by any physical attribute or physical function. Unlike trade in goods, for trade in services, there is no package crossing the customs frontier with: an internationally recognized commodity code; a description of the contents; information on quantity, origin and destination; an invoice, nor is there an administrative system based on customs duty collection that is practiced at assembling these data. The required information on services trade, once defined, is dependent on reaching a common understanding of concepts with data providers. It depends on information that may be reported either from business accounting and record keeping systems, or by individuals, and on a variety of data sources, including administrative sources and surveys and estimation techniques.... (p. 7, para 1.20)

Nonetheless it is in the interest of countries to develop measures of the services sector contribution to their national economy if they wish to participate effectively in the General Agreement on Trade in Services (GATS) negotiations. Learning from the mistakes made in the General Agreement on Tariffs and Trade (GATT) negotiations, where the talks stalled at times because many developing countries did not have either the capacity or the data to take informed decisions,[1] it is advisable that central banks and statistical offices initiate the process to measure services trade, especially in sub-sectors that are important to them.

Note

1. For further insights on GATS and GATT negotiations, see Rege, V (2011). *Negotiating at the World Trade Organization*. Lessons from the Commonwealth No. 2. London: Commonwealth Secretariat.

1

Overview of Trends and Performance in Services Trade

Gianni Zanini

Introduction

This overview of trends and performance in services trade focuses on the following areas:

- Gains from and reasons for services trade;
- Growth and productivity impact;
- Trends and patterns in services trade flows in relation to balance of payments statistics (Modes 1, 2 and 4), foreign affiliates trade statistics (Mode 3 and also Modes 1 and 4) and recent services trade resilience.

It will also briefly touch upon the General Agreement on Trade in Services (GATS) Commitment Restrictiveness Index by the World Bank Institute and the Services Trade Restrictiveness Index (STRI) by the World Bank Trade Research Unit.

Gains from services trade

'How is the staging of a MotoGP race related to services trade?' To see just how many aspects of trade are involved let us consider some facts about a MotoGP race that took place in Sepang, Malaysia, in October 2009.

- A multinational company managed the local race events, which in GATS parlance would be 'commercial presence' (Mode 3). The same company managed a global website and broadcast via video through the same website over the internet, which is cross-border trade (Mode 1).
- The audience at the live event of the race included foreign visitors, i.e. tourists (Mode 2).
- Payments were made to the racetrack owner in the host country, i.e. rent (Mode 1).
- The racing teams came from different countries, which is mobility of service providers (Mode 4).

This simple event provides an example of all of the aspects involved in trade in services and that the GATS framework attempts to capture, especially in negotiations. In measurement it is a different ballgame because while it is straightforward to measure cross-border trade and to measure consumption from the balance of payments statistics, it is very difficult, especially in developing countries, to get any numbers related to commercial presence or to mobility of service providers.

Comparative advantage

In all trade the gains for both parties can be realised whenever relative prices or relative costs differ, and there are gains even if one country has an absolute cost disadvantage in all products. It is the difference in the relative prices that really counts and that gives any country the opportunity to engage in trade. Therefore, it would be incorrect to say that China or India are more competitive in every area and other countries have nothing with which to compete against them even in services. Comparative advantage is rooted in differences between countries. There are some differences like climate that little or nothing can be done to change. But there are other factors – like labour skills, institutions, land endowments and technology – that can be changed in the long term. In other words, comparative advantage is not cast in stone; it can be moulded and changed by policy, by public investment and by other types of general public intervention.

A large amount of services trade takes place between different countries and comparative advantage explains well the trade between different countries with different endowments. For example, in North–South trade in business services Indian call centres provide back office and customer care services for American firms, nannies from the Philippines move to Dubai to provide childcare services and Italian eco-tourists fly to the Amazon for a week in the jungle.

However, a lot of services trade also occurs between similar countries. Comparative advantages and differences between countries can explain a lot of trade. This is especially so in services trade where a great deal is traded between similar countries, South–South and even in the North; for example, when Kenyan architects design a convention centre in Arusha, the capital of Tanzania, or subsidiaries of an Italian commercial bank provide banking services to domestic customers in Austria.

New theories relate the roots of this trade between similar countries to increasing returns to scale that affect most services and to the advantages from product variety that consumers and business users of services value. There are also agglomeration and network effects that explain this trade. The examples given above show countries can target their services exports or imports at countries with very different endowments, but the opportunities to trade with similar countries are also very high. This has an implication, because traditional theory tends towards the view that only small gains come from regional trade among similar countries, especially on the goods side – but on the services side that story is different for many of the factors mentioned.

Reform in services, more rapid economic growth

A number of studies have documented ex-post a strong positive impact of services trade liberalisation, especially the component related to commercial presence (Mode 3), which can be approximated by the level of foreign direct investment (FDI) it affects. So for instance, research on economic growth found it was 1.5 per cent higher in telecommunications and the financial sector in liberalised countries (Mattoo, Rathindran and Subramanian, 2001);[1] another on the manufacturing productivity of 350 Czech firms, based on a 2004 firm-level survey, found that a 10 per cent increase in FDI in each services sector led to a 3 per cent increase in the average productivity of Czech manufacturing firms (Arnold, Javorcik and Mattoo, 2007).[2]

There is further evidence from India, where several major services reforms took place during the 1990s and in the early 2000s (Figure 1.1) and the growth in foreign direct investment in the services sector was much faster than in goods (Figure 1.2).

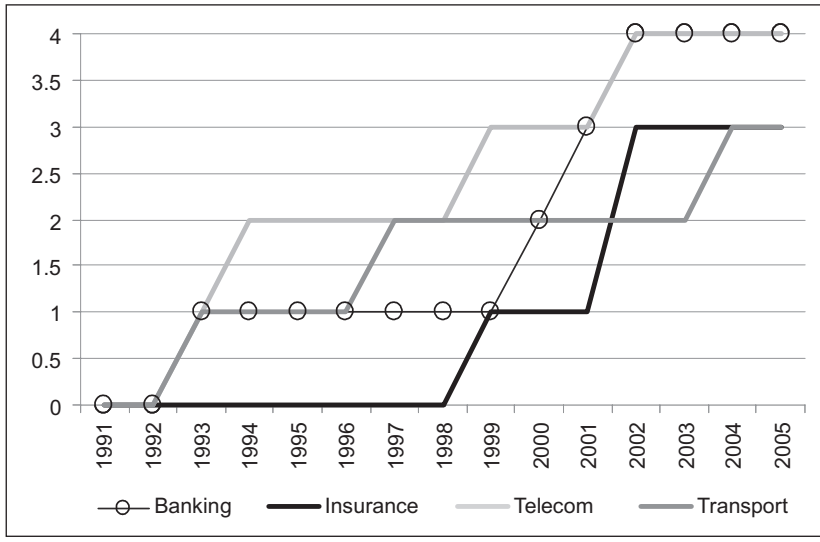


Figure 1.1. Newly created index of services reform
Source: Arnold et al. (2007). Policy Research Working Paper Series 4109. The World Bank

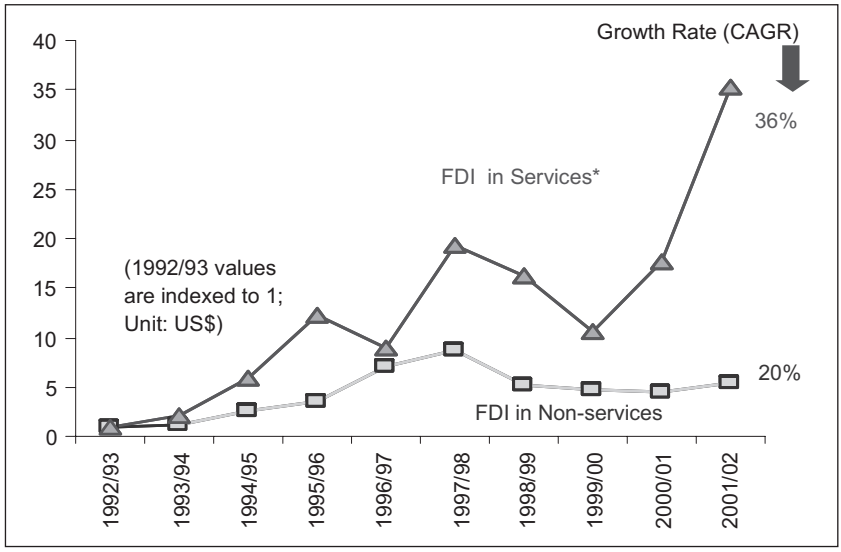


Figure 1.2. India: FDI in services sector is growing faster than in non-services
Source: Arnold et al. (2007). Policy Research Working Paper Series 4109. The World Bank

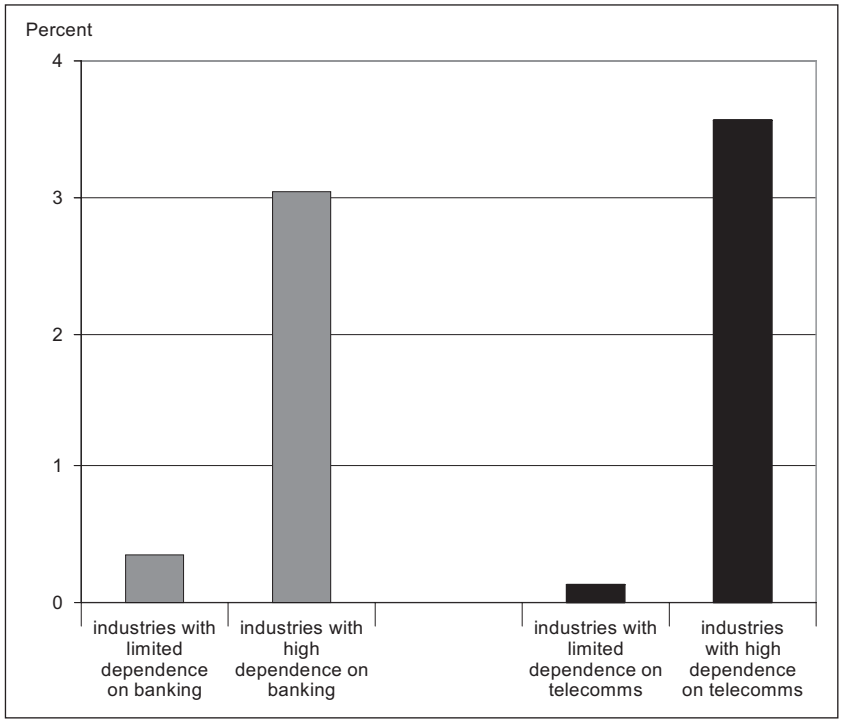


Figure 1.3 Gains in annual TFP growth after services reform
Source: Arnold et al. (2007) Policy Research Working Paper Series 4109. The World Bank

Figure 1.3 demonstrates that the reforms resulted in major gains in productivity for manufacturing firms. This shows how important services are not only in terms of the export opportunities they may offer, but also in improving domestic competitiveness among the other sectors in the economy. This is so even though India's services reform process is incomplete and there are still restrictions and over-regulation in various areas. For example, Indian horticulturists receive only one-sixth of the final price because of inefficient storage, transport and distribution; restrictions in professional services impede Indian participation in the growing international division of labour; and the over-regulation of higher education threatens India's skill endowment. Furthermore, restrictions on foreign ownership and entry persist in communications and financial services. The lesson here is that benefits accrue merely from starting the process and moving forward in critical areas.

Economic models also show potential for large gains, according to various studies. One of them, a simulation of what countries could gain from relaxation of temporary labour mobility restrictions, shows that the global gains, shared between developed and developing countries, could exceed US$150 billion (Winters, 2008).[3] The US could save over US$1.4 billion annually even if only one in 10 American patients were to undergo just 15 types of low-risk treatment abroad (Mattoo and Rathindran, 2006).[4] The large gains made by Russia on WTO accession are almost entirely attributable to dynamic and productivity effects from implementing its own services trade liberalisation commitments rather than to the marginal market access improvements from joining the WTO (Tarr, 2007).[5]

Patterns in services trade flows

During the last two decades the production process for goods has become so fragmented that it has led to much trade and more trade growth than the growth of output and value added. In fact, this process of fragmentation of the production process has given rise to opportunities for many developing countries to take advantage of producing specialised products, components and inputs into the manufacturing of complex goods.

In services, a similar process has taken place and although it started later, it has already gone very far. For instance, health services provided by hospitals have been fragmented and outsourced – a hospital in the US is likely to have a call centre for customer service that can be located anywhere in the world, it may have subcontracted out medical transcription services and payroll management is probably done somewhere else as well (indeed, payroll management at the World Bank, including the reimbursement of all staff travel expenses, is located in Chennai, India).

This process of fragmentation of production, in both manufacturing and the services industry, also opens new opportunities for developing countries.

What does the global picture look like for services trade? In recent years, the services sector has accounted for over 50 per cent of the GDP in developing countries (between 30 and 40 per cent for the very poorest countries) and over 70 per cent of the economy in OECD countries. It has also been the largest source of employment growth in most countries because while employment tied to manufacturing has declined in the developed countries, it has increased in many developing economies that have manufacturing centres, including China. In recent years, the services sector has accounted for about 20 per cent of the total world cross-border trade and about 16 per cent of developing economies cross-border trade. Services sector exports have grown faster than merchandise exports since 2000 (over 15% p.a.) in both developed and developing countries.

These figures show quite a big gap between the services trade share of global trade compared to the services sector share of global GDP. The process of fragmentation, facilitated by the IT revolution, can be expected to increase the share of services trade over total trade in the coming years. Just as in the past two decades when services sector exports grew faster than merchandise exports, the higher growth of services trade can be expected to continue in the long-term during the next decade or two.

A large amount of services trade is delivered by foreign affiliates that sell to domestic customers in the host countries. Those sales are captured by statistics that are available in developed countries, but only a handful of developing countries have started collecting such data. However, more than half of annual FDI flows are in services and the value of outward internal (i.e. within the host countries) sales by foreign affiliates of OECD services firms is estimated to be more than their balance of payments recorded (cross-border) exports for the US and Germany (2+ times) and France (1.5 times).

World exports of commercial services rose from about 16 per cent of total exports of goods and services to about 19 per cent in the period 1980 to 2008 (Figure 1.4).

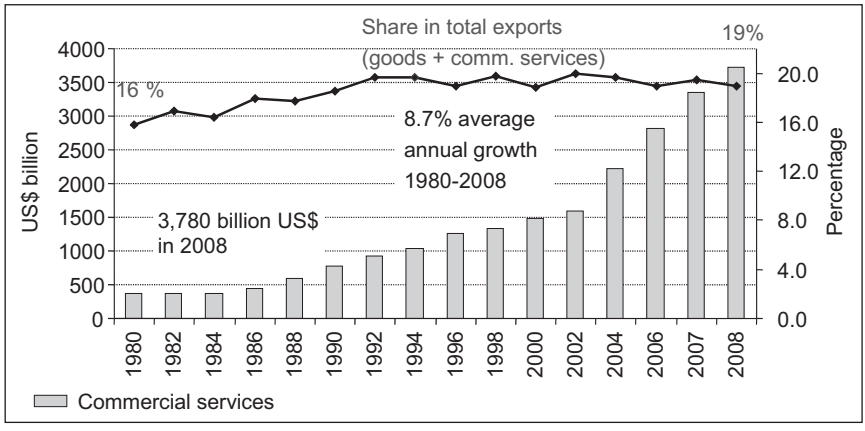


Figure 1.4. World exports of commercial services, 1980–2008
Source: WTO estimates; February 2010 presentation at WBI services trade course in Vienna

Developing countries increased their share of exports of commercial services from 24 per cent to 27 per cent in the period 1995 to 2008. Much of this trade by developing countries has been limited to middle-income countries and the large countries like China and India, with only 0.04 per cent coming from the least-developed countries.

In the same period, world exports of traditional commercial services decreased in importance; for example, the travel sector went down from 34 per cent to 25 per cent and the transport sector from 26 to 24 per cent. This was largely due to the higher growth of 'other' commercial services, which rose from 40 to 51 per cent, but partly also because of lower prices for transport and travel and thus their lower contribution to total trade in nominal values when their share is calculated.

It is even more interesting to consider the composition of world exports for 'other' commercial services exports. The biggest component is 'other business services' (Figure 1.5), which is the category that contains professional services and IT enabled services (largely overlapping with outsourcing).

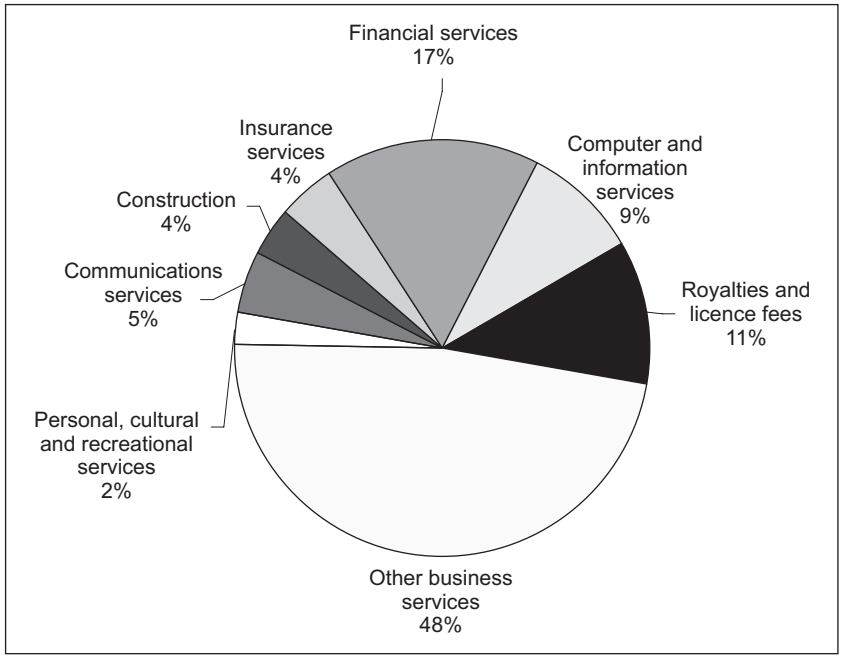


Figure 1.5. World other commercial services exports, 2007
Source: WTO estimates; February 2010 presentation at WBI services trade course in Vienna

Between 2000 and 2007, 'other business services', with an average annual growth rate of 15 per cent, was among the fastest-growing categories, which included computer and information services (19%), insurance services (17%) and financial services (17%). There was less growth in construction (14%), royalties and licence fees (12%), and personal, cultural and recreational services.[6]

In this period of spectacular growth rates, India and China, and even Russia, were among the emerging economies that made big gains in world exports of other commercial services (Figure 1.6). However, most of the least developed countries (LDCs) were not able to take advantage.

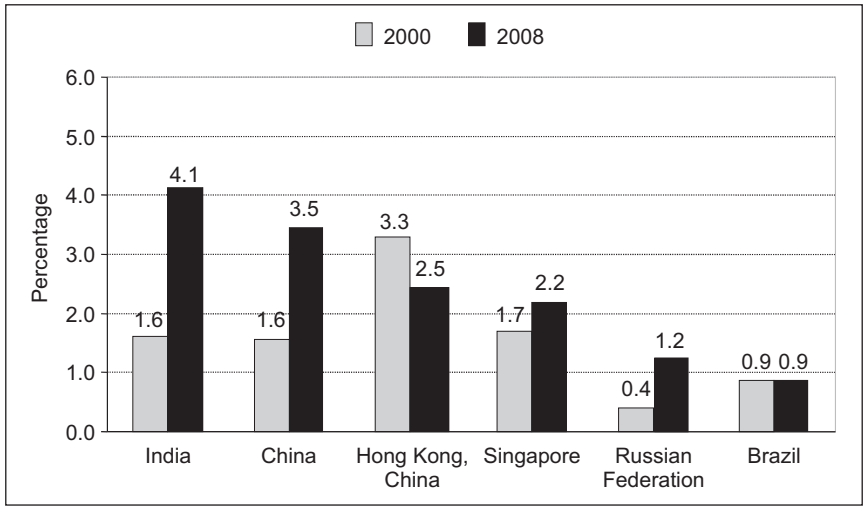


Figure 1.6. World exports of other commercial services by selected emerging economies (share of total)
Source: WTO estimates; Feb. 2010 presentation at WBI services trade course in Vienna

Outward domestic sales/output of US foreign affiliates

'FATS' statistics are the outward sales of US foreign affiliates in the host country. Some do not cross a border. These are US affiliates in another country selling to domestic customers. Figure 1.7 compares the estimated size of such sales with the exports of commercial services for the foreign affiliates of various OECD countries (for which such data are available). As can be seen, for countries like the US and Germany and even France and Italy these FATS sales are much higher than cross-border exports.

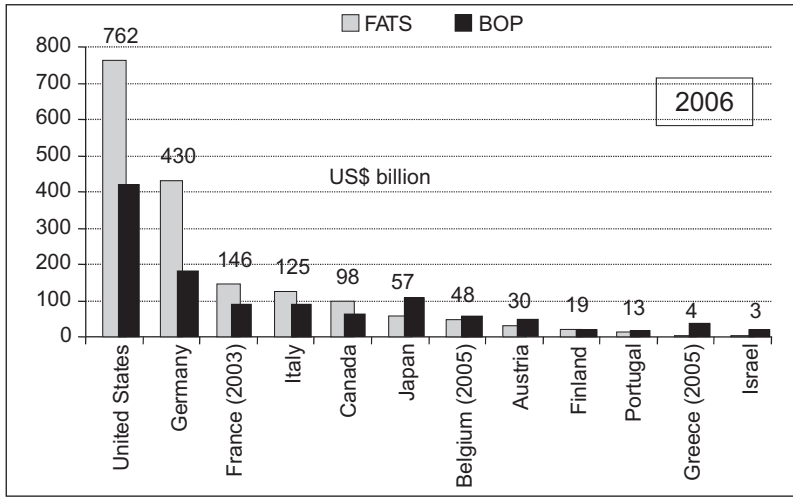


Figure 1.7. Outward domestic sales/output of US foreign affiliates* vs OECD exports of commercial services

* Affiliates primarily engaged in services activities. *Source:* WTO estimates.

Figure 1.8 shows the exports generated by US foreign affiliates abroad – for example, a US-owned company in Mauritius exporting to the rest of the world from Mauritius – from the point of view of the host countries. These are the numbers that come from the balance of payments, but it is evident that the total value of exports of US foreign affiliates in the world is higher than the value of US direct exports (originating from within US) through cross-border trade.

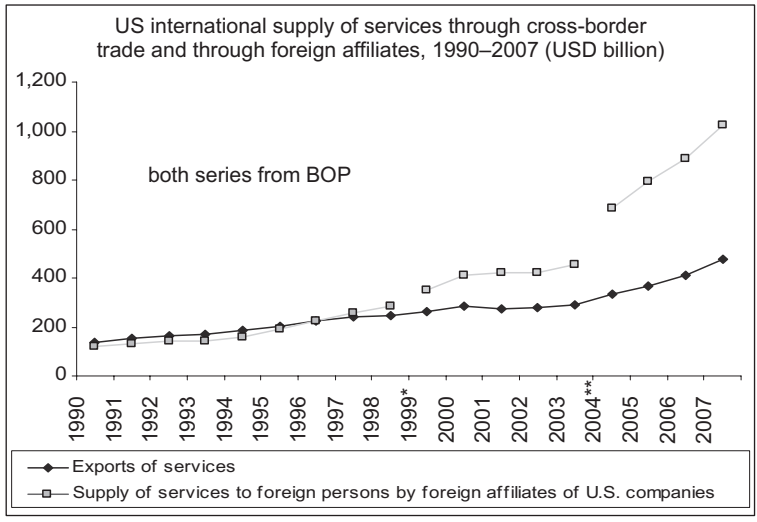


Figure 1.8. Outward foreign sales/outputs of US foreign affiliates* vs US exports of commercial services, 1990–2007

Source: WTO estimates; Feb. 2010 presentation at WBI services trade course in Vienna

Inward turnover (sales)/output of foreign affiliates

Figure 1.9 shows the value of local sales by foreign affiliates of firms from OECD countries in the US and in various other countries for which such data are available. The numbers are huge, which is why Mode 3 is considered to be the largest mode of provision of services. The problem is in trying to quantify some of these flows when much of the data for Mode 3 are not available for developing countries.

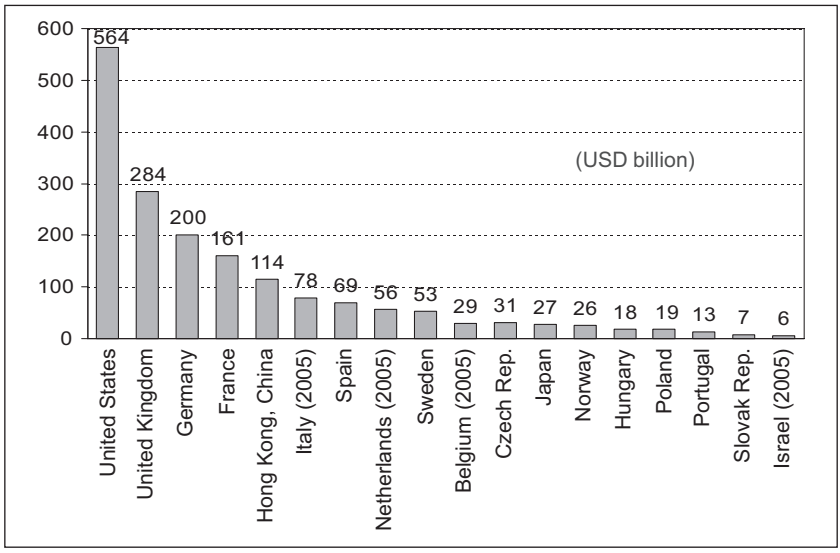


Figure 1.9. Inward turnover (sales)/output of foreign affiliates, selected economies, 2006
Source: WTO estimates; Feb. 2010 presentation at WBI services trade course in Vienna

Services trade resilience

The services trade was resilient during the global economic crisis that started in 2008. Figure 1.10 shows how resilient US imports, and even European imports (which correspond to exports from the rest of the world), were in 2008 and how in 2009 they started to grow again fairly fast.

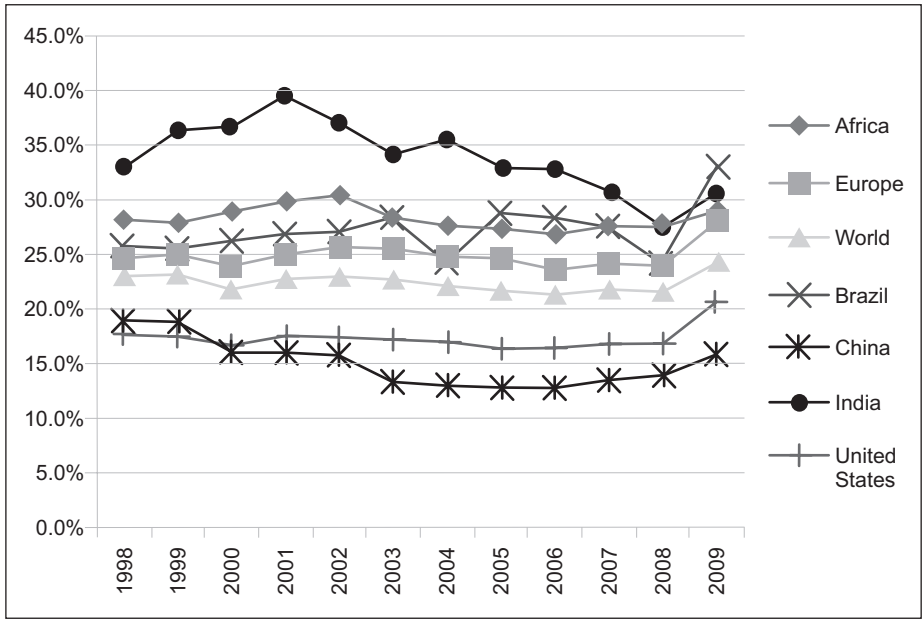


Figure 1.10. Global services imports (1998–2009)

Figure 1.11 shows how strong the impact of the crisis was on merchandise trade from about the middle of 2008 until the turnaround in about May 2009 when growth started picking up again. However, contrast this pattern with that of the US services imports and services exports and see how stable they have been throughout these years.

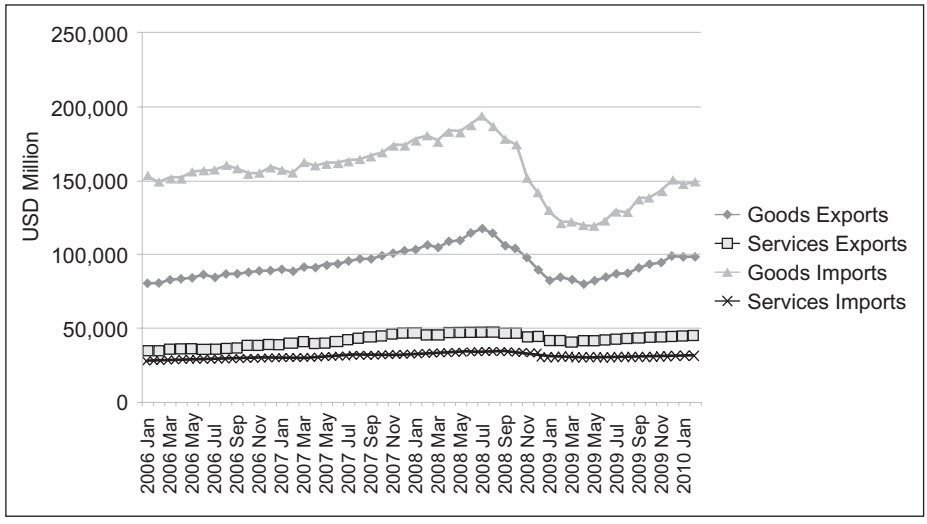


Figure 1.11. US monthly imports and exports of goods and services, January 2006 – February 2010
Source: WBI update of a chart through Feb. 2009 in Borchert and Mattoo (2009)

Figure 1.12 is a breakdown of the other commercial/private sector services by some of the main categories. Travel and transport services trade flows reflect more closely those on the goods side. However, the 'other' private sector services (same as the 'other' commercial services in the charts above) have been growing very fast, supporting exports from the rest of the world to the US. They dipped at the end of 2008 and beginning of 2009, but these dips have been very small in size and duration.

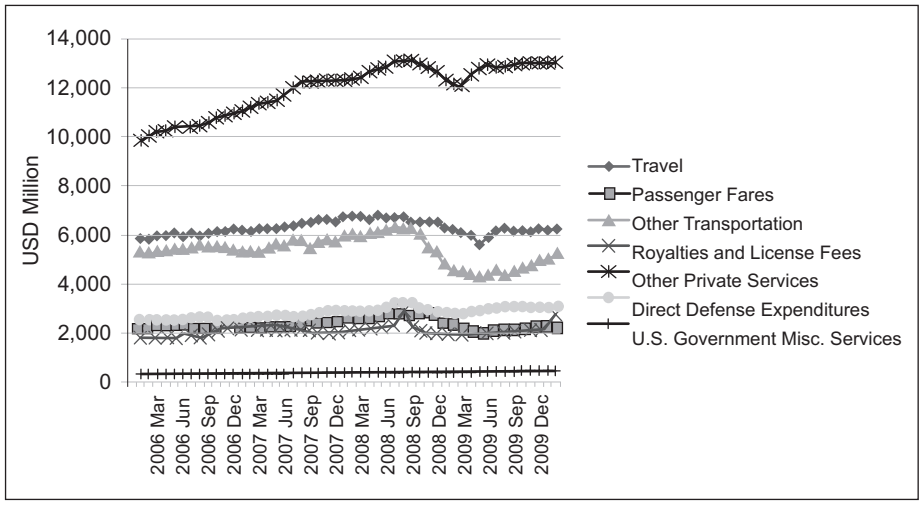


Figure 1.12. US services imports by sector, January 2006 – February 2010

'Other private sector services' is the largest component (39.4%) of US services imports (Figure 1.13) and it is the category that includes professional services and IT enabled services.

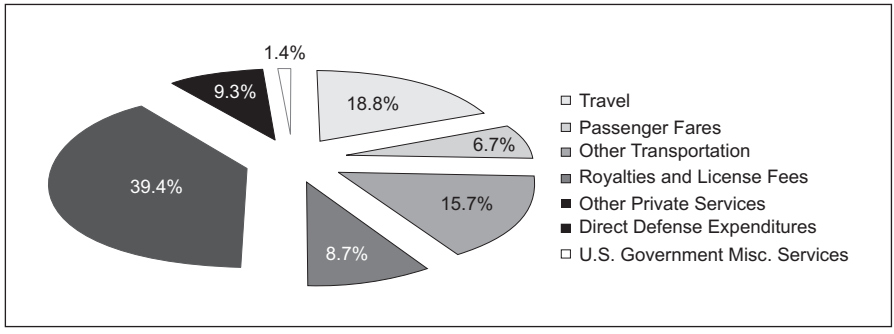


Figure 1.13. Breakdown of US services imports by sector as percentage of total US services imports, February 2010
Source: WBI elaboration of U.S. BEA high frequency data.

Why is services trade more resilient? Borchert and Mattoo (2009)[7] are somewhat speculative and tentative, but they suggest this may be because the demand in rich countries for services imports is less cyclical than for goods. Producer services are an integral part of the production function of many OECD firms, whether manufacturing firms, such as carmakers, or service firms such as banks and it is also not easy for them to cut down back-office services like accounting. So, due to the nature of the services provided and the multi-year contracts being established with the foreign providers, there was no major pull back from outsourcing and business processing and IT enabled services during the crisis. As the crisis intensified the provision of services from developing countries was the most cost effective way to control costs. In addition, services trade is less dependent on external finance. Indian BPO firms, for instance, are fully internally financed, so they did not have to worry at all about the credit crunch associated with the global economic and financial crisis. Finally, in the services areas the protectionist backlash has been very weak, more so than on the goods side.

Services trade barriers

The main barriers affecting services trade are quotas and even more so regulatory barriers; tariffs are relatively uncommon. The regulatory barriers include: limits on the number of foreign firms; limits on per cent of foreign ownership in banking, insurance, etc.; foreign providers completely shut out in some sectors (transport within a country); foreign exchange restrictions limiting consumption abroad (tourism, education); limits on movement of foreign personnel; and local content requirements in broadcasting.

Quotas and regulatory barriers do not generate revenue unless they are auctioned off. They also help create domestic market power and they raise lobbying and corruption costs compared to straightforward tariffs on the goods side. However, large gains can be made when quotas and regulatory barriers are reduced or abolished. The removal of these quotas and regulatory restrictions does not generate fiscal revenue losses, which is usually the case when tariffs are removed, so there is no loss there. Consumers and users most often benefit, especially the domestic workers in the sector affected, because foreign providers come in to offer their services in the local market and hire local workers at higher wages than the incumbent domestic providers. The usual losers are the domestic owners of services industries, unless they form joint ventures or otherwise form partnerships with foreign services providers.

Not all barriers are discriminatory. Some clearly are, like preferential taxes and subsidies, preferential access to essential facilities or prohibition of foreign ownership in services sectors. However, there are also non-discriminatory measures, such as qualification and licensing requirements and technical regulations governing safety or quality, which are mainly to protect consumers. These measures affect services trade nonetheless and in negotiations trading partners often make demands to scrap or adjust them.

How do we measure these barriers? The options are limited. The database on non-tariff barriers that is available at the WTO in Geneva is 10 years old now and it largely covers barriers on the goods side, not on the services side. One way is to look at the GATS commitments, even though most countries (with the important exception of recent WTO accession countries) have liberalised much further than their 1995–1997 GATS commitments. Nonetheless, in the absence of better comprehensive data, the commitments made by a country send signals to the world about the extent of openness in the services sector and the country's willingness to lock-in that level of liberalisation.

The World Bank Institute (WBI) has produced a GATS commitments index as part of the work for the World Trade Indicators 2008.[8] What the index shows is that the ECA and the high-income OECD countries have committed the most to open services and the low-income countries have committed the least. Table 1.1 shows that in the GATS commitments rankings the countries on top are the WTO accession countries that were asked to commit to their existing or (most often) higher levels of liberalisation, and the rich countries. Notice, however, how South Africa is also in the top 20 in terms of commitments. Countries in sub-Saharan Africa, including some middle-income ones, make up the bulk of countries at the bottom of the list.

Table 1.1. GATS Commitments Rankings

	Top 20			*Bottom 20*	
1	Moldova	84.32	1	Namibia	3.94
2	Austria	72.09	2	Bangladesh	3.36
3	Georgia	70.5	3	Mauritania	3.27
4	Latvia	69.14	4	Burkina Faso	3.21
5	Kyrgyz Republic	66.61	5	Kenya	3.21
6	United States	65.24	6	Uganda	3.16
7	Albania	65.12	7	Cameroon	3.11
8	Iceland	64.38	8	St Kitts and Nevis	3.11
9	Armenia	63.16	9	Mali	3
10	Lithuania	59.68	10	Costa Rica	2.79
11	Australia	58.95	11	Chad	2.69
12	Hungary	58.46	12	Central African Republic	2.49
13	Oman	57.44	13	Guinea-Bissau	2.35
14	Finland	57.18	14	Maldives	2.33
15	Estonia	56.72	15	Niger	2.3
16	Norway	56.55	16	Fiji	2.25
17	Jordan	56.41	17	Congo, Rep.	2.18
18	Saudi Arabia	55.51	18	Belize	1.61
19	Switzerland	53.67	19	Tanzania	0.98
20	South Africa	53.43	20	Madagascar	0.4

Source: World Bank Institute World Trade Indicators: www.worldbank.org/wti

The World Bank's recently constructed Services Trade Restrictiveness Index (STRI) seeks to measure services trade restrictiveness in the most important sectors and for the most important modes of supply.[9] The STRI covers five major sectors in 102 countries: financial, telecommunications, transport, retail distribution and professional services. The data shows how countries in South Asia and the Gulf are among the most restrictive and how the Latin America and ECA regions are closer to the OECD and the rich countries, with the other regions in the middle (Figure 1.14). In professional services there are many restrictions, including by the rich countries but also by all the other regions (Figure 1.15).

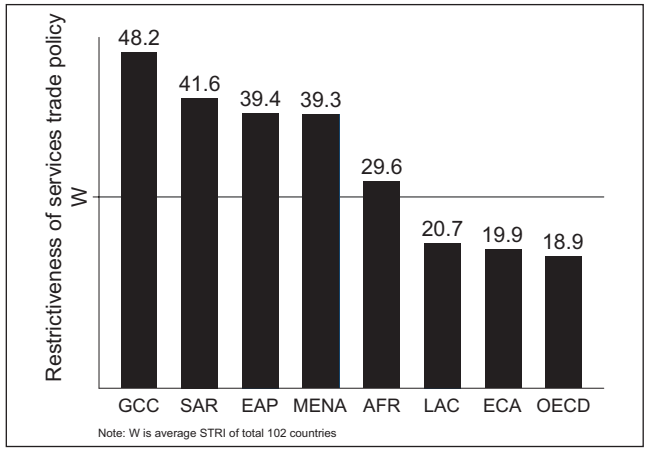


Figure 1.14. STRI by region
Note: GCC-5, SAR-5; MENA-8, EAP-8, LAC-18, AFR-22, ECA-14, OECD-22, World-102 countries

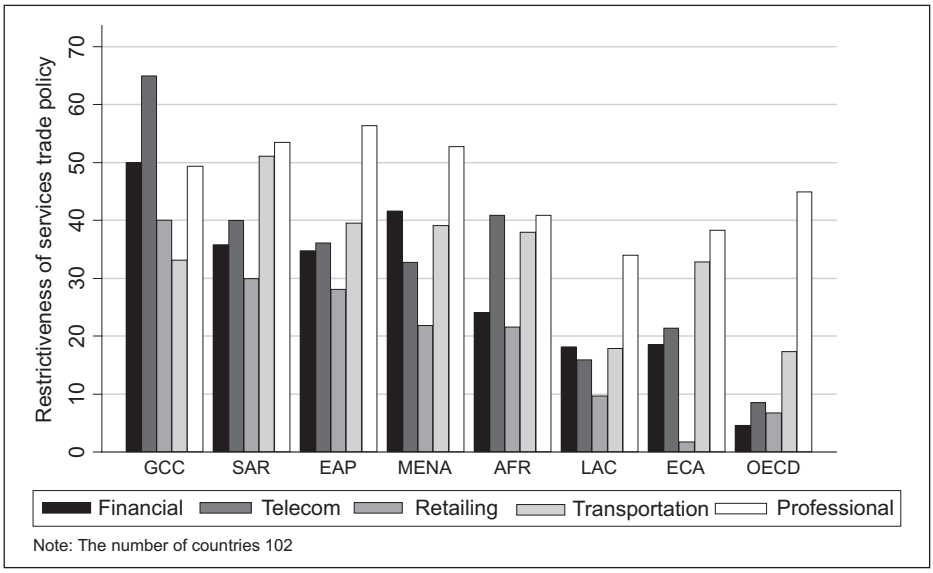


Figure 1.15. STRI by region and sectors

Conclusion

The services sector can be a driver of growth in many countries, regardless of size, location or stage of growth. But, there must be a clear understanding of the enabling conditions; of the fact that engaging in services exports means integrating the global economy. Hence, structural as well as regulatory reforms often are preconditions for service-led growth.

Notes

1. Mattoo, A, R Rathindran and A Subramanian (2001). 'Measuring services trade liberalization and its impact on economic growth: an illustration', Policy Research Working Paper Series 2655, The World Bank.
2. Arnold, J, B Javorcik and A Mattoo (2007). 'Does services liberalization benefit manufacturing firms? Evidence from the Czech Republic,' Policy Research Working Paper Series 4109, The World Bank.
3. Winters, AL (2008). 'The Temporary Movements of Workers to Provide Services' in A Mattoo, RM Stern and G Zanini (eds), *A Handbook of International Trade in Services*, Oxford University Press.
4. Mattoo, A and R Rathindran (2005). 'Does health insurance impede trade in health care services?'. Policy Research Working Paper Series 3667. The World Bank.
5. Tarr, D (2007). *Russian WTO Accession: What Has Been Accomplished, What Can be Expected.* World Bank Publications.
6. Source: WTO estimates, February 2010 presentation at WBI services trade course in Vienna.
7. Borchert, I and A Mattoo (2009). 'The crisis-resilience of services trade', Policy Research Working Paper Series 4917, The World Bank.
8. This online database allows the user to generate country rankings, charts, tables and maps and to define time periods and country groups: www.worldbank.org/wti.
9. The STRI is based on responses to a questionnaire sent to local legal or management consultancy firms in 78 developing countries and, for the OECD countries, information publicly available online.

2

Addressing the Statistics Gap: The Experience of Malaysia

Dr Sieh Lee Mei Ling

Introduction

Since the formation of the World Trade Organization (WTO), there has been an increasing awareness of the importance of improving national economic data and trade statistics for policy planning purposes. The analytical treatment of several aspects of economic growth and international trade has moved beyond conventional theories of development and of trade. Some statistics customarily compiled for crucial decisions have been challenged when applied to the new needs that have emerged. One particular area concerns data on the services sector.

Prior to the Uruguay Round that resulted in the set of agreements in WTO,[1] data compiled by national statistics offices on the services sector catered more to social needs and societal development rather than economic planning goals. Detailed statistics for economic development were focused more on 'productive activities' such as those in agriculture and mining, and on manufacturing industries where aspirations for economic growth were placed. Services were considered only as supportive activities for industrialisation, especially in relatively young, developing economies. The idea that intangible services activities are important value-added industries that can contribute to significant economic growth in their own right is relatively recent. The reality that services are increasingly traded between and among nations is established and accepted only with the General Agreement on Trade in Services (GATS), where the four modes of services trade are defined.[2]

The changes following GATS prompted the need to relook at ways to measure services outputs and international trade of those outputs, particularly those that were previously regarded as limited and untradeable. The fundamental shift in thinking on the concept of services – from mere activities for social consumption and auxiliaries for economic production, to economically value-add possibilities that may be marketised, transacted and even traded between nations – calls for changes in how services are measured and how services statistics are produced.

In some economies, such as Malaysia, services are increasingly assuming the role of economic drivers or engines of economic growth. Malaysia's services sector accounts for an ever-increasing share of GDP as the country's economy moves up the ladder of development. As of early 2010, services represented close to 58 per cent of GDP. In advanced economies, services share exceeds 70 or 75 per cent of GDP.

This chapter recognises the need to have accurate data on services within the economy and to have realistic statistics for services trade for purposes of policy planning, for choice of growth strategy and for socio-economic development including human development. In that context it considers three broad aspects of measuring services: issues of concern when measuring services; new statistical requirements for development and trade within the global environment; process and administration issues with suggestions going forward. References are made to the experience of Malaysia in the past few years for illustration.

Issues of concern when measuring services

Fundamental to the difficulties with services statistics is the fact that existing data compiled using conventional methods do not incorporate the needs of the services sector especially within the context of a global economy characterised by fragmented production networks that rely on trade to reconnect them.

Statistical data is required for planning economic policy directions, choosing strategies, executing those policies and strategies, and for monitoring impacts after their implementation. Apart from macroeconomic purposes, available data are also used by investors, for business operations, and for monitoring performance of sub-sectors and industries within the economy. The importance of reliable and timely statistics for both the public and private sectors cannot be overemphasised. As an important component of national economies, the services sector has also been measured along with other sectors. However, statistics available for services suffer from a number of shortcomings where changes have been slow within most developing economies. Some of the key challenges faced by Malaysia, which may be similar to those in other countries, are discussed below.

Data type, form and availability

The most common difficulty encountered with services data in Malaysia is the fact that statistics on services are too highly aggregated. There are many services sub-sectors and each sub-sector often encompasses a range of industries that comprise numerous activities. For instance, the logistics sub-sector may be divided into passenger travel logistical services and merchandise or goods freight logistical services. In turn, there are different modes based on air, maritime, road and rail, and various forms of transportation industries within each mode. The range of activities of freight logistics would

cover those of shipping agents, freight forwarding agents, customs, ship owners or operators, ports or airports or other terminals, warehousing, haulage, depot operators, financial institutions, besides the source shippers and destination recipients at both ends. Conventional Input–Output statistics do provide some details. However, as with many developing countries, Malaysia is still trying to improve the quality and frequency of its I–O tables. It is expected that the size of those tables will be enlarged as more services activities are recorded, either because of disaggregation or because they are new, such as those in the IT industries.

Sub-sectors and location

It is believed that reporting GDP contributions of major services sub-sector activities may derive significant benefits to begin with. In the case of Malaysia, disaggregate GDP data for various services sub-sectors was published for the first time only in 2008, for years 2000–2007. This is more than a decade after the point was first raised in forums and papers. Disaggregated data for GDP by geographic area, territory or state in the national accounts will also be useful, if they are not already available. Malaysia's disaggregate GDP share by states and for two Federal Territories was made available publicly only in 2009, for years 2005 and 2006.[3] The process of change has not been easy.

As with other countries, services statistics available in Malaysia are not often in the right form to be useful. They are often classified in ways that users may find constraining or based on criteria that may not be very meaningful for users. For instance, data on small and medium enterprises (SMEs) may be classified by size according to employment, revenue or asset, which is traditionally used for SMEs engaged in manufacturing. More understanding is needed to produce statistics on SMEs engaged in services activities, using the most appropriate criteria to classify specific variables. Such bases will depend on the type of services with which the SMEs are involved, for instance an IT small business will not share characteristics with a small catering business and may require data in different forms.

Another problem, which may not be unique to Malaysia, is that services statistics have been collected but they remain unavailable because they are not processed. Or they have been gathered and compiled but have not been published. Even for statistics collected, processed and published the form and manner of their publication may have been too restrictive in terms of distribution or access, to benefit those who require them. Data dissemination is as important as decisions of resource utilisation among a range of requirements.

The philosophy and methods for producing services data have often been similar to those for non-services activities. Data collection instruments for services have by and large been adapted from those used for manufacturing, agriculture and mining activities. The treatment of variables has almost been identical irrespective

of economic sector. An examination of past survey reports for professional services – transportation, tourism and hospitality, distributive trade services, to name a few – demonstrates the point. The implicit assumptions have to be examined. The changes in services business operations and the way transactions are carried out, either among residents or between residents and non-residents, must be understood in order for national statistics agencies to use their resources in more effective and efficient ways. Most countries, particularly trading nations, are facing the same situation because their national statistics departments would have adhered to the guidelines of international statistics agencies.

Timeliness, frequency and consistency

While the Department of Statistics of Malaysia (DOSM) has conducted a number of censuses and surveys on different services sub-sectors and industries, the purpose of those efforts has been primarily for constructing the national accounts. Similar to other countries, Malaysia follows closely the methodologies contained in the manuals developed by intergovernmental agencies, particularly those of the United Nations Statistical Office (UNSO). However, within the country, the timing, frequency and consistency of some of the statistical series for services activities have given rise to criticisms by users when their statistical needs were not adequately met.

The extent of lapses and inadequacies has caused users to regard some data as unreliable. Some statistical series are not published regularly or in a timely manner. Others have formats that are too 'changeable' over time to enable splicing into meaningful series for users. There is a strong demand to see the same variables presented consistently in the same survey series.

A common difficulty is evident on definition and classification issues. For services statistics, conceptual problems are not surprising in view of the introduction of new concepts and adoption of new definitions, especially for international trade in services. The central product classification (CPC) scheme used for GATS, regional ASEAN Free Trade Area (AFTAS), Free Trade Areas (FTAs) and bilateral negotiations, has been around since the mid-1980s and the newer version is expected to be adopted before long. The CPC Version 2 codes will provide for detailed types of services outputs or services products within sub-sectors, as never before.

WTO's Manual of Statistics for International Trade in Services (MSITS), launched in December 2009, provides important guidelines for changes to balance of payments data for services transactions between residents and non-residents through the extended balance of payments (EBOPS). There are also guidelines for changes to identifying services trade categories by the four modes of services trade, particularly through Mode 4, the movement of natural persons. Many of the difficulties encountered when measuring international trade in services using data obtained from existing balance of payments as the major source of statistics will hopefully be ironed out, if not resolved.

Numerous changes are expected to take place after the adoption of the MSITS, even though the transition will take years.

However, in Malaysia, even non-services specific variables face definition and classification problems. The same variable may have been defined differently by different agencies according to their own needs. This has led to unintended misreporting when the same term is used indiscriminately due to conceptual and definitional differences across agencies. A good example from Malaysia is 'ownership' of equity or assets. Another is 'control'. The converse, where the same meaning is labeled differently, is also true at other instances. The justifications given by one agency for its own purposes may be as valid as those of another agency with an entirely different agenda. Up till the present, such difficulties have not been sorted out, and some may have to remain as they are. Malaysia has in the past paid inordinate attention to the ownership and control variables, and the same variables will become important again in the new manual for deciphering services trade by Mode 3 and perhaps some instances of Mode 4 trade.

Recognising the importance of inter-agency co-operation for linking data compilers and data users, Malaysia has formed the high-level Main User Committee to iron out statistical issues. But many issues related to difficult services statistics may require actions that go beyond the committee mandate. The imminent changes following MSITS will impinge upon the type and quality of services statistics if existing difficulties such as incomplete statistics can be overcome.

Incomplete statistics

It is a fact that most countries do have data collected and compiled on their services sector. But most will agree that these data are incomplete or insufficient for current needs. Probably the best example is the coverage and depth of statistics on 'invisibles' trade. Balance of payments data do well only for selected services, notably for Mode 1, cross-border trade (such as those affected by services embodied in goods that are shipped across borders as in conventional goods trade or where a pipeline channels oil between neighbouring countries) and to some extent Mode 2, consumption abroad trade (such as when tourists travel abroad to import foreign services or where students travel to a foreign country to import education). Balance of payments covers transportation and travel, financial services and where payments across borders, such as transfers, are recorded according to those specified services, including for some of Mode 4 services trade by construction firms contracted to perform building services in the trading partner's country. However, given the existing level of aggregation in classification and of resultant data, there are doubts that all Mode 2 and Mode 4 transactions would have been clearly represented by the balance of payments statistics, as envisaged by the concepts adopted by the global trading community.

While acknowledging the artificially developed legal definitions and coverage of what international transactions of services outputs entail, the partial coverage of services trade by balance of payments is evidenced by the poor representation of Mode 4 and the absence of Mode 3 services trade. Mode 3 services trade is defined as occurring when services producers establish a commercial presence in the importing country to conduct transactions with non-resident or foreign buyers. Surveys to capture sales turnover and other operational data of subsidiaries or affiliates controlled by the corporation, such as the FATS survey recommended in the new MSITS, will address this data gap.

Mode 4 trade takes place when services personnel travel to another country to perform or deliver the services that are needed. There are recommendations in MSITS for compilation of extended balance of payments statistics, which has been attempted in a few advanced economies. Developing countries lag far behind but some are trying to move in that direction. As of now, complete statistics for international trade in services as per the GATS agreed definitions, remains unavailable. Malaysia, together with other developing economies, is facing a big challenge in measuring and recording services transactions with trading partners, either intra-firm with related parties that are affiliates, or for arm's length transactions with unrelated parties.

New statistical requirements for global development and trade

Mindful of the changing needs within a new trading framework and changes in the production networks of corporations, Malaysia tried to keep abreast of developmental needs by emphasising competitiveness in the national economic plans. The Third Industrial Master Plan 2006–2020, acknowledging that services development is crucial for attaining economic competitiveness, included for the first time a chapter on development of the services sector. The Plan prioritised eight services sub-sectors for development and quickly recognised the need for statistical upgrades.

In March 2007, two services councils were established, namely the Malaysian Services Development Council and the Malaysian Logistics Council, to cover the eight priority sub-sectors. The minister of international trade and industries chairs the councils. In turn they report to the Cabinet Committee on Services Liberalisation, chaired by the deputy prime minister. When the two councils were formed, the Task Force on Services Statistics was also established to examine data needs and to recommend changes to be implemented by the Department of Statistics and various statistics producing bodies.

The Department of Statistics is the most important agency for the purpose of gathering, compiling and publishing statistics. With authority from the Statistics Act, it operates under the Economic Planning Unit of the Prime Minister's Department.

The Task Force was chaired by a statistics user and an academic, and co-chaired by the deputy director of the department of statistics. With its terms of reference clearly laid out, the Task Force comprised members from all relevant government ministries and departments related to those services sub-sectors identified as priorities. Key industry associations involved in those services that are already members of the two councils, a few leading industry players and a few academics were also in the Task Force, and the Malaysian Industrial Development Authority (MIDA) of the Ministry of International Trade and Industries, served as the Secretariat. The Task Force reported to both the services councils.

The work of the Task Force was highly focused on improving statistics for national economic development purposes, specifically for achieving high economic growth and for expanding trade in services. With an action plan of its own, the Task Force worked on five major areas in a period of less than three years.

Identifying data and knowledge gaps

Identifying statistical data gaps meant trying to document all that was available, recording requirements of users of statistics and identifying the differences between the two. Right from the start, the Task Force embarked on a stocktaking exercise by email. A template was designed to collect information on all available statistics on services sub-sectors that were relevant for the person filling up the survey. The respondents were asked to indicate the surveys they were aware of, the variables included in the surveys, ownership of the data, the years available for the data series, accessibility to user, whether they were free of charge, whether the form of the data was useful, and so on.

A second survey, again using a simple template, was sent out to users of services statistics. Respondents were asked to indicate what they would like to see in the statistics that they use for specific services, that were not already there, or were available but not in the form or way they would prefer them to be. As in the stocktaking exercise, the survey email was widely distributed to and through council members, industry associations regardless of economic activity or sector, government departments and agencies, researchers in public and private sectors and to all who had any interest in using or improving the state of services statistics. The data gaps these two exercises brought to light became the starting point for changes.

A third exercise, started in the initial months of the Task Force, involved an extensive search for information on services statistics that may be helpful for Malaysian services policy-makers or investors and businesses. All the focus groups in both the services councils were enlisted to send in website details they came across or they knew about that concerned their own, or even other, sub-sectors or activities.

Within three months, in June 2007, the Task Force distributed its first volume of output. It contained the results of the stocktaking exercise, the services statistics user requirements and the list of websites on services statistics. The blue covered volume was continually updated with additions and corrections. By the close of the Task Force in December 2009 after 33 months, the fifth version of the blue book was produced and made available.

Filling the gaps

Several interesting observations were made from the initial exercises. First and foremost, there was generally a poor level of knowledge and understanding of services as valuable economic outputs that may be traded among countries. Even among some regulators, improvements were needed in knowledge gaps and the underlying changes that had been taking place globally. In particular, the division and dispersion of international production networks across regions and countries were not well understood. Another important observation was the mindset in the way statistical data have been gathered and compiled. There were difficulties of re-orienting minds towards new ways and approaches that were unfamiliar. Mental blocks added to the attitudinal stance of some towards change. In some cases, there were limitations in capacity to accept the number of new ideas that emerged.

To overcome some of these issues, the Task Force organised the first national workshop on improving services statistics, in August 2007. A two-pronged approach was used. First, the workshop attempted to show what data the Department of Statistics Malaysia already had and how they may be of help to users of statistics. This was achieved through presentations by heads of divisions of major areas, such as on national accounts, input-output statistics, international trade data and selected services surveys on topics like tourism, distributive trade, professional services and construction.

The second objective of the workshop was to raise awareness among statistics users and compilers from other agencies or even private industry associations, on the need to shift from the past towards the future. References to international and regional trading arrangements such as GATS/WTO and AFAS were strongly emphasised with the underlying theme of national economic competitiveness.

Although the Task Force intended seeking the services of a consultant to report on the findings of the first workshop, the idea was dropped in favour of a different direction altogether. The Task Force was convinced that Malaysia did not need another consultancy report because many of the issues on statistics at that time were already known and many of them required action to solve or manage or deal with their rectification. Instead, it was decided to launch the Services Statistics Action Programme (SSAP).

The objective of the SSAP was to accelerate the implementation of measures to meet the required statistical outputs of the six focus groups under the Malaysian Services Development Council and the five focus groups under the Malaysian Logistics Council (MLC), in their achievement of the Third Industrial Master Plan strategies. The SSAP examined and discussed a wide range of statistical issues towards finding solutions for the data difficulties in the services sector. It explored ideas and suggestions for actions to bridge statistical gaps raised by users and producers of statistics at the first workshop as well as observed from the stocktaking and users' requirement exercises. A secondary objective of SSAP was to impart knowledge of statistics to users, particularly on new developments in the services sector. Areas for improvements for future compilation of services statistics were also identified and discussed in depth. As SSAP proceeded, it was becoming clear that its meetings went beyond statistics. It also served as an avenue for imparting knowledge on services concepts, changes that were taking place in international producing networks and corporations, domestic trade and cross-border trade, new ways of conducing international trade, and so forth.

SSAP adopted a co-operative approach among users and producers of statistics. Led by the Task Force on Services Statistics with support from the two Councils, the action programme was effectively a multi-party effort that involved all related parties, namely the users and producers of statistics from both the public and private sectors, with the Department of Statistics Malaysia as the principal agency. A series of meetings and discussions was held for various sub-groups of the focus groups on specific statistical issues, for the purpose of obtaining services statistics that were generally unavailable or insufficient. The meetings were like mini workshops and led to concrete, actionable proposals and recommendations for implementation in stages. Among the issues covered were: data definitions, data interpretations, coverage, data disaggregation/aggregation or re-classification, usage in their respective areas of interest and in relation to macroeconomic statistics such as GDP, Input–Output and so on. Inter-sectoral and intra-sectoral linkages concerning services were considered. The Department of Statistics either incorporated some of the changes into its work plans or dealt with them in other ways. SSAP was ready to initiate specific independent research on certain highly focused issues. There were also lengthy deliberations on operational issues and change execution. Meetings under SSAP were conducted over a period of 16 months from July 2007 to November 2008.

A number of services sub-groups were created and membership established. Agendas for the various meetings were planned. The SSAP attempted to address identified data gaps in four broad steps, according to degree of difficulty in filling the gaps. The first step involved the simplest type of data gaps, by making available with consent data that the Department of Statistics and other government agencies had already collected but not yet published. SSAP effectively channelled requirements or needs of certain data to agencies that generated them, first to confirm their availability, and then to work on making them available to those who needed them.

The second step concerned data that needed some minor work to modify existing available data before obtaining outputs, such as through disaggregation or re-grouping of data, depending on discussions with the Department of Statistics. SSAP explored the possibility of supplementary publications of modifications of existing data. It was recognised that re-tabulations to fill gaps meant additional IT and other resources for which there were no provisions in the Department of Statistics. Such outputs were limited, although the Department could accommodate specific requests by users on an individual basis.

The third step concerned adjustments to existing Department of Statistics surveys to meet demands and specific requests. Adoption of changes to survey coverage or definitions or their publications if timely or possible would mean obtaining acceptance and agreement by the Department of Statistics and other government agencies on where those adjustments are directed. SSAP would not expect fast results but was satisfied that the needs were made known, explained and justified by users, and that the statistical producing agencies agreed to consider them seriously. SSAP successfully opened new communication links for changes and improvements for statistics to be published in future.

Step four centred on new surveys by the Department of Statistics. Some involved collaborative work between the Department and other government agencies while others came through administrative data. Detailed discussions took place on plans for entirely new surveys that would be undertaken to collect data on international trade in services by sub-sectors. Also, the need to develop indices for services, such as price index and volume index, was also deliberated at length.

Sharing and learning from others

Underlying the changes that were required was the need to share with each other and to learn from each other, especially when services activities and industries fell under a host of ministries and government agencies but with none serving as a dedicated or unifying body for the sector as a whole. The SSAP together with the two services councils provided a platform for this co-operative role where working dialogues were conducted. Based on 16 months of intense work, the outcome of SSAP was summarised and divided into courses of action to be undertaken by four groups of change agents. They were to be carried out within the sharing and learning spirit that had been planted and was now burgeoning. It was stressed that measuring services outputs and/or activities meant a state of constant learning, and perhaps unlearning, because GATS is still being negotiated in the WTO Doha Round, and AFTAS is still moving towards greater regional economic integration through the ASEAN Economic Community process.

The first set of tasks destined for the most important change agent for services statistics, was to be carried out by the Department of Statistics. They included time

to respond and follow up with requests, to begin planning on the development of services indices, to improve data dissemination and administrative processes, to pursue more memoranda of understanding with other government agencies and to maximise usage of Input–Output statistics.

The second set of changes was to be carried out by the Task Force Secretariat and involved meetings with new, uncovered or unregulated sub-sectors. (For example, certain technology-related activities in energy and environment services are new; certain creative and leisure services are not included; and pockets of niche services observed like container storage depot services are not regulated.) As a follow up on implementing SSAP decisions, the Task Force developed a concept paper for the path towards development of services indices and started the process with technical assistance from the Commonwealth Secretariat and WTO. The Task Force also started to transfer its functions to a newly formed Work Group on Services Statistics to continue with work started, such as by providing a platform for services sector stakeholders and with the process of informing and explaining to them relevant new developments.

The third group of change agents consisted of other government agencies and private sector organisations such as think tanks and consultancy firms that are data users and may also have data to share. They were asked to collaborate and co-operate in whatever way or form possible to raise the quantity and quality of services data. Further negotiation and mutual consent will be expected.

The fourth group comprised members of the two councils and their focus groups of industry players in services industries. They have an important role in continuing with the educative process for better understanding of services statistics started by the Task Force programmes. Their role in providing suggestions for modifying and improving survey forms will be critical, and their co-operation with the Working Group on Services Indices, cannot be underestimated. Their contribution to statistical integration efforts to develop new indicators or measurements related to production, productivity, price and capital formation will be crucial for future policies on economic growth and on trade. They are key stakeholders who provide the bridges to providers of raw data as responses to Department of Statistics surveys on the one hand, and on the other, as helpers in disseminating statistical outputs to users and providing feedback.

Constantly improving standards

As the SSAP action plan was nearing completion, the Task Force began to propose its own exit strategy; its role was to be taken over and developed further by the Working Group on Services Statistics, to be formed on a permanent basis in the Economic Planning Unit of the Prime Minister's Department. However, to follow through with the task of the Working Group on Services Indices, the Task Force proceeded

with proposals for developing the Index of Services and the Services Producer Price Index along with it, and secondly on developing Indices of International Trade in Services. Recognising the need to seek technical assistance from external experts, the Commonwealth Secretariat was approached.

The experts identified for Malaysia started work in March 2010. At the same time, a WTO national seminar on trade in services was held to update those who would be involved in working for the improvement of services statistics in the country. At the time of writing, an implementation map had been drawn up with inputs from stakeholders in the seminar. It is uncertain how the plans will turn out because in the process of developing the indices it is expected to take at least two to three years for pilot results. However, given the expressed interest of the Government of Malaysia and the strong commitment of the civil servants and industry players in moving ahead with services strategies for economic growth towards a competitive global position, it is believed that all the effort and goodwill of the Commonwealth Secretariat will be extremely beneficial. The project on developing services indices is expected to be catalytic in bringing about other indirect benefits, particularly in upgrading the standard and quality of statistics in general and of services data in particular.

Process and administration issues

As with all reformatory work, the introduction of a trade agreement on services ushered in a new era for economic policy-makers and for those who measure those new phenomena. It was not the case that Malaysia did not have information on those activities before. However, the requirements for statistics had changed over time. The new technology-based services production and delivery, new ways of providing old services, new methods of organising services firms, and new models of carrying out services business altogether demanded new approaches in data collection, presentation and analysis. An example is seen in tourism and air travel, where new services such as on-line ticketing, decentralised selling, centralised operations in tour groups, joint promotions with other service producers, are becoming common. The Tourism Satellite Account is an innovative process adopted worldwide for compiling and reporting tourism services statistics. Another example is the rise of hypermarkets and the benefits of reduced consumer prices that resulted from new retail and distribution formats. At the time of writing, Malaysia had completed some initial groundwork such as stocktaking available services statistics, stakeholders' user requirements, a statistics workshop and activities to uncover urgent needs for data improvements. Efforts to develop indices for services outputs, prices and trade are about to begin. Going forward there are challenges expected that will require perseverance and determination to make progress in the globally competitive environment. There are considerations for data producers on the supply side and for data users on the demand side.

Statisticians in national offices are often confronted by resource constraints. It is not always because they are deprived through budgetary allocations; it is also due to the ever-changing demands and expectations of their outputs. The growing range of statistics based on expanding economies translates into heavier workload by sheer enlargement of the bases of those surveys conducted. The changes introduced by GATS/WTO have been known for some time. Some of the manuals are now ready and advanced economies have implemented some of them. Statisticians of developing economies will experience a lag for various reasons. Besides resources, manpower constraints and keeping up to date with technical treatment of measurements are real issues. The case of Malaysia has highlighted a number of these challenges.

Perhaps the most difficult barrier toward innovation in services measurement is the hindrances caused by inadequate knowledge and understanding among those attempting to develop new data series. It is imperative that those responsible have deeper insights into how services industries, activities and products closely support other economic activities in manufacturing or modern agriculture, mining and other industries especially within a global value chain or supply chain. More empirical research on changing business models and their systems of operation will help. Past assumptions may have to be significantly revised to reflect reality. Deciphering where a value chain ends and another begins when intangible services are intertwined with goods may be problematic without analysis. The absence of clear-cut definitions and delineations for services products, particularly within the cultural context, will require experimentation on the part of statisticians. This is where lessons from others who have lived through those trials and errors are invaluable. For such reasons, Malaysia is grateful for expert help rendered by external experts from the Commonwealth Secretariat. Building on the work of others can save time and money when navigating such unfamiliar grounds. Nevertheless, Malaysia should prepare her main statistics agencies well to receive and benefit from the assistance obtained.

Collaborative working arrangements with other agencies within the economy that are important data sources, such as for constructing sampling frames, need to be strengthened and broadened. Relationships with respondents to enlist completion of survey instruments must be nurtured. Greater transparency, use of newer communication vehicles and electronic data dissemination approaches should draw industries and survey respondents closer. For example, the Department of Statistics mounted a relatively large-scale public relations exercise when re-launching its distributive trade survey by inviting trade associations and relevant industries to a half-day event that started with breakfast and ended with lunch.

In services production models it is well known that clients are often co-producers of the services they receive. For example, until and unless a student co-operates with his/her lecturer by listening and doing assignments, the educational service will not be delivered effectively. Similarly, if a patient does not co-operate as a co-producer by providing relevant background information of his/her condition, the medical

services delivered cannot be as effective as when adequate co-operation is given. This also applies to stakeholders from public sector agencies, private sector businesses and investors who are users of statistics. Their role in assisting the producing agency by supplying information and by filling up questionnaires in surveys is crucial for those statistics to be compiled.

Co-creation between the supplier and users of data are constrained by the need to raise the level of awareness in the public at large. In addition to sheer legal compliance, Malaysia is beginning to encourage respondents by using some appropriate motivational approaches that may range from expected benefits to nationalistic patriotism in obtaining inputs. Other forms of reaching out activities such as consultation with services firms or sub-sectors, use of technology for easier communication and other methods are gradually being used for newer statistics on services. It is undoubted that firms are overburdened with forms to fill and attending to authorities. Any attempt to simplify and to streamline the large number of demands on those who are expected to co-operate will indeed be a service in itself. For example, Malaysia has started to combine two surveys that target the same respondents.

Conclusion

Malaysia is in its infancy with regards to developing its modern commercially-oriented services sector and in measuring those activities within the framework of concepts adopted by the international trading community. We are not alone. There are those who have gone ahead from whom we are learning. It is believed that with more sharing of experiences, we are better placed to improve ourselves and hopefully to help others.

Notes

1. The main ones are: General Agreement on Tariffs and Trade (GATT); General Agreement on Trade in Services (GATS); Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).
2. The modes of services trade as defined by GATS are: cross-border trade (Mode 1); consumers or users moving to the country where the service is available (Mode 2); establishment of a commercial presence in the country where service is needed in order to provide that service (Mode 3); movement of natural persons to the country where service is needed with a view to providing service (Mode 4).
3. They are available online at the Malaysia Department of Statistics website: http://www.statistics.gov.my/portal/index.php?option=com_content&view=category&id=35&Itemid=53&lang=en

Section Two
Services Trade – A Regional Outlook

This section provides perspectives on services trade from Africa, the Caribbean, Common Market for Eastern and Southern Africa (COMESA) and South Asia. Many countries – some voluntarily, others under pressure – have been engaging in negotiations about regional economic partnership agreements (EPAs). Most stakeholders apart from negotiators have very little knowledge about EPAs and the potential impact on their businesses. While some see it as another ploy by developed countries to exploit their markets, others are joining the bandwagon in case they may lose out further downstream. The Caribbean has already signed an EPA with the European Union.

How far should opening up to trade go? And how quickly should it happen? How can regional collaboration benefit the countries of a grouping? These are also some of the issues examined in this section.

The view from Africa

Paul Brenton's chapter on the potential of EPAs to support services reform in Africa makes the case for the development of services and elaborates on the key features of the interim EPA. However, he emphasises that there is no obligation at the World Trade Organization (WTO) to include services in the negotiations. But EPAs may offer opportunities to accelerate trade and regulatory reforms, to enhance regional integration in services, and to leverage financial resources and expertise from EU to build regulatory capacity. There are also some risks associated with EPAs, namely too much focus on market access without co-ordinated regulatory reform and capacity building.

Appropriate regulations, such as a regulatory framework that emphasises competition, sound regulation and wider access, may be necessary to realise the benefits of trade liberalisation. Trade brings new technology that may require changes to the regulatory approach. Trade opening with inappropriate regulations in place can result in adverse outcomes like foreign monopoly. However, it may be necessary to do so in order to tackle the main block to reform known as 'regulatory capture', where a regulatory agency is controlled by the industry it was set up to regulate. There is need for capacity to design and implement appropriate regulations and monitor impact.

In Chapter 4, Francis Mangeni shares the experiences of the Common Market for Eastern and Southern Africa (COMESA). In the southern African region both Southern Africa Development Community (SADC) and COMESA attach a great deal of importance to regional trade, which is considered as a good training ground

for local firms that wish to compete eventually on the global market. Their priority has been infrastructure related services. However, the key to services development in Africa resides in improvements in logistics services. To facilitate trade within the region COMESA is working on templates for regulatory frameworks. Furthermore, negotiations have already started among COMESA members to create the conditions for services trade among themselves before these are discussed at the WTO. Indeed, Dr Mangeni confirmed that the commitments at COMESA would be more ambitious than at the WTO; for instance Uganda has made commitments in two sectors at the WTO but is proposing six sectors in COMESA.

These commitments were made by member states following national consultations. Prior to that COMESA assisted its member countries to compile what were called 'GATS templates', whereby consultants compiled the existing laws on services by sector and sub-sector in each member country. The templates provide COMESA with a basis on which to work with regards to the regulatory framework, and they can be updated. There were further studies done by other regional bodies – SADC and East African Community (EAC) – that helped to inform the process.

However, the question was posed as to the purpose of making these commitments at the GATS or at the regional level? Surely, there is no point in making commitments just for the sake of commitments. It may be that some countries are using the commitments to attract foreign direct investment (FDI) in some infrastructure sectors. But then, will making commitments at the WTO, at the regional level or the EPAs encourage more FDI in those sectors? It may be more productive to focus on specific sectors and concentrate on a co-ordinated regulatory reform and trade opening process just for those sectors than to use a GATS-type approach of a request and offer as a mechanism for liberalisation. It was argued that rather than having this broad-based GATS template-type approach, in COMESA it makes much more sense to focus on the communications sector (which emerged as important in 11 countries) and concentrate on what is really necessary to make effective liberalisation in that sector.

Interestingly, these discussions among 19 states already reveal the type of issues that may arise. On the concept of vulnerability defended by small island states like Comoros, Seychelles and Mauritius, discussion was complicated since Egypt also put forward that it is a vulnerable state as it is a desert. But basically COMESA is going through the same process as CARIFORUM and there is much scope for experience sharing.

The Caribbean perspective

An EPA was signed in Barbados in October 2008 between CARIFORUM and the European Union whereby Europe agreed to open its market to all Caribbean goods

and most services on 1 January 2009. In return, CARIFORUM (CARICOM and the Dominican Republic) agreed to progressively open around 80 per cent of its goods and services market.

Allyson Francis provides the CARICOM perspective. She lists 14 CARIFORUM objectives on services related to market access, standardisation and harmonisation of rules, movement of natural persons, mutual recognition agreements and trade restrictive measures. She described the approach adopted for liberalisation and mentioned the provisions of the arrangement for progressive, reciprocal and asymmetric liberalisation. States retain the right to regulate and introduce new regulations to meet legitimate policy objectives.

The challenges are: addressing regulatory commitments when most service providers are not organised (i.e. do not have the required regulatory framework); lack of organisation among practitioners; lack of venture capital; lack of standards and monitoring; the expense of meeting EU and the need for retraining to do so; and changing the mindset to exporting.

However, a more fundamental question is: has the EPA fulfilled its promises? According to one observer[1] the EPA had not fulfilled its promises mainly due to 'inter-regional rivalries, personality clashes, the recession, a lack of commitment by some governments, widespread doubts about neo-liberalism fuelled by the global economic crisis and a stalled regional integration process.' Another cause put forward is that the European Commission forced the EPA on a far from mature integration process and Caribbean governments agreed to measures that did not match regional economic or political realities. Other regions negotiating EPAs would do well to study the Caribbean case.

The Asian view

In Chapter 6, Manju Haththotuwa draws lessons from a World Bank study[2] aimed at increasing regional collaboration among South Asian countries, notably Bangladesh, Bhutan, Maldives, Nepal, Pakistan and Sri Lanka. These countries have to gear themselves up to seize the opportunities that are available to them just from being neighbours to India, a giant in ITES. In fact, at present most of the countries in the region compete with each other for business, with lower cost of operations compared with neighbouring countries as the prime selling point. However, with new locations and countries emerging on the global stage for ITES–Business Process Outsourcing (BPO), this advantage is likely to be unsustainable in the long run. The study concludes:

> *It is in the interest of each of the countries to develop a key selling point to attract investment over other locations. Given that the countries are at different stages of development with respect to the ITES–BPO industry, the countries can explore the possibility of developing*

a regional value proposition as an outsourcing/offshoring hub, leveraging each other's strengths. The countries can consider introducing initiatives and developing platforms that foster growth of the industry in the region as a whole. Such a regional network would ensure coordinated efforts toward knowledge sharing, resource utilisation, human capital development, and infrastructure investment – increasing the ability of the region to compete against other locations through united efforts.

Basically, regional collaboration is tantamount to putting in place a regional cluster, which the study defines as a special form of economic cluster whose success or failure depends crucially on factors such as relations between countries and socio-cultural ties. The author believes that the countries in the region that have individually taken steps to develop the industry and have complementary needs in areas such as training as well as complementary offerings in terms of their specific strengths and competencies, have not really tried to develop a regional network for sharing information and best practices. India has emerged as a dominant location within the ITES–BPO industry. However, there has been limited effort to leverage the success and experience of Indian companies in developing the industry in neighbouring South Asian countries.

This chapter provides a valuable framework for other regions that wish to develop regional clusters.

Trade liberalisation versus effective regulation

Trade liberalisation and regulation is a dynamic process with no strict sequencing. In the case of mobile telephony in Africa, there have been real gains from opening up and allowing additional providers into African markets without 'good' regulations always being in place. However, in other sectors, like finance for example, the risks may be greater from opening up without effective regulation. Therefore, what was suggested was the adoption of a risk-based approach, and where there is a clear market failure that trade liberalisation may exacerbate, greater focus should be put on regulation. If there is no obvious market failure or it is not obvious that trade liberalisation will exacerbate that market failure, then there is a stronger case for proceeding with trade liberalisation and not necessarily to wait for effective regulations. There cannot be a blueprint, as conditions will vary from country to country; but, in general, unless there is a clear market failure, benefits can be reaped from trade liberalisation and that should be at the forefront of the policy stance. It is a matter of finding the right balance between liberalisation and regulation.

Notes

1. David Jessop, Director of the Caribbean Council based in London david.jessop@caribbeancouncil.org
2. World Bank (2009). Regional Collaboration on IT Enabled Services – Smart strategies for jobs and growth in South Asia. January.

3

The Role of EPAs in Supporting Services Reform in Africa[1]

Paul Brenton

Introduction

This chapter discusses the issue of opening up to trade in services. It argues that this is a crucial policy issue for Africa and one that could be deepened in the context of the economic partnership agreements (EPAs) that African countries are currently negotiating with the European Union. The goods-only interim agreements that have been negotiated so far are unlikely to have a strong impact on development so the opportunity to negotiate appropriately designed provisions on trade in services could have more important trade impacts. Nevertheless, implementing a clear strategy for trade in services, to exploit opportunities for new dynamic exports and to drive efficiency in the provision of services to domestic consumers, should not be dependent on signing EPAs. We discuss ways in which EPAs could be designed to support the development of services sectors in Africa but recognise that EPAs may not be the most appropriate way to pursue services reform for all African countries.

Trade in services offers enormous opportunities for African countries to diversify their exports, pursue new opportunities for dynamic growth, increase investment and promote efficiency, and widen access to services in the domestic economy. In most countries, services are now the dominant part of the economy and have been the main source of employment growth in the past decade. Reducing the cost, raising the quality and increasing access to key backbone services, such as telecommunications, electricity, and business services, can have economy-wide impacts, since these services are often inputs into most productive activities, including manufacturing. A range of other services, including health, education, water and sanitation, are crucial to poverty reduction and for improving the quality of life of the population as a whole.

Trade policy plays a very important role in determining the nature of competition in domestic services sectors. Countries that place restrictions on foreign services providers may limit access to the most efficient suppliers and the best technologies. This, in turn, will deny producers and consumers throughout the economy access to low cost services or to the types of services that are most appropriate for their needs.

Similarly restrictions in overseas markets can act as a constraint on the development of services exports for which the country has a comparative advantage. Despite the importance of services and trade in services, few countries in Africa have defined a trade strategy for them.

However, liberalising trade in services can be more complex than liberalising trade in goods and may require considerable technical capacity, which is often lacking in Africa. This is because many services sectors need to be regulated to ensure that they operate efficiently in the face of market failures (for example, natural monopolies or where there are information asymmetries). Failing to do so may lead to significant sub-optimal outcomes and compromise legitimate public policy objectives regarding low-cost access to key services. Opening up to trade in the absence of appropriate regulations may not necessarily increase trade or generate gains.

It is therefore important to co-ordinate services trade liberalisation with regulatory reform. The challenge is to combine trade reform with the implementation of good regulations so as to allow the country to achieve its public policy objectives. There is no strict sequencing that demands regulatory reform must precede trade opening or vice versa. The available evidence shows the importance of ensuring competition in the market. For example, in telecommunications performance has been stronger when the introduction of competition has preceded the privatisation of state-owned enterprises. Many countries in Africa have benefited enormously from opening up in mobile telephony. Trade opening can also be a driver of regulatory reform. In some cases it may be necessary to pursue trade liberalisation to undermine a blockage on regulatory reform when incumbent producers capture regulators. In many sectors regulation has to be linked to technology and opening up to trade and investment will often bring new and more advanced technologies, which will require a re-appraisal of the current regulatory approach.

In other cases, opening up to trade may not be the key constraint to the development of the sector and regulatory reform or improvement in the business climate may be necessary to permit investment or cross-border trade to take place. For example, some countries in Africa banned the use of Voice over Internet Protocol (VoIP) services, which is crucial for the development of business process outsourcing (BPO) services (BPO). Opening up in this sector without addressing the regulatory constraint (the ban) would have little impact on service delivery. A recent World Bank study[2] shows that there are considerable opportunities for cross-border mobile banking, yet a number of countries in Africa do not have in place a regulatory framework to facilitate such trade. For example, in the Democratic Republic of Congo the concept of electronic money has not yet been defined in law and regulations concerning anti-money laundering and anti-terrorism requirements relating to such banking are not yet in place.

Trade liberalisation and regulation of services sectors

Openness to trade can be an effective mechanism for increasing competition in services sectors. Competition is essential for increasing efficiency in the services sectors to achieve lower priced and better quality services. Competition pushes service suppliers to reduce waste, improve management and reduce operating costs. Competition then forces suppliers to pass on these cost savings to consumers in the form of lower prices. Competition also forces firms to innovate and to look for new and better products that are more closely aligned with the needs and demands of their consumers. Thus competition increases the range, variety and quality of services in the market. Finally, competition undermines costly rent-seeking activities whereby incumbent firms spend resources on lobbying officials for policies that will protect them rather than concentrating on increasing efficiency and quality.

A range of empirical studies[3] has shown that openness to trade in services, such as telecommunications and finance, is associated with greater efficiency and faster growth. In addition, trade liberalisation of services has positive impacts on trade in goods and allows developing countries to better exploit their comparative advantages in labour-intensive manufacturing. The gains from services liberalisation are likely to be larger than those from goods liberalisation and the adjustment costs that arise from service sector reforms may be lower than those arising from reducing protection of goods. This is because the dominant mode of cross-border supply in many services sectors is through commercial presence (Mode 3), which ensures services will continue to be produced locally.

While the benefits of liberalising trade in services are compelling, it can bring risks and potential costs that may require appropriate government intervention. This arises because of the need to regulate many services sectors to overcome market failures giving rise to concerns about both efficiency and equity. For example, when imports of services through commercial presence are liberalised, it is important that foreign entry leads to more competition and improved services, not merely to a transfer of ownership from a state monopoly to a private one or from a national monopoly to a foreign one. Reforms to establish an appropriate regulatory framework may need to precede the opening up of the sector concerned. The reforms should set the rules of the game for new investors by establishing appropriate competition and pricing rules for foreign investors in services, service and access requirements when relevant, and adequate oversight and conflict resolution mechanisms.

Regulation is often a complex activity and regulators need to be able to assess the impact of regulatory decisions on relevant industry outcomes. The capacity of the regulator will be an important determinant of the nature, quality and impact of regulation. Many African countries lack the capacity to design and effectively implement appropriate regulations. Hence, technical assistance will be required to raise the capacity to design and implement appropriate regulations for services. Undertaking this simultaneously

across a wide range of services will not be feasible in many countries in Africa given the human and technical resources required for successful regulation. Weak capacity of the regulator can also lead to regulatory capture, where the incumbent service provider(s) exerts undue influence on regulators and manages to stifle attempts at reform. Moreover, existing regulatory agencies may have little or no incentive to reform unilaterally. In these cases, trade liberalisation may be useful to undermine regulatory capture and catalyse the reform of regulatory agencies.

Trade opening may need to be carefully co-ordinated with regulatory reform. Policy-makers in Africa face the challenge of getting an appropriate balance between the extent to which progressive regulatory reform initiatives exploit opportunities for external liberalisation to increase competition and bring new investment, technologies and skills, and the degree to which trade agreements can be leveraged to drive reform where progress has become bogged down. Since regulation is linked to technology and openness to trade is a source of new technologies it is important that flexible approaches to regulatory reform and trade opening are adopted. Inherently, this suggests a sector-by-sector approach in which countries first target services sectors that are priorities for their development. It also emphasises the importance of local capacity to design and implement effective reform strategies and the need for openness, transparency and participation in discussions and decisions concerning the regulation of services. The situation is likely to vary across countries putting strong weight on flexibility in trade policy negotiations for individual countries in Africa to pursue their service sector and regulatory priorities.

Co-ordinating trade liberalisation and regulatory reform does not necessarily entail deregulation but rather putting in place appropriate regulation; that is regulation that more effectively achieves public policy objectives while ensuring efficiently produced low-cost services. Tools and procedures can be put in place to assist policy-makers to assess whether existing or new regulation will achieve the sector-specific public policy objectives while contributing to competitive market outcomes. For example, the Organisation for Economic Co-operation and Development (OECD) principles on key market-oriented and trade and investment friendly regulation and the APEC–OECD Integrated Checklist on Regulatory Reform could provide further guidance on how to undertake such a combined assessment of regulatory and competition policies, and market openness policies. More specifically, the process of capacity building could be co-ordinated with the increasing use of regulatory impact analysis to provide for an open, transparent and effective mechanism for the review of regulatory measures and their implementation.

Putting in place an appropriate regulatory framework can also be important in enabling firms to exploit export opportunities. For example, regulations that encourage competitive and well-functioning domestic services sectors can provide the basis for penetration of overseas markets by domestic suppliers. In Kenya, reform of the regulation of telecommunications that permitted firms to have their own

satellite disk to connect to the internet and removed a previous ban on the use of VoIP services was critical in allowing the export of call centre services to the global market. Again, introducing the key elements of good regulatory practice is likely to be important so that transparency and openness in the design and implementation of regulations takes into account a broad range of interests, including producers that have a potential to export as well as those focused on serving the domestic market.

It may also be necessary to put in place mechanisms to ensure that social objectives regarding access to key services are not compromised by trade reform. The challenge is to achieve an appropriate balance between greater competition by improving market access for foreign providers and achieving public policy objectives. A particular concern is that increasing competition and liberalising services will lead to a deterioration in the provision of services to the poorest or less populated areas because these are the least profitable to serve. This may arise if new competitors in formerly monopolised sectors compete away monopoly profits that were previously used to cross-subsidise unprofitable provision of services to poorer areas or regions.

There is a range of market-based mechanisms that governments can use to ensure the provision of key services to poorer or under populated areas in a competitive environment. For example, the government can use an auction to attract the most efficient provider. Subsidised service can be financed by instituting a small tax on services and auctioning off the revenue to companies willing to provide services to the poor. The advantage of this approach is that a market determines who the providers will be.

Improvements in the general investment climate may be required to complement trade opening and regulatory reform. In many services sectors commercial presence through foreign direct investment is the key mode of supply. But removing restrictions on foreign direct investment may do little to encourage new inflows if there is a general climate of hostility to new investment. Countries in Africa, such as Mauritius, that have made substantial efforts to improve the investment climate have seen substantial inflows of foreign investment into services sectors. Similarly, foreign investment into Rwanda has grown enormously following reforms of the business climate that made the country the top global reformer in the World Bank's Doing Business Report 2009.[4]

Implementing trade liberalisation in services

To be able to effectively plan trade liberalisation and negotiate agreements on trade in services bilaterally, regionally or at the multilateral level it is essential for policy-makers and negotiators to have extensive information on the nature of regulation and trade restrictions in all of the sectors that are subject to discussion. Detailed information is needed about both the measures in overseas markets that constrain exports in sectors

where the country has offensive interests as well as measures affecting the access and treatment of foreign services suppliers in the domestic market. In many African countries, as well as other developing countries, comprehensive data on services sectors are not available, and they typically face great difficulties in effectively participating in trade negotiations on services.

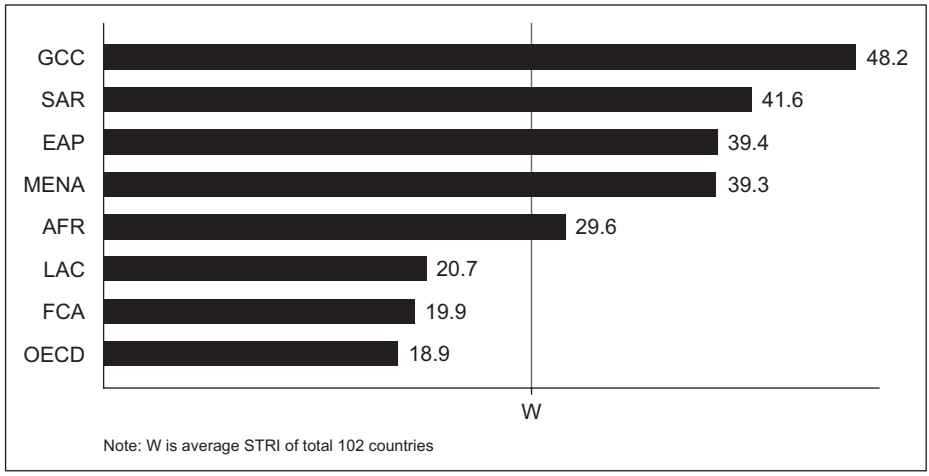


Figure 3.1. Restrictiveness of applied services trade policies by region
Notes: Regional abbreviations: GCC – Gulf Cooperation Council; SAR – South Asia; EAP – East Asia and Pacific; MENA – Middle East and North Africa; AFR – Sub-Saharan Africa; LAC – Latin America and Caribbean; ECA – Europe and Central Asia; OECD – Organisation for Economic Co-operation and Development.
Source: Gootiiz and Mattoo (2009) [5]

To begin to address the shortage of data on applied policies governing trade in services in developing countries, the World Bank has recently carried out a survey to assess applied (actual) trade policies in five services sectors – financial services (banking and insurance), telecommunications, retail distribution, maritime transport and professional services. The survey was conducted in 78 developing and transition countries and 24 developed countries in 2007 and 2008. The resulting policy summaries, presented in Gootiiz and Mattoo (2009),[6] cover only explicit market access and national treatment barriers plus discriminatory regulatory measures in the five sectors. Twenty-two African countries are considered in the analysis.[7] No systematic data on restrictions on trade in services are available for those African countries not covered by the survey.

The resulting index ranges from 0 if there are no restrictions to 100 for closed economies. The results show that, on average, African countries have relatively liberal services trade policies (Figure 3.1). For these African countries, the overall restrictiveness index of applied services polices is just above the world average and

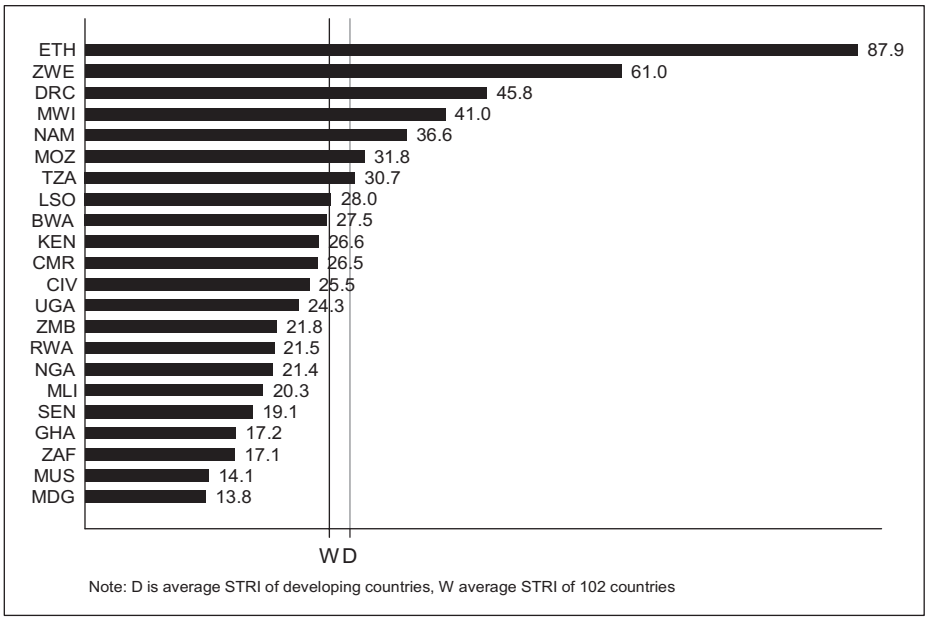


Figure 3.2. Services Trade Restrictiveness Index for African Countries
Source: Gootiiz and Mattoo (2009)[8]

lower than the restrictiveness index in all other developing country regions except for Eastern Europe and Latin America.

There is, however, considerable variation across countries in Africa (Figure 3.2). For example, Madagascar and Mauritius have very open policies towards trade in services with a value of the restrictiveness considerably below the world average and also below the average for OECD countries. On the other hand, the value of the index for Ethiopia is the highest score of any country in the sample. Only 7 of the 22 African countries have an overall services restrictiveness index that exceeds the world average.

In contrast with their relatively liberal actual policies, the policy commitments of the 22 African countries in the Uruguay Round and their commitment offers in the Doha Round are extremely limited. Several of the African countries covered by the Bank's survey did not submit Doha offers. For those countries that did submit Doha offers the improvement over their Uruguay commitments are often minimal. In the case of Africa, the gap between applied policies and WTO/GATS services liberalisation commitments and offers is the largest in any region (Figure 3.3).

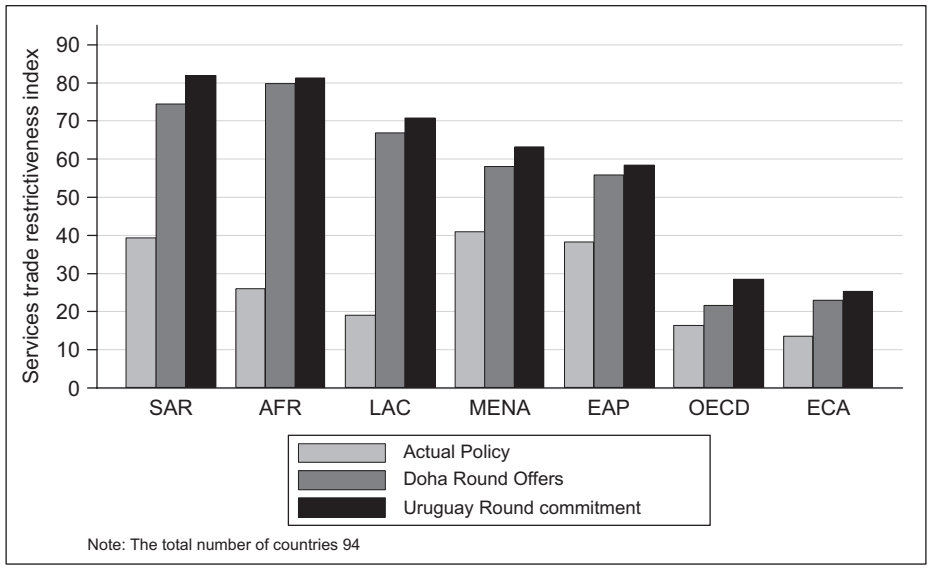


Figure 3.3. Restrictiveness of Uruguay Round policy commitments on liberalising trade in services, Doha Round commitment offers and actual policy by region
Note: Where a country did not make a Doha offer, the sector index reflects the Uruguay round commitments. Twenty-one African countries are considered in the Africa group: Ethiopia is excluded since it is not a WTO member.
Source: Gootiiz and Mattoo (2009)[9]

A more comprehensive indicator of GATS commitments in Africa is provided by the World Bank's World Trade Indicators,[10] which covers commitments by 35 sub-Saharan African countries and all GATS sub-sectors. As summarised in Figure 3.4, these data confirm that on average African countries have made a relatively small number of

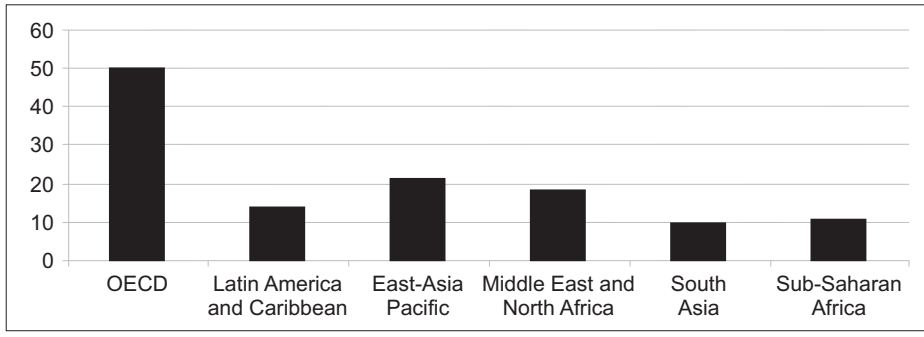


Figure 3.4. Index of GATS commitments
Notes: The index measures the extent of GATS commitments for all 155 services sub-sectors as classified by the GATS and in the four modes of services delivery. The index ranges from 0 (unbound or no commitments) to 100 (completely liberalised), with an intermediate value of 50 for partial commitments. A simple average of the sub-sectoral indexes was used to generate aggregate sectoral indexes. The overall GATS commitment index is a simple average of the sectoral indexes.
Source: World Trade Indicators

commitments compared to OECD countries. In general, developing countries as a group have been reticent to make commitments in services under the GATS. So Africa is similar to other developing regions in this respect.

Thus, to some extent, many countries in Africa have liberalised trade in services with most of this having been implemented unilaterally. With the exception of tourism, countries in Africa have tended not to make commitments under the GATS. Countries in Africa will need to carefully assess whether further reform of applied trade policies is necessary to achieve objectives regarding investment and competition in services sectors, or whether the more pressing need is for reform of domestic regulations and domestic regulatory capacity or attention to constraints in the investment climate. This assessment needs to be undertaken on a sector-by-sector basis.

International trade agreements can support governments that wish to implement services reforms but are opposed by powerful vested interests. Such agreements can help break domestic deadlocks by improving market access for the country's exporters and mobilising export groups to support the reform effort. Trade agreements can also provide a mechanism for overcoming domestic resistance to desirable reforms by locking in the commitment to reform and enhancing the credibility of the reform process. Evidence suggests that the GATS may not provide a strong commitment mechanism for small developing countries.

Regional approaches to services reform can bring particular benefits from exploitation of economies of scale, appropriate management of cross-border public goods, co-operation and co-ordination that leads to better regulations and pooling of technical skills to overcome capacity constraints that afflict regulation at the national level. Regional agreements can provide for deeper integration than agreements with rich countries or at the WTO through regulatory co-operation with neighbours who have markets with comparable demand and supply conditions and similar regulatory preferences and capacities. For example, in professional services, the mutual recognition of qualifications that is often necessary to make effective openness to temporary movement of workers can be more easily pursued with neighbouring countries than with countries at higher levels of income. Harmonising standards with neighbours for such services will tend to be more appropriate than harmonising with the standards of rich countries.

In general, the greatest gains from liberalising trade in services will arise when access is provided to all suppliers on a most-favoured-nation (MFN) basis. By so doing a country gives its consumers and produces access to the best service providers in the world. Sequencing preferential liberalisation of trade in services before broader MFN liberalisation can have adverse long-term consequences by handing a first-mover advantage to a less efficient supplier that a subsequent increase in openness cannot dislodge or force to become more efficient. Starting liberalisation at the regional level may be justified if there are important learning effects that local firms have not been able to exploit due to the small size of national markets or restrictive national regulatory regimes that have

inhibited opportunities for growth. Preferential regional liberalisation may then allow regional service providers to emerge in Africa that are then able to compete effectively when MFN liberalisation is implemented. Liberalising first on a regional basis may also allow regulators to gain experience before full opening is implemented. Hence it is important to carefully assess the potential costs and benefits of proceeding with preferential regional liberalisation. Countries should also look for ways to make binding commitments to ensure that there is subsequent MFN liberalisation.

Trade and regulatory reform of services in Africa and EPAs

An economic partnership agreement with the EU is one of a number of options that African countries have to support co-ordinated trade and regulatory reform of services. African countries can pursue the option of services EPAs whether they have signed an interim EPA or not. There is no legal obligation under the WTO for the African countries to include services in a trade agreement with the EU. Hence, unlike the interim agreements, which were often concluded so as to maintain trade relations for goods between the African countries and the EU, there is no such necessity for services. However, there is no guarantee that a services EPA will necessarily support pro-development outcomes in services. An EPA is one mechanism that African countries can use to support services reform. There are other options, including unilateral liberalisation, bilateral agreements, regional integration with other African countries and the multilateral GATS process. These are not exclusive and can be pursued with or without an EPA.

The main impacts of a services EPA with the EU would come from locking in openness to trade, providing sound precedents for regulation in key sectors, co-operation on competition policy and support for regional integration. Analysis of the CARIFORUM EPA (Chapter 5) suggests that an EPA could be a mechanism for locking in existing levels of openness to enhance the credibility of reform and to provide a signal to investors of the stability of the current policy stance on services. The CARIFORUM EPA also defines frameworks for the regulation of a number of specific services sectors, such as finance and telecommunications, which could provide a basis for increasing the quality and credibility of regulations in Africa. In other sectors in which Africa has offensive export interests, such as tourism and IT related services, commitments on regulations that go beyond the GATS could provide important precedents for future regional and multilateral trade agreements. Provisions in the CARIFORUM EPA for co-operation between competition authorities, especially the specific commitments in tourism, could be useful in disciplining anti-competitive behaviour by EU firms in African markets and in allowing African firms to effectively compete in vertically integrated production chains. Regional regulatory co-operation and a regional preference clause could be useful for advancing regional integration in

services in Africa. Putting in place structures for dialogue on mutual recognition at the EPA level may facilitate progress at the regional level.

However, an EPA is unlikely to offer much in terms of improved access for African countries to the EU market, especially for temporary movement of unskilled workers. The CARIFORUM EPA contains provisions for expanding employment of temporary service providers in the EU. But this applies to professionals – business services providers, contractual service suppliers and independents – and does not address the issue of temporary movement of unskilled workers. Greater temporary access to the EU for unskilled workers, for example through carefully crafted and managed sub-contracting schemes, would have a significant economic impact in Africa. Unless the EU institutes a significant opening to temporary movement of unskilled workers, services reform will have to be driven by African countries seeking to reform their domestic services sectors.

The current GATS-style negotiation of reciprocal commitments under the EPA has given insufficient attention and resources for improving regulatory policies and strengthening regulatory institutions. Lack of attention to concerns over regulation and the ability to regulate has constrained effective participation in negotiations. Regulators will respond to substantive arguments for reform while GATS-style mercantilist bargaining over market access per se will be of little importance. This entails the need for careful analysis of the economic benefits as well as the wider consequences of reform, and the involvement of key stakeholders in discussions of regulatory reform.

A sector-by-sector approach to co-ordinated regulatory and trade reforms is likely to be the most effective approach for African countries. For countries with limited capacity to negotiate and regulate services a focus on priority services sectors from a development perspective (in most countries these are likely to include transportation, telecommunications, electricity, finance, and business services) is likely to be more effective than a broad but shallow preferential trade agreement that involves negotiations across all sectors and modes of supply.

Regulatory and MFN trade reforms in Africa need to be supported with technical and financial assistance. Such assistance should be targeted at those factors with the greatest impact on performance in the market and not solely at market access and national treatment considerations and the preparation of GATS-type schedules of commitments – it should not be directly linked to the signing of an EPA. Assistance should be available to all African countries that wish to reform their services sectors, whether they sign an EPA or not. A fund for services trade reform in Africa that would allocate resources according to need and consultants according to expertise would be the most appropriate vehicle for providing technical assistance and building capacity. With regard to an EPA, resources from this fund could be available to raise capacities in priority sectors to support implementation of commitments on trade openness and on regulation and hence enhancing the credibility of the locking in of trade openness

and regulatory reform. One way to organise and co-ordinate such support could be through a dedicated forum (hosted where applicable in sector specific international organisations), independent of specific trade negotiations. It should provide for the application of economic and regulatory impact analysis, discussion of good practices and effective institutional structures. Such a forum would have to encapsulate that for services reform one size does often not fit all and that reforms and appropriate regulatory structures will often tend to be country specific.

Recommendations

For countries in Africa, drawing upon available sources of financial support and technical assistance:

- Define a strategy for trade in services that is integrated into the national development plan through the following activities: improving the collection and dissemination of more and better data on service sectors and trade in services; creating awareness and facilitating a dialogue among various stakeholders about the potential impact of services trade liberalisation and reform; and identifying priority sectors where greater competition, foreign investment and new technology can drive efficiency and growth. The strategy should include a committee for services trade and regulatory reform to champion open and transparent approaches to regulation and trade opening, and to oversee the use of regulatory impact analysis.
- In the priority domestic services sectors implement a trade and regulatory audit to identify the main constraints to competition and investment. For instance, insufficient openness to trade and investment, lack of credibility of existing openness, inappropriate regulations, insufficient capacity to implement a sound regulatory framework, a hostile investment climate and so on.
- In priority export sectors assess the need for improvements in the regulatory regime to support competitiveness and mobilise an export supporting approach in relevant line ministries and institutions such as the export promotion agency.
- Identify if, and how, unilateral reforms and trade agreements at the regional, EPA and multilateral level can be used to alleviate the constraints that are identified for the priority sectors and support the process of trade and regulatory reform. Explore opportunities for co-operation with the EU outside of a formal broad services agreement, for example, with regard to co-operation between competition authorities.
- Pursue more actively opportunities for regional co-operation and deeper integration of services in priority sectors of mutual interest with regional partners.

With regard to the EPAs:

- The EU and African countries should consider a more flexible approach to the EPAs that reflects the diversity of capacities and priorities across African countries. The focus should not be on a bilateral deal between the EU and regional blocks in Africa for the preferential opening of services sectors based upon a GATS type schedule, but rather a country-based co-operative approach to remove the constraints to the development of the sectors identified as priorities by African countries. For example, if requested by an African country or group of countries, the EU could work with these countries to facilitate co-operation between competition authorities. This could be provided even in the absence of a formal comprehensive EPA agreement. Similarly the EU could look at opportunities for mutual recognition of qualifications that are not predicated on signing a formal EPA agreement.
- The African countries and the EU should adopt an approach to services reform that enshrines a sector-by-sector approach to co-ordinated trade and regulatory reform rather than a broad but shallow GATS type negotiation in which priority sectors for reform are defined by each country consistent with national development plans.
- The EU should support African countries in pursuing openness to trade in services primarily through MFN liberalisation especially in infrastructure sectors where preferential opening may have long-term adverse implications.
- The EU should work with other donors and international institutions to make adequate technical assistance available to all reforming countries in Africa from a fund that is independently managed and delink the provision of such funding from negotiations and agreement on an EPA. Such a fund could organise financial resources and expertise around key services sectors for Africa. Suggestions would include telecommunications, tourism, transport, finance and business services.

Notes

1. This chapter is a summary version of a recent World Bank report by Paul Brenton (2010) entitled, *Africa's Trade in Services and Economic Partnership Agreements*. Nora Dihel, Larry Hinkle and Nicholas Strychacz also contributed to the production of that report. The work has been funded by the Multi-Donor Trust Fund for Trade and Development supported by the governments of Finland, Norway, Sweden and the United Kingdom. The views expressed here are solely those of the author and not necessarily the views of the funders, the World Bank Group or its Executive Directors.
2. World Bank (2009). *Trade in Financial Services: Mobile Banking in Southern Africa*. Washington DC: The World Bank.

3. For a review see Hoekman, B and A Mattoo (2008). 'Services Trade and Growth'. Policy Research Working Paper Series 4461. The World Bank.
4. Download at: http://www.doingbusiness.org/reports/global-reports/doing-business-2009
5. Gootiiz, B. and A. Mattoo (2009). 'Services in Doha: What's on the Table?'. *Journal of World Trade,* 43.
6. Ibid.
7. Botswana, Cameroon, Cõte d'Ivoire, Democratic Republic of Congo, Ethiopia, Ghana, Kenya, Lesotho, Madagascar, Malawi, Mali, Mauritius, Mozambique, Namibia, Nigeria, Rwanda, Senegal, South Africa, Tanzania, Uganda, Zambia and Zimbabwe.
8. Gootiiz, B and A Mattoo (2009). 'Services in Doha: What's on the Table?' *Journal of World Trade,* 43.
9. Ibid.
10. http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/TRADE/0,,contentMDK:22421950~pagePK:148956~piPK:216618~theSitePK:239071,00.html

4

The COMESA Experience

Francis Mangeni

Introduction

The Common Market for Eastern and Southern Africa (COMESA) is a regional organisation covering eastern, southern and a part of northern Africa. We have a total of 19 member states[1] stretching from Egypt and Libya in the north all the way to Swaziland in the south. Intra–COMESA trade has risen sharply in the last decade from US$3 billion in 2000 to US$14.3 billion in 2010. COMESA members have a combined population of 420 million and a GDP of US$392 billion, which we view as a huge investment market.

COMESA's goal is to be a fully integrated, internationally competitive and prosperous regional economic community with high living standards, especially for ordinary people, and to be fully involved in the continental integration process to build an African economic community. The regional group formed a free trade area in October 2000, launched a Customs Union with a three-year transition period in June 2009, and is now building a common market. The aim is to be a common market by 2015 and a monetary union by 2018 as required by the COMESA treaty and agreed by member states.

Services in COMESA

Services assist to facilitate trade and actually contribute up to 60 per cent of the value of most products in inputs to production. Infrastructure services such as transportation, credit or financial services and energy help to improve the competitiveness of countries, regions and industries. In order to build a common market COMESA must have services.

Here are some key figures that demonstrate the importance of services to COMESA. First, transportation costs for landlocked countries account for up to 40 per cent of the production costs of bulky products. Maybe for other products it might not be as high as that, but the point is that if we liberalise certain services the cost of production could go down quite significantly. Second, the percentage of services exports to trade

among COMESA members ranges from as high as 70 per cent in the case of Egypt to as low as 10 per cent for Burundi.

We have been tracking cross-border investment flows in COMESA. Of the largest 50 investments in COMESA in the period 2008 to 2010, 43 were in services, with business services, financial services and telecommunications dominating. The growth in cross-border investment flows has been really dramatic; the preliminary figure that we have is 400 per cent. This shows a trend that COMESA cannot ignore; the private sector is not waiting so governments and regional organisations need to step in to negotiate, regulate and make sure everything is correct, or the private sector might crash along the way.

Services regulations

COMESA has an ongoing programme to liberalise trade in services. Under this programme four meetings of trade and legal experts have been held over the course of the three years from 2007 to 2010, and these four meetings have actually produced regulations on trade in services. The experts failed to resolve only one issue, how to deal with vulnerable states. The small states – like Comoros, Seychelles and Mauritius – were saying they need preferential treatment, special treatment, then Egypt said, 'But we are a desert so we are also a vulnerable state.' It was a very intricate kind of discussion, which was resolved ultimately by the permanent secretaries, but nonetheless in only four meetings we had agreed regulations on trade in services. The lesson is it takes ages to conclude negotiations at the WTO, but at the regional level you can proceed fairly fast.

After adopting the regulations on trade in services, we had to start the negotiations of actual commitments. Thus far we have adopted guidelines on the negotiations, which required only one meeting of the committee on trade in services. These guidelines require member states to start liberalisation in the priority sectors. We had reached tentative agreement on seven indicative priority sectors but the member states needed to confirm these in national consultations. Member states have started submitting the outcome of their national consultations; so far 11 member states have made these submissions setting out the priority sectors. The next step will be to look at the possibility of having schedules of commitments in the priority sectors that the member states have agreed, and then agree on the way forward for other sectors.

Key provisions

In terms of the regulations and what they say: these regulations are standard trade in services provisions modelled on the GATS provisions of the WTO. So we have got the most-favoured-nation (MFN) clause, which says all the countries should be treated in the same way, and the market access provision that provides for a positive

list approach where countries choose which sectors to open up and to which of these they attach some conditions and limitations. Once countries have opened up those sectors then they should accord national treatment. Then we adopted the progressive approach, that is the rounds of negotiations, and what we are going through is the first round of negotiations. We also have provisions on mutual recognition, so we shall be establishing professional associations as well. Indeed, we have already started the process of establishing a COMESA Regional Services Coalition, which will be based at the COMESA Secretariat. The regulations also establish the Committee on Trade in Services, which is a forum for overseeing the implementation of the regulations and for ongoing, progressive negotiations. These are a few examples of the many provisions agreed.

Priority sectors

The Committee on Trade in Services has adopted negotiating guidelines, as stipulated by the regulations. Basically, the regulations say negotiations shall proceed on the basis of requests and offers, and they set out detailed guidelines on how to schedule the commitments, which is all in keeping with the GATS approach. The negotiations are to cover all sectors but they begin with the priority sectors, which were selected on the basis of the following criteria:

- Infrastructure services, i.e. services that promote infrastructure building or consolidation of the region;
- High growth services sectors – tourism is the obvious one – for job creation, employment and incomes at household levels;
- Credible levels of liberalisation – we do not want a COMESA programme that opens up only one or two sectors because to be credible we need a fairly sizable amount of liberalisation or opening up among COMESA countries;
- GATS compatibility – because most of our member states are also members of the WTO we needed to take into account the fact that at the regional level countries need to open up considerably more than they have opened up at the WTO in terms of commitments.

Tripartite arrangement

Under the tripartite arrangement three regional organisations – COMESA, the East African Community (EAC) and the Southern Africa Development Community (SADC) – are beginning to work more and more closely in various areas, especially infrastructure and trade.

In the area of infrastructure the emphasis is on building roads, telecommunications and collaboration on air transport. In the area of trade we are beginning to work on

the framework for a free trade area that covers the 26 countries in the three organisations. Between them they cover about half of Africa's land mass and account for three-quarters of the population. In each of the three organisations there is a programme on services. The EAC launched its Common Market in July 2010, having signed the protocol in November 2009. SADC has up scaled its services programme, and to this end currently has recruited two dedicated experts, who are working closely with COMESA and EAC to take the SADC services programme forward. The three regional organisations are committed to moving in the same direction by building on the ongoing services programmes, and will consider formalising this further within the tripartite framework. In COMESA we will be building on our programmes for liberalisation in transport, air travel, energy generation and trade, communications, and visa restrictions.

The other thing that the guidelines stipulate is that commitments made by COMESA member states at the WTO and those that they will make under the EPA with the EU, should be extended to all other COMESA countries, irrespective of whether they are WTO members.

Submissions

Eleven member states have submitted confirmed priority sectors, and different countries suggested or indicated different sectors. Comoros submitted the lowest number of sectors – communications and tourism – but expects to come back with more after national consultations. The Democratic Republic of Congo and Djibouti submitted the highest number of sectors, ten each, which was very impressive. The sectors they had in common were business services, communications, construction, distribution, financial services, tourism and transport. Congo also submitted health and recreation, and Djibouti added environment and energy. The following countries submitted seven sectors: Kenya, Uganda and Mauritius. Mauritius said that if the other countries opened up more it would follow suit; a decision is pending. These sectors were: business services, communications, education, financial services, tourism, transport and energy. Mauritius additionally submitted construction services, but not education, while the other two wanted education as well. Swaziland, Zambia and Zimbabwe submitted six sectors: communication, construction, financial services, tourism, transport and energy. Then we get to four sectors from Seychelles and then of course the two from Comoros. The numbers are an indication of the levels of ambition among the COMESA countries.

Overall, eleven countries submitted in the communications and tourism sectors, ten countries in the financial services sector, nine countries in the transportation sector, seven countries in energy and construction, six countries in business, four countries in education, two countries in distribution and then just one country in environment, health and recreation. So, that is the picture of where we are at COMESA.

Regional Services Coalition

The next priority is to establish the COMESA Services Coalition, mentioned above, in keeping with a directive from trade ministers. A draft charter is to be presented at the next meeting. The proposal is that the members of the Services Coalition should be regional associations; for instance, in accounting we have some regional associations and an inventory of them that shows there are not too many. Secondly, national forums for services associations have been proposed. This is something we are encouraging countries to do because we have established that there are cases where sub-sectors may have 10 or 15 or 20 services associations. So far we have only one country with such a forum but the idea is for each country to have one to be represented as a member of the COMESA Services Coalition. The headquarters for this coalition would be at the COMESA Secretariat initially to facilitate the start up phase.

Note

1. The 19 member states are: Burundi, Comoros, Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia and Zimbabwe.

5
The Caribbean Experience

Allyson Francis

Introduction

The CARIFORUM[1] concluded an economic partnership agreement (EPA) with the European Union in 2007. This chapter outlines the CARIFORUM objectives in the negotiations and the approach to liberalisation. The focus is on the services sector, which accounts for over 50 per cent of GDP in the Caribbean. The services sector is a major source of employment creation in the region and reinforces economic efficiency. Infrastructure services (transportation, telecommunications, finance and insurance) also contribute to the competitiveness of goods and services export. The region is seeking to develop a common policy or strategy to advance the sector.

Objectives in negotiations

A main objective going into the negotiations was to increase market access for Caribbean service suppliers at all jurisdictional levels in the EU and in all sectors and modes of supply of interest to them. Another important objective was to obtain greater access in Mode 4 (movement of natural persons) for the region's professionals.

CARIFORUM also sought to introduce specific rules to eliminate requirements for local presence and to remove all the nationality requirements (visa, licences, permits or economic needs tests) impeding market access for individual suppliers, intra-corporate transferees, business visitors, professionals and support personnel from Caribbean countries to the EC as a whole, as well as to individual EC countries. The aim was to expand the list of contractors, service suppliers and independent professionals, in keeping with CARIFORUM demands in WTO for Mode 4.

A third objective was to ensure that all legally registered juridical persons in Caribbean states that are party to an EPA should have access to the EC market on the same basis as national firms or individual nationals from Caribbean states. CARIFORUM sought to eliminate discriminatory citizenship requirements with regards to capital, land purchase and equity caps, and to remove all restrictions on legal forms for setting up businesses that can restrict actual market penetration. The issue here is that negotiations can be concluded and a schedule completed, but so many other requirements have to be met, there is no actual market penetration and service providers cannot benefit.

CARIFORUM also sought to harmonise the regulatory policies and technical standards between Caribbean and EC countries so as to facilitate the sustainability of trade in services without creating burdensome or discriminatory barriers. In addressing the special requirements of small Caribbean service suppliers to take advantage of market access opportunities in the EC, the negotiators emphasised the difference in levels of development between Europe and the Caribbean, and in the Caribbean itself. Within CARICOM, the Organisation of Eastern Caribbean States (OECS) brings together the smaller, lesser-developed countries of the region.

Liberalisation

CARIFORUM adopted the following approach towards scheduling of services:

- We identified the sectors where we have investment, are seeking investment or need development support and scheduled them under Mode 3.
- Next, we identified sectors where we have an offensive interest and we focused on these in terms of our requests and the demands we placed on the EU.
- Then, we identified sectors that are sensitive and would be excluded from the liberalisation commitments.
- Finally, there were sectors assessed to have low export interests, which we used to get some flexibility in the negotiations.

For trade in services, the conclusion of regional trade agreements is governed by GATS Article V: Economic Integration, which requires that any such agreement must have *substantial sectoral coverage... in terms of number of sectors, volume of trade affected and modes of supply.*

However, there is no agreement among countries as to the definition of 'substantial sectoral coverage'. Within the EPA, we agreed to 65 per cent sectoral coverage for the LDCs of CARICOM, and at least 75 per cent for the MDCs. For many member states, their GATS offer would only be approximately 25 per cent sectoral coverage, so to move to 65 or 75 per cent means they have to schedule several services activities. This approach ensured that all member states were not put at a much greater disadvantage going forward in the process.

Additional commitments

We won some additional, or 'GATS plus', commitments under Mode 4. We expanded the definition for 'business visitors' within the GATS. In the EPA they are called 'business service sellers', that is, representatives of a service supplier seeking temporary entry to negotiate the sale of services or entering into agreements to sell services. This applies to all sectors liberalised under Modes 1, 2 and 3, and was an advantage for us.

We also made gains in expanding the list of contractual service suppliers, specifically in relation to terms of conditions. A 'contractual services supplier' is defined as a national employed by a legal entity, with no commercial presence in the other territory, requiring temporary presence to fulfill a bona fide contract. The plus for us is that fashion models, chefs and entertainers have been exempted from the condition requiring contractual service suppliers to have a university degree or equivalent professional qualification. This was a plus for us, because some of our member states (particularly Jamaica) have a number of people in these industries. We are now better able, because of these conditions, to access the market. Moreover, the agreement ensures a level of certainty to the traders themselves in that they have already been providing a service within Europe but now they have a guarantee of entry.

The agreement includes a cultural protocol, looking at some development issues as well as scheduling for culture and entertainment services under the contractual service suppliers. This was a big success for us given that culture has been extremely sensitive for the European communities (for France in particular) and that we stood our ground that there could be no agreement without the protocol, towards the end of the negotiations.

One condition that remains in place is the need to meet the criteria of economic needs tests (ENTs), which has the potential to block any liberalisation opportunity. In general, though, the EC made commitments in 29 sectors for contractual service suppliers so for us, that was a benefit.

Independent professionals

Independent professionals are once again subject to ENTs, but on the plus side they have been granted market access in 11 sectors.[2] Another plus for us in the negotiations was the provisions allowing for short-term visitors to go into Europe for business purposes, specifically research and design market research, training seminars, trade fairs, sales, and purchasing.

In terms of our professional services, we got mutual recognition in the provisions: the ability to facilitate the negotiations for the development of mutual recognition agreements. This is important as the negotiations are between associations and not states. In the agreement it is mentioned that professional bodies will be encouraged to jointly develop and provide recommendations for the mutual recognition of criteria applied with respect to authorisation, licensing, operation and certification. It was stated that the negotiations should start no later than three years after entry into force of the Agreement, the priority sectors being accounting, architecture, engineering and tourism. We pushed for these provisions based on our experience with NAFTA, which took ten years to negotiate an MRA that was only for engineers.

Development co-operation

Of equal significance to us was the development co-operation aspect of the agreement, which aims to provide support to CARICOM member states through technical assistance, training and capacity building. Here, within the agreement, the parties have agreed to improve our ability to gather information, to improve our export capacity and, importantly, to address the issue of quality and standards, especially in the area of sustainable tourism.

Regarding the implementation of the appropriate regulatory regimes, while we made several commitments and moved to the 65 per cent and 75 per cent sectoral coverage, we do not yet have in place the necessary regulation or policy for many of the sectors.

Therefore, we thought it was important to have provisions indicating our intention but also noting we need assistance to achieve full implementation. Development assistance should seek to develop adequate regulatory mechanisms, address supply-side constraints and foster the integration of CARIFORUM states into the world economy.

EC commitments

The EC has scheduled its reservations in four different sectors: cross-border supply of services; commitments on establishment (commercial presence); reservations on contractual service suppliers, i.e. independent professionals (IP), and reservations on key personnel and graduate trainees; and horizontal limitations on acquisition of land and real estate by foreign investors.

This is a different from the way we scheduled in the GATS, so we have now to adjust to it. Part of the training that we have to do for our service providers now must be on how services are scheduled in Europe, so they can look at the schedule and understand what is there or not there for them. Some of the provisions we wanted removed still remain, like the right to regulate for judicial persons and limitations on the acquisition of land. Although a lot of requirements like obtaining licences, certification and registration have been removed, as indicated above, economic needs tests still apply to gain entry on a temporary movement. The question when one looks at the schedule is to determine where there is actual market penetration, what is the status quo?

Some benefits have been obtained with respect to key personnel and graduate trainees as some limitations have been removed. Only four member states require residency for key personnel and graduate trainees, while 23 others do not have these requirements to meet. So it has been reduced in terms of what the EU offered within the GATS. There is a special situation when it comes to our engineers, or in particular, our architects: many of them are trained within the UK (because of our traditional

linkage with the UK), and they can practise in the UK but they cannot generally practise throughout the other 26 member states. It is an issue that we have to deal with and are trying to address in our implementation.

CARIFORUM commitments

Our commitments generally follow the GATS structure, and they take into account the regional integration process and sensitivities of individual states. We have sought to limit our commitments since we face a number of economic needs tests for the movement of Mode 4 persons, and we did make some provisions for contractual service suppliers and independent professionals for our IT services, because we saw the importance of IT for development. In terms of our horizontal commitments, like the EU, we decided that we could not get the change for limitations on acquisition of land for people who want to go and set up as service providers. We have kept those provisions likewise. So we stated in our provision that the treatment be reserved in terms of subsidies – we have that excluded. For Mode 3, we also have limitations on acquisition of land and so forth. In summary, we have made a majority of commitments – in terms of Modes 1 and 2 – with no limitations, which reflects the importance of IT services and of these modes for trade. We do not have the capital base, so what we can do via the internet we would like to do.

In those sectors where economic needs tests are applied for Mode 4, the main criterion will be availability of persons with the requisite skills in the local labour market. On other modes of supply, the main criterion will be the assessment of the relevant market situation where the service is to be provided, with respect to the number of, and the impact on, existing services suppliers. Regarding Mode 4, we limited our commitments and most if not all of them are subject to economic needs tests. This is because we believe that we have sufficient professionals, so that, when we are competitive in an area, we do not wish to have more people coming in and competing against our professionals in Mode 4. We have a problem in the region; because we are tourist-orientated it is possible for foreign professionals to come in on a tourist visa, stay for two weeks, provide a service and leave – and we do not know about it. We need to develop a mechanism for determining the ENTs and how to place a level of control on such activities. CARIFORUM horizontal commitments were as follows: treatment may be reserved with respect to subsidies or grants; Mode 3 – requirements for incorporation, registration and limitation on the acquisition of land; and Mode 4 – unbound except for key personnel and graduate trainees not available locally.

Challenges and opportunities

The main challenges relate to our regulatory commitments. We have made several commitments but we do not have the required regulatory framework in place and

services providers, with only a few associations in the region, are not very organised. We lack venture capital to finance the sector's needs. Incentives are required; in the Caribbean we mainly have incentives for tourism services, but not for the other services sectors. We must now re-orient our vision in terms of how we develop the sector. We need to upgrade standards to meet the European requirements.

Education is another major challenge, for persons in the audio visual field and in other areas, to meet EU regulations. We lack the funds to increase training, invest in upgrading our educational facilities, and broaden access to and use of technology, which is still quite costly in the region. Most of the CARICOM member states have liberalised telecommunications services, but there are just two telecommunications companies serving most of the region. The cost of telecommunications impacts on the development of the services sector particularly at a time when the region is embarking on a development strategy for the IT sector.

Another challenge is the lack of policies for many of the sectors, which makes it difficult to draft laws and develop the required regulations.

But there are also definite opportunities. We have a real niche market, a unique value added in the region – our culture. The joint ventures we have scheduled can also assist in terms of facilitating cultural exports and fostering investment in the sector. Here, we have opportunities through development to enhance our competitiveness or product quality, but we need to make our product known. This is where our coalitions of services organisations and other support organisations have an important role to play. For instance, the Barbados Coalition of Services Organisations (see Chapter 11A) has been involved in promoting the services sector of Barbados. There are several issues to be considered, both on demand and supply.

Supply and demand

On the demand side, being small and having limited capacity we cannot target all 27 countries of the EU. Services exporters from the Caribbean will need to research their target markets in terms of the regulatory regimes, the standards requirements and the potential partners. In brief, market intelligence will have to be gathered and a strategy put in place to ensure effective market penetration.

On the supply side, we need to develop our level of competitiveness, our product quality and our human resources. It is critical to address our technological capabilities, and here technical assistance for professional development is important, financial support for the firms to enhance their competitiveness is crucial, and assistance is required to conduct market research and improve export capacity. We need to assess the ability of firms to do market research and analysis. The region's main language is English and some of the services suppliers have expressed concern that language

barriers may prevent them from making significant gains in the EU market. This is another area where we require some assistance.

Lessons learned

What can the regions that are now negotiating EPAs, or planning to, learn from the CARIFORUM experience? First, there is the urgent demand for development assistance to be more concrete and that depends very much on our ability to forcefully present our case with respect to our development needs. We have received some assistance so far, but not enough to cover the full cost of implementing the EPA (about €176 million). The disbursement schedule must be clearly spelt out during the negotiations.

Second, bear in mind you have the flexibility of scheduling for future liberalisation. Don't be rushed to schedule Modes 1, 2, 3 and 4 or to meet your 65 per cent (or whatever percentage you agree). If you are being pressured to put more sectors on the table, put them there, by all means, but remember you can liberalise over 10 or 15 years.

Third, understand your limitations and take them into consideration in addressing the issues. What are your regulations? What is it you really need? When you know where you are, then you know how to proceed. It is about understanding your development objectives and translating them into development text to take forward into your negotiations.

Conclusion

CARIFORUM/EU co-operation has been a catalyst for how we go forward with this region's integration and what we are doing with a single market and economy, as well as for integration between CARICOM and the Dominican Republic. But we have a serious challenge in terms of implementation: getting the organisations and getting the associations together, and then actually meeting to develop the proposals to put forward for the mutual recognition agreement. We have to work on promoting integration and to strengthen our relationships taking into consideration levels of development and international obligations.

Notes

1. The 15 Caribbean countries that make up the Caribbean Forum of ACP States (CARIFORUM) are: Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, the Dominican Republic, Grenada, Guyana, Haiti, Jamaica, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, Suriname, and Trinidad and Tobago.

2. These are: Legal advisory services in respect of international public law and foreign law (i.e. non-EU law); Architectural services; Urban planning and landscape architecture services; Engineering services; Integrated engineering services; Computer and related services; Research and development services; Market research and opinion polling; Management consulting services; Services related to management consulting; Translation and interpretation services.

6
The South Asian Experience

Manju Haththotuwa

Introduction

This chapter is based on a report entitled 'Regional Collaboration on IT Enabled Services – Smart Strategies for Jobs and Growth in South Asia', by the South Asia Regional Programs Unit and the South Asia Poverty Reduction, Economic Policy, Finance and Private Sector Development Unit of the World Bank. The example of South Asia holds lessons that are very relevant to anyone, in any region in the world, with an interest in services trade. Many of the points made below cut across regions, as there is a huge amount of commonality. The basic premise is that collaborative initiatives could drive the growth of the industry through a two pronged approach: to increase business through joint promotional activities, sub-contracting of work, building common standards and world class business practices; and to develop supply side resources such as skills, support infrastructure and enabling policies.

Catalyst for change and regional collaboration

The twin objectives that need to be addressed in South Asia are whether regional collaboration can drive growth in IT enabled services on the one hand, and, on the other, can the ITES sector be the catalyst for regional collaboration. The countries of the region[1] have tried to collaborate in more traditional sectors like energy, roads, waterways, and have met various road blocks; in particular, the geopolitics of India and Pakistan have not helped the cause. Also, the nine countries that form this regional market are very different from each other in size, ranging from India with a population of 1.1 billion to Pakistan and Bangladesh (150–160 million) to Nepal and Sri Lanka (20–30 million) to the very small countries like the Maldives at 300,000. That also presents its own difficulties in coming together as one market.

In addition, there are the benefits of the regional market. In particular, it is very attractive for the smaller countries with a narrow market base: since they may not be mature enough to go to the international export market in one step, they can use the regional market as a platform to experiment, cut their teeth and then move on to the export market.

The message here is that a country can grow faster, leapfrog and accelerate the development of the IT enabled services industry by going regional instead of developing in country silos. South Asia has the unenviable statistic of being the least integrated region. There have been no concerted efforts to collaborate and develop the region as a single market for offshoring and outsourcing. Thus, from an outsourcing and offshoring perspective, the region is still seen as a collection of individual countries rather than as a common unit. Collective collaboration toward some forms of standardisation – in terms of service delivery, quality levels, or the capability levels of talent from the different countries – would benefit the entire region. This can be achieved through formal information exchange, and economic growth and geographical proximity can be the key drivers for the process. With collaboration, the countries would then be able to leverage common strengths such as a large talent pool in the employable age group, knowledge of English, expertise in the finance domain, and overlaps in the identified potential opportunity areas. The potential revenues for the local industries and employment generation for the countries would be much larger if they work together.

South Asia in particular can leverage India's success story and become the region of choice for offshoring and near-shoring from India. Even though India's trajectory has been meteoric and often quoted in the literature, each country will have its unique trajectory. One size does not fit all and, indeed, India was a success story for the industry at that point in time. The industry has moved on and so India's route may not necessarily be the way any country should go now, although there are some lessons one can draw from it.

Areas of collaboration

Working in country silos duplicates effort, wastes scarce resources and neglects the rich experience available in the region. Taking the company registry as an example, instead of each country going through the lead times, the costs, the consultancy, the systems cost of doing this in country silos, there is an opportunity where one provider, one system with specifics for each country can cut out a lot of the duplication of costs. It is all about the duplication of effort, lead times, and time to market being cut out by looking at things regionally. Developing curricular nationally is another example; internationally accredited curricular can be something one country shares with many others so that the benefit of mutual recognition comes naturally as each country has a system that is well recognised outside. Or, in the case of the NASSCOM accredited certification called 'NAC Assessment', everyone in America knows that if workers in another country have NAC Assessment they work to an internationally recognised minimum standard. Therefore, instead of developing your own curriculum, why not use the NAC Assessment? That is an example of collaboration amongst the countries of a region to come up with one system.

There are different potential areas in which collaboration can take place for the development of the ITES industry. While business-to-business relationships have already been explored in the telecommunications infrastructure space, and some degree of sub-contracting of work from Indian ITES companies does occur, there are no formal mechanisms to identify potential collaboration areas and facilitate knowledge sharing. Nonetheless, corporations use informal channels to explore collaborative possibilities of doing complementary work.

Figure 6.1 shows some of the areas where collaboration is already happening for good commercial reasons, including business continuity and disaster recovery. A number of the larger players have a disaster recovery centre site in another country for obvious reasons, so already that degree of collaboration is happening and even in South Asia there are green shoots of bilateral collaboration. The next step is to make that much more multi-country by moving to design and to share solutions to common problems.

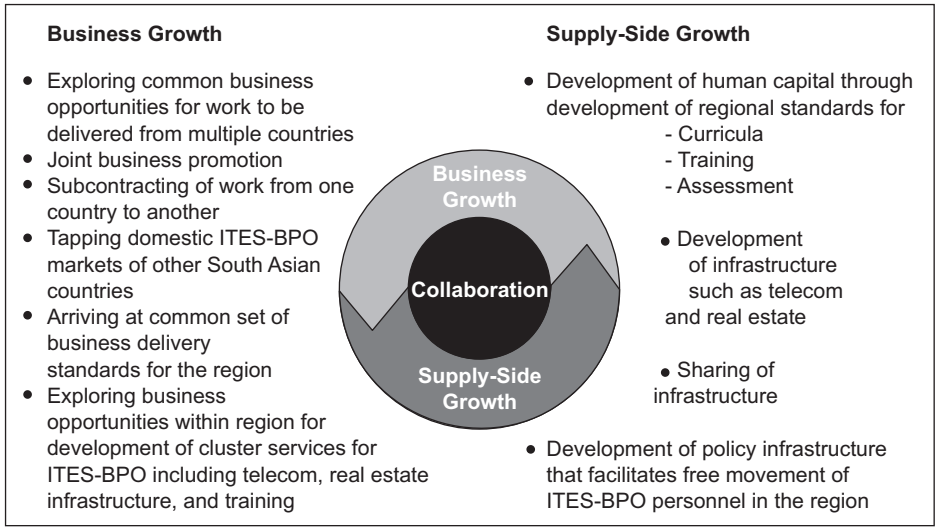


Figure 6.1. Benefits of collaboration

In terms of training, for instance, reduce the number of consultants making money selling the same thing, when one common training programme could be delivered in multiple places; or, why spend a lot of money developing a data centre or multiple data centres in each country when a number of countries can share a well-run tier I data centre in one of the countries.

The process of collaboration requires integrated efforts from three main stakeholders: country governments, corporations and institutional bodies. Each stakeholder has a specific role to play in the various collaborative initiatives to be undertaken at the regional level. These initiatives have been broadly classified under the following areas:

- Talent development in areas such as education, training, assessment and accreditation;
- Investment promotion in terms of marketing the entire region as a single unit as well as attracting investment, joint ventures and sub-contracting of work;
- Infrastructure initiatives – building support infrastructure for the ITES–BPO industry in terms of telecom, real estate, air connectivity, and so forth; and
- Regional policy development initiatives in terms of macro-level initiatives that may be taken up by the government.

Figure 6.2 looks at various initiatives under each of these core themes across the major stakeholder groupings, the actors who need to play their various roles, and relates to the South Asian context.

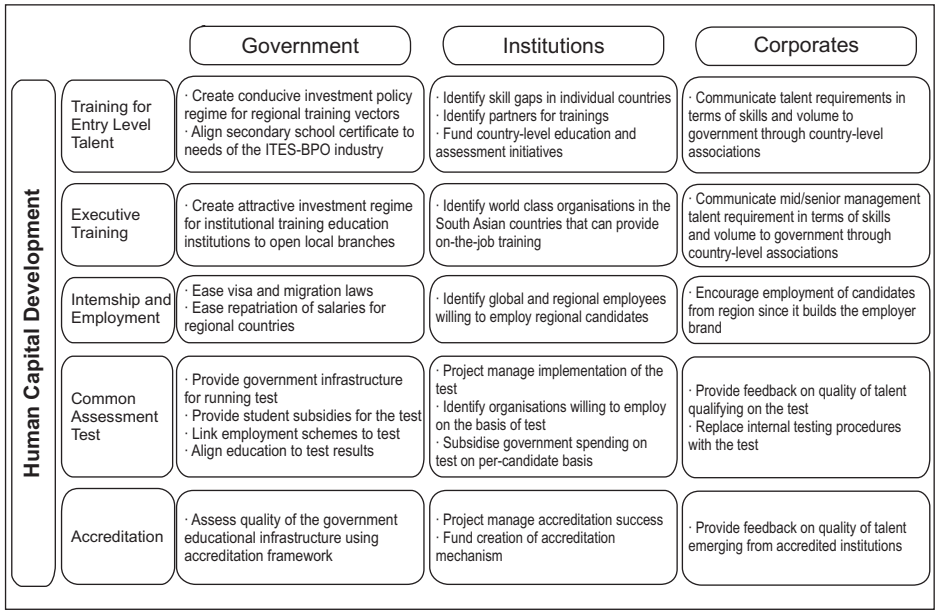


Figure 6.2. Role of stakeholders in human capital development

In the industry, a complex task may be distributed to partners with work practices that are established in a certain way. But if both sides understood each other's business a common standard could be established as to how staff members are trained. In this way common business delivery standards develop that can be shared across borders and divide tasks. Let us take a concrete example of attracting sub-contracting work to illustrate the point. In this kind of collaboration, the companies in the host country execute work that has been outsourced to them from another country. This work could be part of a larger project that the outsourcing company is executing or could

be a single process that the foreign company has outsourced to the local company. Possibilities of this form of collaboration include the following:

Downstream work: One of the key concerns for the organisations in the countries studied is market and opportunity identification. In many cases, potential clients already have standing contracts with an Indian firm; hence, smaller firms from the other countries lack an entry point.

All efforts should be made to develop a specific marketing plan for each country individually. But the companies should explore partnerships with larger Indian players to execute downstream work. This would reduce business development costs for smaller companies and allow them to display the range of work they do. It also would give the smaller firms an opportunity to deliver to world-class standards and expose them to best practices of quality and service delivery. This knowledge transfer would help the firms improve their output.

Multi-location delivery: A single firm that obtains a contract to execute the multiple processes of a client sub-contracts these processes to firms in different countries and locations, taking advantage of the specific competencies that the locations may offer in terms of talent, cost of delivery, and so forth. This matches the global trend of organisations offshoring different functional processes to different locations. For example, a client may run financial processes out of Sri Lanka, a data centre out of Bhutan, a call centre out of Nepal, and have the overall project management controlled by an organisation in India. This reduces the need for the client to scout for individual companies to outsource to. It also mitigates risk because it is unlikely that all locations would be affected at the same time. It also allows the countries to specialise in certain areas, which are especially important for the smaller countries.

Outsourcing particular processes: Countries should leverage particular skill areas and strengths to attract work from other countries in the region. This collaboration – a company from one country outsourcing work to a company from another country – allows the host to deliver better work and at reduced risk.

Regional initiatives

What sort of regional initiative is coming out of this? In South Asia, we are considering a two-component investment project to encourage regional collaboration and institutional capacity building. The SAR ITES Venture Fund will make available matching grants to encourage regional collaboration and lower perceived risks associated with it. This includes regional joint ventures/partnerships, intra-regional infrastructure, standard skills assessment, common accreditation process, joint promotional activity, Diaspora and venture capital mobilisation, common support services and industry clusters.

There is also an institutional capacity-building component. For example, if a country does not have an e-transactions act, instead of paying another expensive consultant to develop one the country in question can take one model code, add its jurisdiction specifics and get it done. It has been proposed that a small regional secretariat be affiliated to an existing body such as SAARC Chamber to champion the regional cause.

The core objective is to develop knowledge partnerships across South Asian ITES Industry Associations, local public and private sector institutions involved in industry development and promotion. This will facilitate:

- Transfer of regional good practices on enabling policies and business environment reforms leading to successful enterprises offering well paid employment in South Asia; and
- Increased cross-border collaboration in the ITES sector and related sectors in its value chain leading to centres of excellence for common infrastructure and services for the region.

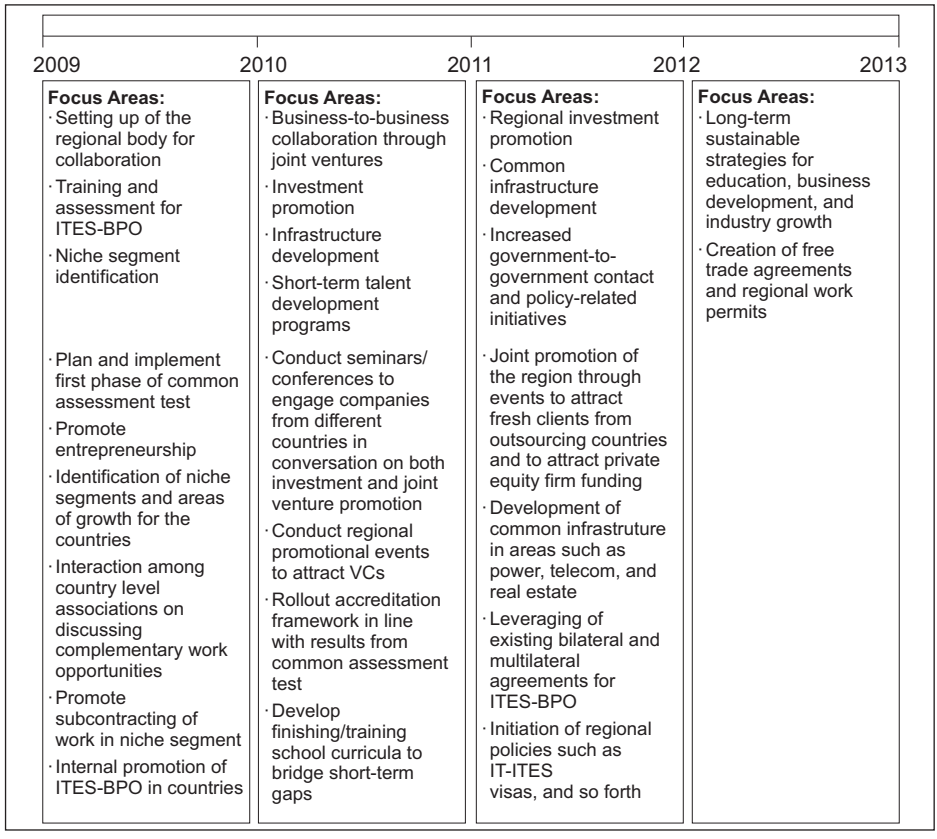


Figure 6.3. Roadmap for ITES–BPO development in South Asia
Source: M. Haththotuwa, powerpoint presentation at the Second Pan Commonwealth Conference on Professional Services, Mauritius, April 2010

From a regional development perspective, Figure 6.3 shows a four-year plan for the implementation of the various proposed initiatives. It demonstrates the logic behind developing a roadmap for regional collaboration. Accepting that countries are mindful they are competing and therefore cautious about doing anything radical, we have put the more difficult areas of collaboration like joint promotion – in which countries are selling each other's skills as much as their own – at years three and four of the project. The difficult areas require a degree of maturity, trust and understanding; if you put them at the front end they may not happen. So we have been pragmatic in the way we have organised this and put the easier collaborative activities at the front end. The approach followed in the above roadmap is primarily driven by business growth, which in turn is expected to drive closer relations between governments. However, for customers to view South Asia as a single entity, a certain level of standardisation must be achieved in terms of the quality of service delivered, talent capability and overall client experience. The phasing out of the initiatives reflects this thought.

Conclusions

While it is agreed that regional collaboration could bring enormous benefits in terms of job creation and growth, there are a few factors that could derail the collaboration process:

- *Nationalism* – For collaboration to be successful, countries of the South Asia region need to stop seeing each other as competitors. Also, most view India's foreign policies as overbearing and somewhat unilateral. To foster collaboration, the countries should work together to project to the outside world the unity and strength of a single entity.
- *Law and order and political stability* – Most multinational corporations (MNCs) cite political instability or the perception of a lack of law and order as the only reasons for not setting up a centre in four of the countries under study: Bangladesh, Nepal, Pakistan and Sri Lanka. The MNCs believed that these countries had the talent and infrastructure development necessary, but that these did not outweigh the risks. On the other hand, there have been recent political changes in all four countries, and thus there is an opportunity to make lasting changes. However, the countries would still have to make sustained efforts to tackle negative impressions that deter investment.
- *Myopic vision* – The benefits of collaboration can be accrued only over time. Short-sightedness might lead the countries to believe that only higher-end KPO or IT sectors are worth pursuing as these processes earn organisations higher revenues per employee. The countries must conduct an analysis to understand the costs of such a narrow focus: the smaller customer base and training talent to meet the demands of these sectors. There is also an opportunity cost: the

chance to create a large number of jobs. On the other hand, short sightedness might drive the countries to concentrate only on reducing costs or competing based on lower costs. Cost can remain a unique selling proposition only for a limited time. The European Union saw a loss of jobs from its lower-cost locations to China, which offered even lower labour and resource costs. Thus, the countries must tread the middle path: identifying niche segments and then refining their offer so that cost no longer is the driver for outsourcing.

These aspects must be kept in mind not only at the country and governmental level, but also by the regional forum, which would be the anchor in most of the regional collaborative initiatives. In the longer run, it is hoped that economic benefit overcomes regional boundaries and that the South Asia region truly becomes the ITES–BPO hub for the entire world.

Note

1. Afghanistan, Bangladesh, Bhutan, India, Iran, Maldives, Nepal, Pakistan and Sri Lanka.

Section Three

The IT/ITES Revolution – Challenges and Opportunities

This section analyses the role of information technology (IT) and IT enabled services (ITES) in promoting growth. It looks at opportunities that are available for developing countries to find niches for themselves and explores the necessary conditions for leapfrogging to take place.

In Chapter 7, Nagy Hanna provides a broad sweep of the IT/ITES revolution; how it is changing development paradigms, transforming business processes and empowering communities. He believes that IT offers three options to developing countries: first as a high value-added industry, creating jobs; second as an enabler, an input to other sectors like finance, tourism; and third as a tool for empowerment, as a tool for organising grassroots participation and innovation. However, he does caution us 'to avoid technological determinism: productivity, growth and the ability to participate in this revolution depend very much on public policy choices, and it is not inevitable that IT will always be a win-win for all the participants.'

Are incentives an important element of policy to promote ITES in developing countries? Financial or tax incentives per se are useful but not the primary or most important tactics. In the case of India, for example, when this process started, tax incentives were not a major factor. The major factor was the availability of skilled human resources, and if there were any incentives to be targeted, it would be most useful if they were targeted at developing the human resource skills in the country for the enterprises that are outsourcing these services. Similarly, the ability to provide a competitive communications cost is bound to attract foreign investment. There are also intangibles that can act as a disincentive, and dealing with them – namely, ensuring that any bureaucratic barriers, legal constraints or regulatory constraints are reduced – will be much more of an incentive for outsourcing. Perhaps subsidising some of the early marketing, to open up the new markets for IT services, particularly abroad, will also be a legitimate way of creating incentives, but blunt, broad incentives are not always the most cost-effective.

Manju Haththotuwa, in Chapter 8, argues that from an economic perspective, the ITES–BPO industry is very attractive for a developing nation as it brings in valuable foreign exchange and generates a large number of employment opportunities, but yet requires relatively low investment on the part of the government. As the primary entry-level staff for the industry can comprise fresh graduates or talent with higher-

level secondary education, it requires low investment on the part of potential employees as well. The ITES–BPO industry is also an attractive employment option for women. While it is basically driven by exports, the industry can also benefit from opportunities arising from demand by governments for IT services. Haththotuwa also explains how to put a country programme in place for the development of IT/ITES and presents the case of Bhutan.

The key drivers for global sourcing are: cost savings; increasing speed to market; part of company growth strategy; access to talent; growth strategy; improved service levels; enhancing efficiencies; access to new markets. Developing countries do not have control over all the drivers but they may create an attractive environment by investing in the appropriate infrastructure and building on their strengths. Cost arbitrage is the key driver with access to talent. The chapter also gives a brief overview of the 'Hewitt's 5 Driver Model of location analysis', which is based on five drivers (talent, incumbents, environment, infrastructure, clusters), and 18–20 factors (e.g. talent availability, policies, connectivity, lifestyle amenities etc.) that are further subdivided into 30–40 parameters. This is an example of granularity.

The development of the sector depends on the enabling environment. Martine Julsaint Kidane tackles this core issue in Chapter 9 based mostly on research work done at UNCTAD and on the outcome of an expert meeting that UNCTAD has been holding since 2009. It is a multi-year expert meeting exploring the nature of regulatory and institutional frameworks required to develop services sectors. Their main area of focus has been infrastructure services, which includes everything from telecom, water, and transport to financial services. Their research has shown that there is no single good regulation, and so the states maintain an important role in being an enabling and development agent for the development of these services sectors. The Diaspora has also played a major role in location choices as demonstrated by India.

Cloud Computing

One new development in IT that is not covered here is 'cloud computing', which is expected to transform business and lifestyles within the next five years. In brief, cloud computing is an internet-based technology through which information is stored in servers and provided as an on-demand service to clients. Firms will not need to invest in hardware; they will be able to rent computing power (both hardware and software in the latest versions) and storage from a service provider and pay on demand. Thus, entry costs for small and medium enterprises (SMEs) using IT will be lower as they do not have huge capital outlays upfront.

Advocates point to a number of factors that may slow the speed of adoption of the new technology: a lack of understanding of the cloud by firms, systemic risk, security, privacy and inter-operability issues, reliability, jurisdictional complexity, data

governance, loss of IT control, and general status quo inertia. To obviate these, it is suggested that policy-makers should work towards promoting the following:

- International agreements in favour of unrestricted flow of data across borders (since data centres are located in different countries with different privacy laws, data portability remains a key issue for the diffusion of cloud computing);
- Agreements between EU authorities and industry leaders on a minimum set of technological standards and process standards to be respected in the provision of cloud computing services – these agreements would guarantee data security and privacy and promote a healthy diffusion of the new technology;
- Expansion of broadband capacity;
- Introduction of fiscal incentives for the adoption of cloud computing and a specific promotion in particularly dynamic sectors (for instance, governments could finance, up to a specified limit, the variable costs of computing for all the domestic and foreign firms that decide to adopt a cloud computing solution). It is considered that the benefits of cloud computing are many, and countries now have the opportunity to jump-start their economies by making policies that will enhance its adoption.[1]

Incentives

While incentives may play a role in location decisions, there may be other factors specific to a given country. Box S3.1 reproduces such a 'menu', which gives an idea of the relative strengths of competing destinations.

Box S3.1. An enhanced menu of location choices

North America

- The midwestern United States can provide high-quality services, reflecting shared language and culture
- Offers access to large market, proximity to customer base, and presence in United States

China, India

- Large multiskiled talent pool
- High concentration of research universities
- Potential for scale centres
- IT services are special focus area for Chinese government

South America

- Argentina and Brazil have risk profile and infrastructure specilities; European languages
- Potential for same-time-zone support for local subsidiaries

Southeast Asia

- Philippines features strong English-speaking talent pool potential for voice services
- Malaysian government active cultivating strong research
- Vietnam and Indonesia continue to be attractive low-cost locations

Eastern Europe

- Strong specialist and multi-lingual talent base, excellent infrastructure
- Multitiered markets within close proximity to one another, offering high-, medium-, and low-level skill sets

North Africa

- Low-cost countries, such as Morocco and Egypt, feature government support, improved technical skills
- Other potential source for balancing other, more saturated, scale locations

Note

1. Readers wishing to know more are advised to look at the Global Information Technology Report 2009–10 published by the World Economic Forum, especially Chapter 1.9, 'The Economic Consequences of the Diffusion of Cloud Computing' by Federico Etro, University of Milano-Bicocca and Intertic.

7

IT Enabled Development, Innovation and Business Transformation

Nagy Hanna

Introduction

This chapter touches on four broad areas. First, it looks at what information technology and communications might mean for development, the options it opens to developing countries, and the extent to which employers understand the importance of IT enabled services as a strategic competency to participate in this new economy. It then touches on some of the opportunities and challenges that IT services can offer to users, especially small and medium enterprises (SMEs), as an enabler of enterprise transformation and transformation of the business environment. Third, it addresses the ecosystem for IT services, and what these services, as a sector, mean for developing countries. It concludes with some of the guiding principles, or lessons, about programmes both to promote IT as a sector and IT services as a core competency or enabler of business transformation and grassroots innovation.

Context

We are living in a technological revolution that has not yet stabilised or come to an end. It continues to evolve very fast, some of the latest examples being the emergence of broadband and high-speed networks, mobile and wireless networks, and cloud computing. All of these suggest that this revolution has not run out of steam – if anything, it seems to gather speed every day – and has major implications for productivity, both in the public and private sector.

In the early stages (late 1980s into early 1990s) there were all kinds of debates about the impact of information technology on productivity, in business enterprises as well as in government. Today that debate has more or less subsided. There is a growing consensus, certainly in the US and to some extent in Europe as well as in certain developing countries or OECD countries such as Korea, that information technology has already had a major impact on productivity. Indeed, it has become an essential competitive tool for advanced economies. Less is known about its impact on developing countries and this is still evolving, but we know that, as in all technological

revolutions, it takes time for productivity to reveal itself at the macro level. In a sense, we are living in a techno-economic paradigm that is very similar to the major impact that electricity, railways and steam engines had in the industrial revolution, and it took much longer in these earlier revolutions for technology to be broadly diffused. In some areas of information technology, such as wireless networks and telecommunications, and particularly mobiles, diffusion is happening much faster. Information technology has become the global general-purpose technology of our time, and that means a lot of adjustments have to be made to policies, institutions and skills to take advantage of this new techno-economic paradigm. These adjustments are not always easy to make.

Possibilities

We need to appreciate these broader forces around IT services and ITES and the transformation that is going on so that we can take advantage of it more broadly for development, not only for the export of ITES, but also to transform the economies of developing countries. In a sense, what IT offers is the ability to access knowledge from across the world and to work with talented people and different skills across continents and countries. With globalisation, information technology provides an option to change the development process so that people can access and share knowledge much more quickly; they are able to access global talent and expertise and are able to exploit global demands in new areas such as ITES. It also allows people in general to collaborate globally for new niches and new opportunities for exports, and to promote grassroots participation in development by empowering communities, SMEs and non-governmental organisations (NGOs) with knowledge and information. They can then make their voices heard to ensure social accountability and transparency, and participate more broadly in various development activities. In a sense, the IT revolution provides us with a new paradigm for development that is based to a greater extent on networks, innovation, and access to knowledge and learning. That is good news.

What are some implications for business?

Most organisations have been built on hierarchical models, based on fairly high-cost transactions and interactions, both within and across organisations. IT offers a dramatic cut in these costs so that new forms of organisations that are much more networked and decentralised can begin to emerge. They can be based to a greater extent on shared knowledge and shared information, which also allows businesses to outsource a large number of these activities across the globe. This is more significant for the large multinationals that have hundreds of thousands of suppliers and contractors, but it also has major implications for SMEs that are able to internationalise quickly, connect and offer niche services and knowledge to large players and global supply chains.

This will have major implications for how organisations do business, how they relate to each other and how they are able to access competencies as well as develop their own core competency to orchestrate networks and share information. As a result, we also have new types of business strategies that are highly focused, allowing networks of providers to differentiate services across clients, which some people call 'extreme personalisation' of services. Providers are able to co-create services with users or clients, and to shape content and co-innovate in collaboration with these customers. These strategies also tend to depend extensively on partnerships and outsourcing and on the ability to adapt rapidly to changing technologies and changing markets. The new organisations of the twenty-first century that are enabled by IT are able to mobilise talent, mobilise the intangible assets they have, to sense information about clients and markets, and have situational awareness and what is called business intelligence. These are intelligent enterprises that are very different to the enterprises of the nineteenth and twentieth centuries. It is important for the IT industry and IT services to understand this macro picture and to understand what kind of clients they are going to be serving.

The implications for a variety of services can be seen in the financial sector with the financial services revolution, with all of its advantages as well as its risks. Another area where IT has led to a major revolution is the media industry, where the internet in particular has had a major impact on the mass media and publishing, and on the increasing ability of users to participate in knowledge- and information-sharing through social networks, blogs and so on.

IT has also enabled global supply chains in many ways. Perhaps the most important change is that many of these supply chains have become agile and temporary and more demand-driven – more driven by the user industries or shifting demand in the market – and are able to swiftly adjust based on demand from the markets. In China, for example, many of the large companies being formed in the garment industry become major multi-billion dollar enterprises without producing anything themselves but by orchestrating the demand for garments; they are able to sense what is required and respond very quickly by importing from thousands and thousands of suppliers. The core competency in this case is the ability to orchestrate networks and mobilise response from a large number of suppliers and expertise from across a global supply chain that is in many ways dynamic and temporary.

These changes have many implications, not all of which are positive: there are also a lot of risks, including the growing divides between those who are able to master the technologies and be part of these global networks and those who are not. Unfortunately for many countries it may also mean that the promises will not be realised, in the sense that investing in the technology per se does not guarantee results. This cautionary note suggests that we should avoid technological determinism; productivity, growth and the ability to participate in this revolution depend very much on public policy choices, and it is not inevitable that IT will always be a win-win for all the participants.

Options for developing countries

The IT revolution offers three broad strategic options for developing countries. One is to see IT primarily as an industry or service sector that generates new sources of growth and high value-added services and will provide attractive employment for those employed in that industry; it is a fast-growing industry, and both the magnitude of that, and the opportunity of participation by developing countries is well known. This is the option that most countries emphasise. Another is the opportunity to deploy IT as a general-purpose technology or an enabler for many services and sectors, to help promote new business models, to innovate and to transform sectors and industries. In this, IT services, and particularly software services, can be seen as a core competency because it is often now integral to competing and exporting not just in finance but also in tourism, in manufacturing, in almost all sectors of any economy for that matter. The other option is to leverage IT more as a tool for empowerment – for engaging citizens, who can feed back to government about their public services, to organising NGOs or communities to participate in development processes and make their voices heard on any or all of the issues of the day. IT is increasingly proving to be a powerful tool for organising grassroots participation and innovation.

These are three broad options. The first, which looks at IT as a sector of industry, has been the one most emphasised in many countries. However, we are increasingly recognising that IT is also a key enabler for other sectors and for the possibility of transforming many services and improving productivity. More recently it is being seen as a tool for empowerment.

How IT is transforming enterprises

New tools

At this stage the IT transformation of enterprises is happening more in developed countries. However, IT is also increasingly having an impact in emerging markets and middle-income countries, and would hopefully happen in SMEs in developing countries, provided they are enabled through e-business solutions and well-designed diffusion programmes. E-business, or IT in business, is offering us an expanding set of tools for redesigning how business is done and for forming new business models. That goes for all kinds of applications in business, whether it is for financial management, customer relations management or supply chain management, or for simpler applications that enable managers and employees to conduct their business. It is also giving opportunities to enterprises to practice new forms of innovation. Innovation and research and development in particular are primarily done within the enterprise. Increasingly, business innovation is being extended to depend on what is called ‘open innovation’, which invites participants, customers and other partners to work with the enterprise in developing new services and new products. Some of the

large enterprises that used to be 100 per cent dependent on internal research and development and the elaboration of new products within their enterprises, such as Procter and Gamble, now have 50 per cent of their products and services innovated externally, through collaboration and a variety of means to engage customers and partners. Hence, many enterprises are involved in developing innovation networks or marketplaces – for example, competitions among researchers to solve specific problems, and often individuals or small enterprises in developing countries are participants in this innovation marketplace, or through outsourcing or offshoring of innovation to many countries. Currently, a lot of that offshoring goes to China, India and countries in East Asia, but increasingly it is happening in other parts of the world.

SMEs

E-business can become an important tool for helping to develop or deliver business development services to SMEs, for example helping them access micro-finance, providing them with knowledge about markets and information, and enabling them to internationalise and add value to their services. This transformation of enterprises does not happen overnight, as there is a learning process that enterprises go through to be able to use IT, all the way from encouraging access to information and automating business processes, to gradually integrating applications across the whole enterprise, and then linking this enterprise to many other partners and customers. This leads to deeper transformation or perhaps even new business models.

To enable enterprises to go through this learning process and to be able to deepen the impact of IT on the way they do business, many countries have developed diffusion programmes to help SMEs overcome some of the common constraints. These range from building awareness of and familiarity with IT tools, to exploring ways of re-engineering their business processes, to managing the risks of investing in the technology. This kind of support allows SMEs to get the most out of their investment. These diffusion programmes have been in operation in a number of countries and some are even second and third generation. Many of these programmes started in OECD countries and are now increasingly being adapted and transferred to developing countries. There are many lessons to be learned from them,

Broader impacts

The impact of IT is not only felt within or between enterprises, but also in relation to their whole environment. IT can help transform the business environment or the relationship between business, government and civil society. For example, municipal portals, offering simplified access to public services, have made it much easier for businesses to access information about the regulatory environment – the procedures for establishing a business, registering, licensing, reporting to government and clients and so on. It is well known that SMEs suffer from the regulatory burden and from

a lack of access to information about how to start a business, register or licence. In many countries these costs can be quite high, which has led to high barriers to entry, a very large informal sector, and severe constraints on SME growth.

Procurement

IT can improve the business environment through a variety of other applications, for example through e-government procurement. Using e-procurement for the public sector helps make the bidding process more transparent and competitive, and reaches out to a larger number of enterprises. In general, through access to information and analysis of these procurement transactions, government procurement can be made much smarter and more analytic. This applies just as much to IT services and IT investment in government in general, and can make government a more effective user of IT services. Another application that can help transform the business environment is to facilitate trade, as in the success of the Singapore TradeNet in speeding up trade transactions and connecting members of the trading community in one data network. The model has been replicated by others including in Tunisia, or one in Ghana that was done primarily by private sector investment. These are just examples of what IT can do for the business environment.

The IT sector

Growth

IT, as a sector in itself, is a dynamic service that is growing quickly. It is estimated to be worth about US$3.4 trillion globally, including investment in both products and services. Of this, about US$1 trillion comes from developing countries. This is a growth sector that can become a core competency and enabler for enterprises within developing countries, aside from being a source for export itself. The good news is that the entry points into this global market for ITES are diverse. There is no one-size-fits-all and many countries have adopted very different tactics. For example, India used low-cost export of IT services as a driver for growth towards becoming a major player in the IT market globally. However, there are other countries that have taken very different directions. Some of them are very much dependent on a high level of research and development and innovation, such as Israel, or adaptation to certain markets, such as Ireland or more recently some of the new economies that are increasingly looking at this as a source for export and high-growth value, like Mexico and Brazil.

IT services should be included in the thinking and planning of IT-enabled digital content, or 'digitalisation', and the availability of IT digital media, because these can be a very important source of both cultural and educational development in the country, and for the export of products like film and music. The fact that many forms

of cultural content can be digitised and exported and shared very easily should be a good opportunity for many developing countries to capitalise on their local culture and creativity.

The challenge is to get the IT services to grow in a dynamic way and to be able to connect and compete globally. In most developing countries, the IT services sector is composed of fairly small enterprises and like other SMEs they face many constraints, for example in accessing skills and markets, appropriate infrastructure and finance. In the case of the IT sector, however, these constraints are magnified by the fact that it is such a dynamic sector, which depends more on innovation of its services, highly-specialised skills, specialised infrastructure (particularly technical communications) and research and development or adaptation. Often, the legal and regulatory constraints can be significant because the government and public sector have not caught up with the nature and requirements of the sector, from intellectual property rights (IPRs) to venture capital and so on. Sometimes, public procurement in government in developing countries can discourage the development of IT services, either because of poor procurement procedures or the not giving adequate incentives to IT services as distinct from hardware, or other uncompetitive practices. Governments in developed countries have often been lead users of IT, but it is important for them to learn how to become an effective user of IT services; how to outsource, how to promote competition among local providers, as well as how to partner with international providers.

The IT industry as an ecosystem

These constraints are shared among all SMEs, but they need to be addressed in a specialised way for IT SMEs. This means that we have to begin to think of the IT industry as an ecosystem; to see how all the key players, from the private sector, civil society, academia and multinationals, can work together to create clusters to facilitate the development of parks and incubators, and to help this IT ecosystem to develop. There are many innovative practices to help develop specialised human resources to match the needs for quality and up-to-date training and for certified training in particular, some of which can be provided by leading multinationals. There are also many ways of encouraging research and development or innovation for SMEs in this sector, to provide access to finance and venture capital, and also to link these SMEs to universities and IT user industries. Most important is to draw on lessons learned from successful clusters. For example, we know that it is preferable for IT parks and incubators to be managed by private enterprises and that such parks should emphasise marketing of their services. We also know that IT parks need to create linkages to universities and knowledge centres; should have fairly advanced IT infrastructure to enable interaction and the building up of a cluster, making it easier to export and so on; that they should have some specialised finance facilities for the incubators or for the small enterprises located in them; and that they should provide effective shared

facilities or 'business development services' to support these enterprises in activities that are uneconomical to do on their own.

Grassroots

IT services can be enriched and made more relevant to developing countries when viewed not only as a source for export or outsourcing in general, but also as a service for communities and grassroots organisations to mobilise local knowledge and creativity. Many innovations, for example mobile banking, came from the user side, from communities and from developing countries. Many of the innovations in lowering the cost of mobile services and in the provision of prepaid services and so on also came from developing countries. The user innovation element, the participation of users in adapting these tools to their needs, is extremely important in the case of information technology. Ideas and pilots are helping to create innovation networks at the grassroots level, to share innovations that are relevant to poor communities and low-income users, and also to create knowledge and content at the local level that is relevant to development. We see examples of that in micro-finance and in the development of tele-centres as the community centres for innovation, knowledge sharing and experimentation. There are also funds being created for grassroots innovation using competitive grants and cost sharing. In many countries, such as Sri Lanka and India, many of these competitive grants and innovation funds are able to empower and help communities and relatively poor users to develop relevant local content and to adapt these tools to their needs. It is important to emphasise this point, because IT is very much context-dependent, and appropriating the technology for the needs of poor communities and low-income users is critical to the development process, particularly in reducing a growing inequality gap.

Conclusions

What are some of the guiding principles or lessons in developing programmes either to promote IT as a sector or to promote the use of IT by SMEs and by communities at large?

One is that IT should be used systematically as a key to private sector development strategies. Often IT strategies in developing countries tend to be developed by IT ministries or telecom ministries, separate from private sector development strategies, entrepreneurship strategies and SME strategies. This gap needs to be bridged.

Second, this is not about a single input such as investing in IT or providing finance for IT SMEs; rather, it requires a much more holistic approach that looks at human resources and infrastructure, and enabling policies, with partnerships across institutions in the public and private sectors and civil society. In particular, the emphasis should be on the soft aspects, to create an ecosystem for IT. This includes

appropriate policies and institutions; developing and nurturing leadership in the business sector; collaboration among associations, academia and government; the development of links between IT enterprises, multinationals and academia, so that we can develop the appropriate skills in a dynamic way, tailored to the needs of these enterprises, developing the necessary consensus for reforms, and developing change management and entrepreneurial skills which are critical to SMEs in general and IT enterprises in particular.

These programmes need to be developed in a way that balances strategic direction or growth policies at the national level with experimentation at grassroots level among associations, particularly SMEs. This is because a lot of this will require innovation from the bottom up, and can vary within a country, across regions and so on. We should therefore not expect that these problems could only be dealt with centrally or from the top.

Because IT is context specific and requires a lot of learning and adaptation, and a process of discovery, we need to focus heavily on local capability for learning. In other words we need to design these programmes for diffusion or for promotion of IT in ways that can help the country or the sector to evolve and learn quickly, rather than expect that a ready-made solution can be imported from somewhere else.

Finally, we need to co-manage different spheres of public policy-making – IT policies, the innovation policies, entrepreneurship development policies, SME development policies and so on. These spheres of policies sometimes belong to the national innovation system, industrial and trade policies or education and training, or to the user industries such as various user sectors in agriculture or manufacturing. They all need to be orchestrated in a way that helps develop these ecosystems or the dynamism of IT services. It depends on a local market that is increasingly able to use IT effectively, as well as on the exporting of IT services in niche areas globally – two areas that seem to be complementary rather than either/or.

8

Opportunities and Strategies in IT Enabled Services

Manju Haththotuwa

Introduction

This chapter looks at the trends in the industry, and at the specific attributes that have made IT enabled services such a dynamic sector. ITES has been a catalyst for change and innovation and also had significant economic and social impacts on the various countries that have embarked on that journey.

Global outlook

Contrary to what many thought at the beginning of the global financial crisis, the growth continues in this industry, albeit at a slower pace. Worldwide, expenditure on technology products and services in 2009 fell by 3 per cent from the forecast US$1.5 trillion. What seems to have declined since the crisis is the expenditure incurred on IT driven by hardware purchase. Business processing outsourcing (BPO) growth in spending has remained positive (Figure 8.1), even during the peak of the recession, and post-recession is well on the way to recovering to almost pre-crisis levels.

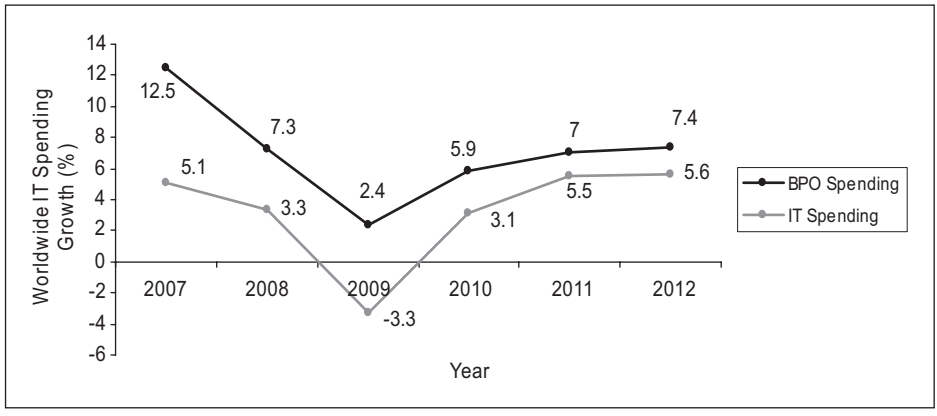


Figure 8.1. Technology and BPO spending, 2009
Source: NASSCOM Strategic Review 2010

Market positions have not changed. The US remains the largest market and India still leads in terms of a preferred destination. But, as will be made clear in this chapter, the internal dynamics are changing, providing an opportunity for all the new entrants as well as the countries that have already joined the fray to increase their market share, as the pie itself is getting bigger.

Industry Facts

McKinsey studies on the global IT/ITES sector estimated the potential market size as US$475 billion in 2007. It was further estimated that all players in the market penetrated only US$65 billion of this, suggesting that a mere 15 per cent of the market was tapped by all service providers. The key message is the untapped potential in the marketplace that new entrants as well as existing players can develop, as the market is supply constrained at present. This conclusion remains valid even though the pace of the market expansion has been more subdued than the annual growth rates in excess of 30 per cent prior to the GFC.

ITES is an industry that is primarily export driven, although there are near-shoring opportunities – meaning there is a market both within a country or region as well as outside. The industry is also one that stimulates foreign direct investment (FDI).

Positive social consequences

ITES has very positive social consequences. For instance, the amount of women employed in this industry is well above the average: in India, women make up about 35–40 per cent of the ITES workforce and the number is increasing, and in the Philippines it is about 65 per cent. The youth factor is even more phenomenal because about 90 per cent of the industry is under 35. The sector has also slowed the 'brain drain' in a number of developing countries. For instance, India, which is the global market leader, had high brain drain figures in the distant past, but today this sector has helped to get some of this talent back into the country.

Opportunities for public sector services

New opportunities are arising in the public sector where governments have looked at new ways of providing public services in the recession, and services are being outsourced through mechanisms like public–private partnerships. The public sector is therefore a lucrative client segment with significant upside potential.

Policy reforms

The industry has prompted policy reforms in various countries. These reforms include: labour laws to allow women to work long hours; buildings rather than a particular

area being designated as export processing zones (in India this has been credited as one of the key policies that made a big difference); land reforms; and FDI policy reforms. Given that the sector is new, such policy changes can make a difference, for example to avoid challenges from the usual entrenched interests or groups.

Rural BPOs

Many people view the ITES sector as very much an urban phenomenon but in South Asia rural BPOs are making the difference. For instance, in Sri Lanka a small rural BPO centre started operations in the local languages because English language skills were not available initially. The organisation initially concentrated on call centre skills or BPO skills working with local clients. The next step was to acquire English language skills, which was achieved thanks to a dedicated local teacher who himself learned English to be able to teach the village youth. Today, this small rural centre has clients in the US.

Incubating entrepreneurs

India probably has the most established IT industry in South Asia. But in the early 1990s there was hardly any venture capital industry in the country. IT enabled services brought that into the country and today the pharmaceutical industry, engineering, manufacturing are all benefiting from what is now a very vibrant venture capital industry across a number of economic sectors.

On the matter of demand-driven skills, all too often education systems in many countries appear to be disconnected from what the job market actually requires. This is sometimes referred to as the 'triple E connection', education, employment and the economy. The IT industry has made the connection far better than others because essentially it is teaching people job-related skills and now that it is filtering down into the secondary school system and the primary school system in a number of countries.

Cross-border collaboration

In terms of cross-country, cross-border collaboration the flow of people and goods can be highly emotive. Data packets and electrons are far less emotive when they go across borders and there are many positive aspects to this, but there are also negative aspects like pornography. However the positives far outweigh the negatives. This industry has huge potential to be a catalyst for regional collaboration and regional integration, where the geopolitics of one of the least integrated regions in the world, South Asia, have shackled the traditional sectors.

Socio-economic contribution of the ITES sector

What follows is based on the context of India but is relevant for any country with a fairly mature IT enabled services industry.

As the ITES sector grew its initial impact was felt directly in terms of its increasing share of GDP, foreign exchange earnings and employment generation. However, there were spillover effects within the society resulting from the development of other sectors such as logistics, transportation, catering, engineering, manufacturing and civil engineering. Being a new sector it provided the environment for a new generation of entrepreneurs to grow and created indirect employment in other service sectors (e.g. transport, catering) in regional growth poles like Bangalore and Hyderabad. As it catered to an international market the product and service quality improved, boosting the image of India in global markets.

A third level of impact was on workforce development with the upgrading of skills taking place and more youth and women joining the workforce in friendly work environments.

Market segmentation

The market is divided between the more traditional IT services and the IT enabled services, which began around 1994 with the introduction of the commercial internet. This made possible the business process outsourcing (BPO) services or back-office processing side, which has been followed more recently by the knowledge-process outsourcing (KPOs) segment (Figure 8.2).

IT Services		IT Enabled Services
Application services	**Engineering services**	**Business process services**
Application development & maintenance **System integration** · Analysis & Design · Development, integration and testing · Package implementation **IT infrastructure services** · Help desks & Desktop support · Data center services · Mainframe support · Network operations **Consulting** · IT consulting · Network consulting	**Manufacturing engineering** · Upstream product engineering · Downstream product engineering · Plant and process engineering **Software product development** · Product development/Gaming · System testing · Localization · Maintenance and support	**Horizontal processes** · Contact Centers/CRM · HRM, BFSI & Admin. · Supply chain **Vertical processes** · Banking & Insurance · Travel · Manufacturing · Telecommunications · Pharmaceuticals **Knowledge process** outsourcing · Business, financial, legal research · Animation · Other high-end processes

Figure 8.2. Market segmentation of IT and ITES
Source: A.T. Kearney et al.

Verticals and horizontals

The words 'horizontals' and 'verticals' are used often in the context of ITES. Figure 8.2 clearly indicates the verticals – namely banking, finance and insurance – which are the largest and most mature sub-sectors. The horizontal services are key functions in an organisation, like human resources or finance. The actual value proposition changes for each service segment. So the rates for these services also have a stratification to add another dimension of complexity.

Is there scope for new entrants to penetrate the various market segments? According to various McKinsey estimates limited penetration could be expected in the addressable market for IT (20%), engineering (24%) and IT enabled services (30%) in 2010. Therefore, there is room for new as well as for existing players. Indeed, this sector is probably one of the few where a new country with a fairly robust telecommunications system and half-decent infrastructure can make an entrance and compete with those who have gone well ahead of them.

How does ITES actually divide across those verticals and horizontals? Using the example of India, because it has a good cross section of services and the literature and data is solid, Figure 8.3 shows how the pie breaks up. Again, banking, finance, and insurance take the lion's share, being the most mature segments, followed by the call centres, or contact centres, which are also now on the mature part of the IT/ITES product life cycle.

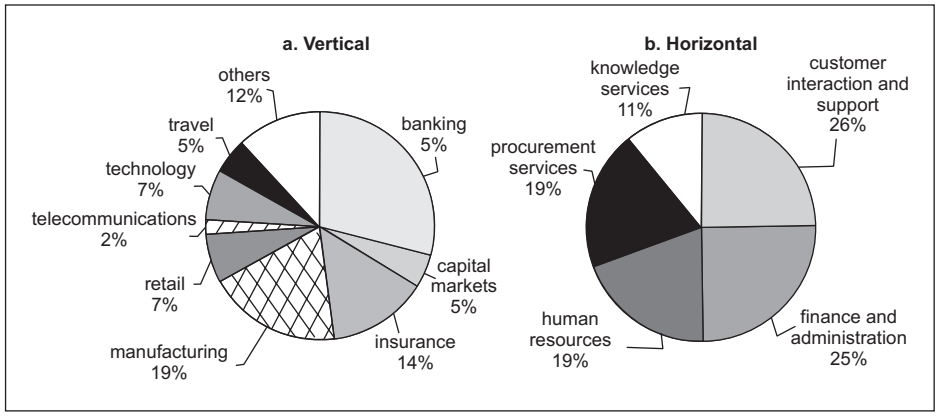


Figure 8.3. India's addressable market for vertical (sectors) and horizontal (domains) for ITES

Tier cities

An interesting trend in the industry is the rise of tier II and tier III cities, which managed to come into the fray because the tier I cities had such a high attrition rate and wages were going up. There is an opportunity and dynamism in the market for tier II cities in India and other countries that are trying to get on the bandwagon. In

the case of India, tier II and tier III cities are expected to increase 18-fold from 175 in 2008 to 3,250 in 2018 with more of the additional work going to the tier II cities. Both are increasing, but tier II is increasing at a more rapid pace.

Global sourcing landscape is maturing

The market is maturing for some of these segments. Figure 8.4 shows that the contact centres and the software IT, which have been around for a long time, are now reaching a plateau in their growth. There are a number of business models that have been established for a long time.

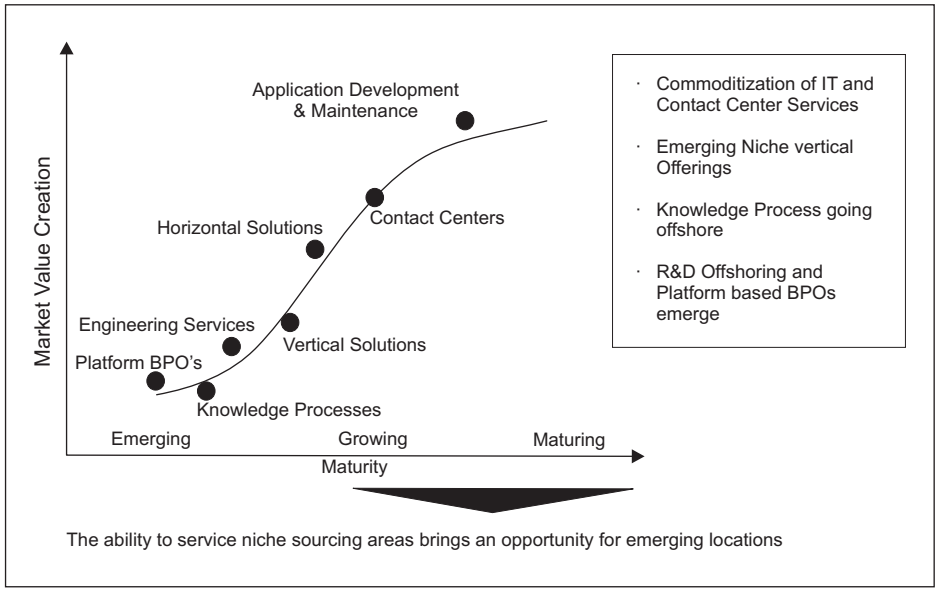


Figure 8.4. The global sourcing landscape is maturing

What is new is what is happening with platform-based BPOs, which is at the intersection with technology, BPO, analytics and domain knowledge. Platform-based services became popular during the global recession, when clients were looking for higher efficiency in services without incurring large upfront transformational cost. In this model, the matured service providers undertake the management and execution of clients' business processes on their own technology platforms. The model enables service providers to own processes, the underlying platform and application, people and infrastructure. It also allows the delivery to shift from being 'people centric', as in the traditional 'lift and shift' model, to being platform centric. BPO service providers, which have a strong presence in IT application development and maintenance, could comfortably adopt this model. They offer HRO platform, F&A platform, procurement platform and analytic platform BPO solutions.

Other key advantages of the platform-based services model are that it assures higher compliance with standardised processes, stringent security regulations, local statutory norms and internal controls; defines the ownership and accountability of the processes by resting ownership of all aspects of BPO with the service provider; allows buyers to reduce time-to-market by leveraging service provider's pre-configured business processes, pre-built deployment accelerators and organisation change management; and allows smaller buyers to leverage the best IT infrastructure to support their business processes.[1]

Vertical solutions are still dominant in the BPO segment and providing a large part of the growth.

Drivers for global sourcing

The main motivation behind the outsourcing is reducing costs, but customers are becoming more demanding and services providers are now expected to offer much more (Figure 8.5). Providers can fill this demand where they piece together business processes – for example, a consultancy component or a re-engineering component – and offer them as a package, along with the talent.

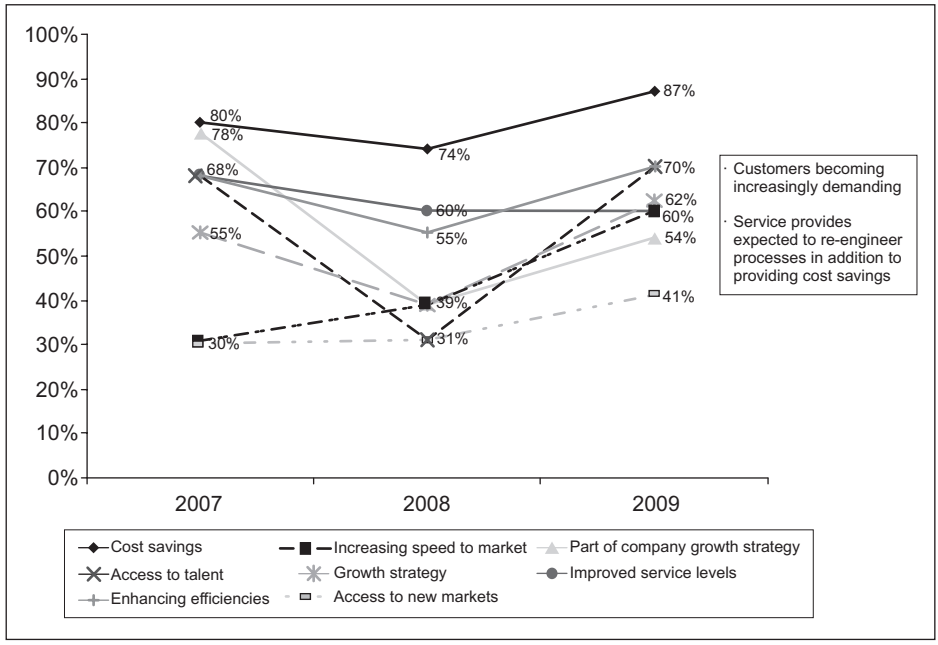


Figure 8.5. Drivers for global sourcing

Location attractiveness index

Figure 8.6 combines the four models or sets of criteria for a location attractiveness index of the major consultancy companies involved in the field – A.T. Kearney, Gartner, McKinsey, and Hewitt.

The list of criteria indicates what potential clients are looking for in an outsourcing location, so it is useful when putting a country programme together. It is important to have the statistics to feed all of these criteria, because when corporations hire the consultancy companies to assess a location, the do so based on weighted averages of available data. If they do not get good quantitative data, they will probably do approximations and the country being assessed would be the loser. Countries should keep the data up-to-date, adjusting it in keeping with performance improvements.

- **People & skills availability**
- Remove service sector experience, skills & quality ratings
- Labor force availability
- Education, Culture exposure & language
- Attrition risk

- **Business & Country Environment**
- Govt. support, Enabling policies (IPR, e-Transactions laws etc.)
- Telecom & Labour Regulations
- Political stability & Security

- **Financial attractiveness**
- Compensation costs
- Infrastrucre costs
- Tax and regulatory costs

- **Infrastructure**
- Power, Real Estate
- Data, Road & Air Connectivity
- Logistics & other support services
- Social infrastructure

Figure 8.6. Location drivers and destination attractiveness index

Industry trends

The global financial crisis has put more pressure on companies that were not in the outsourcing space to outsource. As a result more new companies in the US and other developed markets are getting on board, while the existing ones are looking to outsource even more functions. During the recession, this compensated for much of the demand that dropped off because there was always pressure to cut costs in shrinking markets. This is a trend that is going to continue and the demand post recession will return.

In the trend towards specialisation and innovative business models, the challenge is to constantly reinvent the wheel. For instance, the innovation of business 'software as a service', or cloud computing as already mentioned, warns against complacency in thinking that any business model is set in stone.

There will be more work for tier II and tier III cities as corporations begin to outsource functions once considered as the core competency and intellectual property of a company. For instance, General Electric (GE) is already doing this while other major national corporations are looking at the best ideas outside their companies and moving to farm out core research and development, with the right level of protection. Having in place good IPR and IP laws in a country takes on added importance if the goal is to take on this high valued added segment and by channelling educated people at very high value into smaller sized BPOs, to do this sort of work.

The global GDP is set to grow by 3.1 per cent, much of which is coming from the developing countries, although the US continues to be the main market.

In the BPO segment, the vertical is dominant but growth is coming from finance and administration, procurement and HR. Governments that are flush with money or investing money to stimulate demand are also an opportunity. Cost arbitrage is still a huge motivator; even after all these years mature market destinations like Bangalore or Manila still have an arbitrage of a factor of four with a tier II city in the US.

Developing a country programme

We will now illustrate how to develop a country programme using one model of the location attractiveness index (Figure 8.7). The Hewitt model highlights five criteria. These have been expanded to 5 drivers, about 20 factors, 40 parameters and 100 elements (for which Hewitt does not divulge the specific details). All of these are

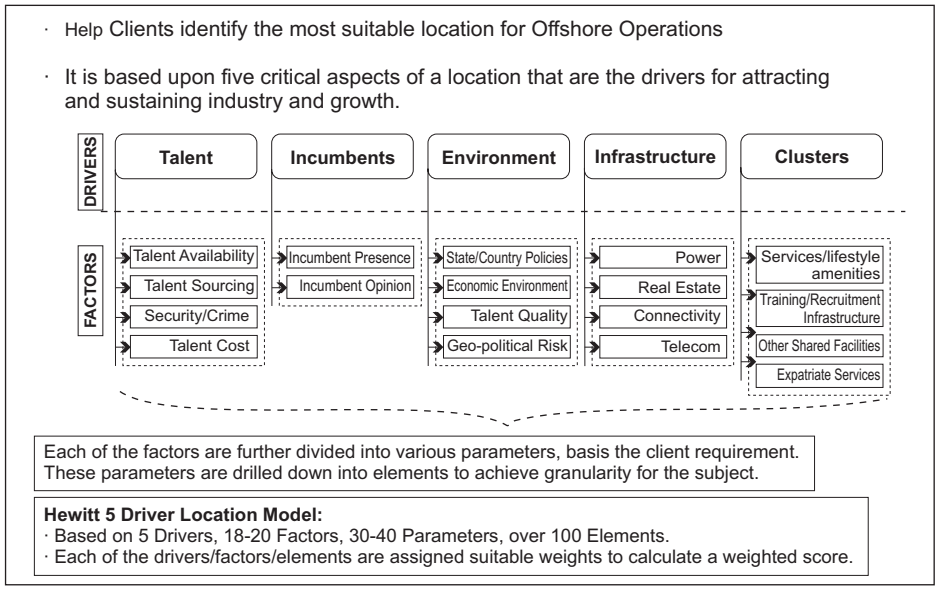


Figure 8.7. Location analysis – Hewitt's 5 Driver Model

combined into a weighted average for a city and/or a country, which is then looked at in comparison with other cities/countries.

Not all country programmes are put together in the same way. Following is one approach that has been used by some countries in South Asia:

Conduct a SWOT analysis for your country (or city/cities) using criteria (such as talent, infrastructure, business enabling environment, policies, etc.) from a location attractiveness index (or combination of indices).

Benchmark the findings against international norms for countries/cities, for example, the World Bank 'Doing Business' reports.[2]

Look at the market side and *decide what sort of companies to target* in the market segment or geography, given your competencies and skills. In terms of capabilities that you are hoping to work on and improve, it helps to set a baseline and then to do a comparison and matching once the improvements are made. New entrants should bear in mind that jobs at companies in sophisticated markets like the US and UK are large and complex, so they should obviously start by targeting smaller companies.

Weak areas are the basis of a country programme because they have to be fixed in order to reach the set target. Typically, most country programmes have an HR talent component – one of the biggest and a key driver that can make the difference – as well as a policy piece and a promotion piece. In addition, there is always bound to be some piece of the infrastructure that is weak or missing – an unreliable data centre or a flawed business environment or poor power supply. The solution, inevitably, is to create an enclave, a park, where things go right and everything works regardless of how bad things are outside. So the park becomes the crucial aspect of the initial programme.

Box 8.1. Bhutan: case study

If Bhutan can become an IT enabled services destination then everybody has a chance. Bhutan, a beautiful country, with only 600,000 people, is landlocked. It has one plane a day if it is not cloudy (the airport is right up in the Himalayan mountains) and it is often difficult to get a seat. The Prime Minister and the King of Bhutan backed the programme, convinced that it would help the country to make a leap from what is essentially a peasant agrarian economy.

Within two and a half years the programme was having some success. Against the background of the global economic crisis and a tailing off in private investment, Bhutan secured a private–public partnership with one of the world's leading providers. The company, Assetz, which is in Bangalore and in a number of other locations in Asia, is building an IT park in Bhutan. The government has allocated the land and made a commitment to lease back a part of the park for a data centre and some of the common provisions inside the park.

What Bhutan did was to leverage on its pluses, its positive reputation in tourism and its sustainable environment. So for instance, building on its green image, it is emphasising green data centres. The ITES sector has been the catalyst for policy changes that have also positively impacted a number of other sectors. Restrictive FDI policy, which previously had not allowed repatriation of capital, has been relaxed, as have regulations regarding ownership and leasing of land.

Bhutan got its promotion going by reaching out bilaterally to India, its big brother in the region. Indian bilateral aid includes support with financing and energy, and construction of a road to the IT park to make it much more attractive. With India's help Bhutan has been able to exploit its natural hydrogen and to promote the concept of a green data centre with green power.

Bhutan got the Indian private sector involved by leveraging on its tourism image to persuade NASSCOM[3] to hold its annual session there. As a direct result Narayana Murthy, founder of Infosys, established at his own cost a programme at the University of Mysore that is turning out 100 engineers every year; Genpact, one of the leading companies in the BPO segment, set up a centre at the university offering free training to the Bhutanese; and IIT Bombay, another giant in the field, is helping Bhutan to develop its business incubator to support the growth of hi-tech companies.

These sorts of partnerships are critical in making a success of a programme in a country that appears to be particularly handicapped like Bhutan. Still, there are always challenges. After all that work and leadership from the government, it turns out that the Bhutanese are not happy to go outside Bhutan to work. One of the World Bank objectives in helping Bhutan with financing is job creation. The issue in Bhutan is that when the job becomes available the graduate may refuse to go because the Bhutanese youth are very insular in that sense and love to stay at home with their parents. Willingness to work is another important factor.

Notes

1. *Source:* http://www.globalservicesmedia.com/BPO/Market-Dynamics/New-Face-of-The-BPO-Sector
2. http://www.doingbusiness.org/
3. NASSCOM® is the premier trade body and the chamber of commerce of the IT-BPO industries in India, with more than 1,200 members including Indian businesses and multinational companies that have a presence in India.

9

The Enabling Environment for ITES

Martine Julsaint Kidane

Introduction

This chapter is based on UNCTAD research from the 2009 volume of its annual publication, *Information Economy Report*.

It also presents some of the findings of an UNCTAD multi-year expert meeting, which focuses on services, development and trade, and the regulatory and institutional dimension. We have been looking at what regulatory and institutional frameworks are important for the development of services, and more particularly, infrastructure services. Here, the discussion that will be most relevant will be in relation to telecom services as supporting services to IT and IT enabled services. The chapter also touches on the role of trade and GATS negotiations as well as the current financial and economic crisis and its impact on IT and IT enabled services.

Offshoring

The offshoring of services generally can generate efficiency gains from international specialisation and trade for the global economy as a whole. Offshoring reduces transaction and other costs of trading over distance, and has become more and more feasible over a range of services sectors. So the extent and types of services that can be traded have increased. For importing companies this implies access to services at lower cost and allows them to focus on areas where they enjoy a comparative advantage. For exporters of services, offshoring can imply the creation of opportunities for employment, diversification, export revenues, knowledge transfer, economic upgrading and so on.

In the context of this potential for offshoring of services, governments are now seeking to design effective policies to boost related exports, both by local and foreign firms established in their countries.

The benefits to the firms that engage in offshoring include lower labour costs, positive economies of scale, and round-the-clock operations. They can also have access to quality, which is one area where regulation can be quite important and where regulators can intervene. However, there are concerns including the possible

loss of autonomy and loss of control by the firm on a number of activities, and also the leaking of confidential information. There is possibly insufficient protection of intellectual property, perhaps a lower quality of service (due, in particular, to lack of exposure to Western business) and also the changing nature of local laws.

The setting up of institutions in countries wishing to export services is important: it will provide stability and it will reassure investors who wish to come to these countries, or firms who want to offshore activities to these countries.

There are some benefits for the outsourcing destination, and the focus should be on tapping into these benefits. Outsourcing can contribute to the achievement of a number of the Millennium Development Goals by the impacts related through poverty alleviation, the employment of women (the gender dimension) but also technology transfers. Of course there are also some concerns, including the risk of footloose behaviour in the area of outsourcing or services. Often, the linkages between affiliates and local firms may remain small, and we know that offshoring is sometimes 'captive offshoring' between a firm and affiliate – and so the positive impact on the local economy could be diminished.

Research has shown that some of these concerns are misplaced. For example, the issue of job displacement in the markets where the companies are outsourcing services seems to be unfounded, to a certain extent since outsourcing does respond to a need of those markets. Also, quality and privacy concerns do not appear to be as significant as initial concerns seemed to predict. Finally, it is important to say that outsourcing is not necessarily a North–South issue because a lot of the trade offshoring is taking place on a North–North basis.

Lessons learned

What lessons can be learned from those countries that have been successful in tapping into this offshoring business. What did those countries have? What were their advantages? Competitive costs were one thing, but also language, education, skills, ability to develop global networks, and adequate and reliable infrastructure (this last one is particularly important in relation to telecoms). Importantly, the countries that have been successful also demonstrated that they have effective regulatory frameworks, which is a point that we will return to.

Among the challenges for the countries that want to enter into this business are the need for quality infrastructure, adequate legal and regulatory frameworks, and sufficient human resources.

IT and ITES

The definition of IT and IT enabled services is not always clear. UNCTAD makes the following distinction: IT services are programming systems, integration, application, testing and so on, whereas IT enabled services encompass front office services, back office services and knowledge processing services. Different levels of skills are required for these different services. It is not necessarily only the higher skills, but also the medium and lower skills that can be useful in providing some of these services; this will be important for developing countries.

As indicated earlier, both IT and IT enabled services can be offshored; this can be done internally (from a parent to an affiliate) or externally (to a third-party service supplier, which can be either domestic or foreign owned). There seems to be a slight distinction between IT and IT enabled services in that 'captive solution between a parent and its affiliate' tends to be more important in the context of IT enabled services; on the other hand, those countries engaging in IT services may possibly have more scope for having their local firms benefit as opposed to the affiliate of a foreign firm.

To give a broader figure, global imports from offshoring of IT services and business processing were estimated at approximately US$93 billion in 2008.

Turning to the enabling environment, the multi-year expert meeting that UNCTAD has been holding since 2009 is examining what regulatory and institutional frameworks can help develop services sectors. The focus has been on infrastructure services, which includes everything from telecoms, water and transport to financial services. We know that these infrastructure services play a key role in supporting markets for other services including telecoms services and IT enabled services.

Maximising the positive contributions of these infrastructure services requires good regulation and institutions able to promote domestic supply capacity, but also a competitive environment and sustained trade in investment flows. However, research has shown that there is no single good regulation, and so the states maintain an important role as enabling agents for the development of these services sectors. The current financial crisis has been important because it demonstrated that governments cannot merely establish regulations at one point and consider the work done; they often have to adapt, come back and re-regulate, in keeping with developments in the markets. The March 2010 session of the UNCTAD expert meeting focused on co-operative mechanisms, whether North–South or South–South, which can be crucial in developing efficient regulatory institutional frameworks.

In these infrastructure services sectors, governments had traditionally sought to control the markets, often providing the services themselves. They have now moved towards regulatory oversight, but in some cases where a competition cannot be established – for example, because of national monopoly elements and given services sectors – then governments do retain a role in the provision of services. The key regulatory

issues that need to be addressed by regulators are ownership and management in the sector, competition, pricing, quality of service and universal access. There are several elements relating to telecoms that would be important for the promotion of IT enabled services, particularly producing competition (because we know that competition often pushes towards the best available services), fair pricing and quality of service. In order to have efficient IT enabled services, we need adequate telecoms services and the regulator has a role in setting some benchmarks and in promoting the development of quality services.

Regulatory reform

UNCTAD's 'ICT Regulatory Toolkit', which is available to governments,[1] contains tools like directions for issuing licences, codes of practices and guidelines, but also there are enforcement mechanisms in case of breach of legislation or regulation. In the last session of expert meeting, the telecoms sector was set forth as an excellent example of regulatory reform promoting the development of the sector. In the context of telecoms, there were basically two waves of regulatory reform.

The first one focused on opening up the sector to competition in light of the rapid technological changes that had occurred in the sector, which caused most of the monopoly elements to disappeared, making competition possible.

In the telecoms sector, regulators were rapidly established over a relatively small number of years, and now there are independent regulators in over 160 countries. As a result of these reforms and technological development, there has been much progress in telephony services in particular. In fact the MDGs target in this regard has already been met, although there does remain a gap between developed and developing (and LDC) countries. So there is still work to be done by regulators in promoting this sector.

The second wave of reform that we are now witnessing has more to do with network convergence, which is also an important element in ensuring that the latest technology available for the provision of IT enabled services has reliability and quality of service. Infrastructure sharing, and services-neutral and technology-neutral licences are the mechanisms that regulators are now are seeking to put in place in order to promote the telecoms sector. In this sector, we have seen that policies, legislation and regulation need to be dynamic in order to accommodate the technological changes. Other important phenomena here are the impacts of climate change, and the need also for regulations to address this issue.

The telecom sector has shown resilience in the wake of the crisis, and this is possibly a very good thing in terms of IT enabled services. This resilience can in part be attributed to the good regulatory environment that countries have created for this sector.

Two country examples

Tanzania has been a pioneer in adopting new convergence regulations. Despite its LDC status, it has established a converged regulatory framework, which is characterised by both service-neutral and technology-neutral licensing. This has allowed Tanzania to make remarkable progress in delivering telecoms services, indicating that where there is political will even a smaller or less advanced country can put in place such a regulatory framework. In Tanzania, this has resulted in the country receiving a tele-penetration rate of 33 per cent, which is quite high compared to other African countries. Now Tanzania is to become a connecting hub for the East African region, including through the development of sub marine cables. Many other countries may have opportunities in this area when they put in place the right regulations.

In Singapore the strategy was to rely on market forces to provide effective and high quality services, along with a transparent decision-making process, and an effective and speedy dispute settlement mechanism in order to have a vibrant telecoms sector. The Singapore regulator has found it possible to monitor activities of foreign operators as well as those of domestic service suppliers, and in the area of telecoms has been able to balance the various concerns related to privacy and to consumer protection. The Singapore regulator is also a key actor in terms of industry development, which in the view of the regulator's office has created synergies that allowed it to guide the industry using both a carrot and a stick approach. In the development of the country's next generation broadband network, the regulator's office relied on incentives provided by the government, but also on regulation, in order to achieve the expected results.

In terms of the enabling environment, significant time, financial and human resources are needed to put in place the regulatory institutional frameworks. It is also important that regular interaction occurs between the regulators and the trade negotiators; regulators have a set of objectives that they try to promote, which are not necessarily the same as those of trade negotiators, so in order to have a coherent development of export in the services sector it is important that they interact. Inter-agency collaboration is also important, as is co-operation between regulators from different countries. IT and ITES offshoring, supported by adequate regulatory institutional frameworks, can significantly contribute to national income, growth, employment and poverty reduction.

Trade commitments can sometimes be undermined through protectionist domestic regulation – hence the importance of interaction between regulators and trade specialists, so that the objectives of the regulators (which might be universal access, quality of service or the extension of service) do not lead to trade protection. A challenge for developing countries is that often they are still developing their regulatory systems and putting them in place – so when we have trade negotiations that precede the development of regulatory institutional framework, we want to make sure that these two do not clash. Careful co-ordination needs to be undertaken at national level.

Linkages

In the current WTO services negotiations, many countries, including developing countries, are less than satisfied with progress in terms of the Mode 4 commitment, but there is a clear relationship between Mode 4 (where service suppliers move to the market) and offshoring (where the work is moved to the service suppliers). The question for developing countries may be whether there is a possible trade-off. If there is no progress on Mode 4, will it at least be possible to have progress through offshoring, so that the qualification and skills in developing countries and LDCs can reach the markets where they are needed?

The crisis in IT enabled services

The trend seems to be that services exports have declined, although less so than merchandise exports: services seem to have resisted better. This negative trend, though, seems to be only in the short term; we can expect that, in the longer term, offshoring of services will again pick up relatively quickly, particularly because the economic crisis will induce firms to go more towards efficiency and in this context, offshoring may be an important option for them to consider. The impact of a crisis may be only in the short term; in the medium to long term, things should pick up again. There seems to be diversification in terms of the countries that are providing these services.

Conclusion

The development benefits of outsourcing in this area are not automatic. There is work to be done at a national level in terms of strengthening domestic service supply capacities, but also at an international level including through negotiated trade commitments. International partnerships can also be useful in terms of expanding export markets, including increasing domestic capital, and establishing credibility – and the Diaspora has an important role that it can play in helping to promote the services of a country abroad. It is key that the government retains a proactive role in terms of identifying their country's natural advantage and developing it to boost competitiveness. But it should also be focusing on building and maintaining appropriate infrastructure for the export of these services, and becoming more and more responsive to the needs of the private sector, tapping the Diaspora to build domestic energy and, finally, setting up the appropriate regulatory frameworks and institutions and maintaining political stability.

Note

1. Available to download at: http://www.ictregulationtoolkit.org/en/Publication.1334.html

Section Four
Human and Institutional Capital

The importance of skills and talent comes as a recurring necessary condition for the development of the IT/ITES sector. Different skills levels will be required depending on where a country wishes to be on the value chain. Even at the lowest point in the value chain, services require a greater emphasis on skills development than manufacturing because the skills themselves are the product (e.g. language skills in call centres), rather than simply what goes into producing the product, as is the case with goods. Chapter 10 provides examples from Mauritius and Kenya on how human capital requirements are being addressed.

For the industry to take off, skills are not sufficient. Potential investors must be made aware of the existence of these skills and of the general enabling environment. Promotion is important, but services cannot be promoted along the same lines as goods. The focus of almost all public as well as private sector organisations is on traditional products. In many instances, attracting foreign direct investment or promoting exports of services relies heavily on promoting the country as a location, not just the products made by individual firms. For example, in health care, patients are attracted by the reputation of the country as a provider of quality care, and in IT firms tend to look for clusters of capability before they invest. Hence, the reputation of the country needs to be established alongside the promotion of services supplied by firms. Is this best done by government or by the private sector or by both working in tandem?

In Chapter 11, we share the experiences of the Caribbean, Malaysia, and Uganda. In the Caribbean, in Barbados in particular, the private sector has taken the lead by organising in a coalition of services. A common complaint in many emerging economies is that firms in the services sector do not think as an industry. An important step towards establishing a particular location as an attractive sourcing destination is to group the service providers so that they can make their voices heard. In Uganda as well attempts are being made to build an IT cluster while Malaysia has set up a public funded institution to promote professional services.

Role of private sector

It is very important to get the private sector on board at a very early stage of sector development. For many services sub-sectors a coalition of services can play an important role in co-ordinating the response of a large number of very small providers and ensuring that a small number of very dominant providers does not push forward

its agenda to the detriment of the smaller providers. In the absence of such an organisation governments tend to defend unwittingly the position of the big players. Indeed, WTO commitments in many countries have been made without the private sector being fully involved. This absence of dialogue may result in a situation where negotiators are bemused at the lack of dynamism on the part of the private sector to exploit 'hard-earned benefits' from negotiations whether at the WTO or in economic partnership agreements (EPAs).

While it is acknowledged that the private sector has an important role to play, it can also have a negative impact if there is a monopoly incumbent that tries to capture the regulatory process and is resistant to reform. The private sector can play a very positive role when it seeks to exploit opportunities to increase efficiency and identifies where regulations are constraining it from achieving efficiency.

An issue that has yet to be resolved concerns the funding of the support organisations. Ten coalitions were launched in the Caribbean but only the three that receive external funding (Barbados, St Lucia, and Trinidad and Tobago) are fully operational.

10

Human Capital Requirements for ITES

A. The Mauritian Case

Vidia Mooneegan

Introduction

Talent has been one of the critical factors for the industry in Mauritius. Five years ago the industry was most concerned about issues like government support, infrastructure and political stability. All of these are very important and we are making progress in some areas including connectivity and infrastructure. Where we are getting stuck, where we need to do something different, is regarding the talent pool. This case study focuses on this aspect as well as looking at Mauritius from a local perspective.

IT-BPO requirements

Today the industry employs close to four million people in outsourcing in the low cost countries and Gartner[1] predicts it could potentially create another five million jobs by 2015. We will therefore need to find people for these five million potential jobs. In contrast to many other sectors, the IT-BPO sector is very labour intensive requiring a large talent pool to deliver the services. As much as the industry needs the talents, the talents also need the industry. In many countries, including Mauritius, among the different sectors IT-BPO is the one most able to create jobs for the young workforce as well as for the people being displaced from other sectors.

Talent today is becoming a key differentiator. When any investor is looking for a place to install a business, talent is one of the key criteria. Talent has different aspects, like costs and skills. The people have to be multi-skilled; they cannot just be technically good. For example, India produces 500,000 engineers a year, but only 30 per cent are actually able to get into the IT market because of difficulties with communication skills. Another aspect is recruitment lead-time; when a company interacts with providers across the globe, the main thing they want to know is how soon the company can get the people and make them productive. So, the different facets of

talent – not only the numbers, but also the characteristics and the strength of the talent – are key differentiators.

According to the 2010 NASSCOM/McKinsey Location Readiness Index which shows where different countries are in relation to their local attractiveness to investors and businesses, between 1998 and 2006 Mauritius improved in general terms (infrastructure, foreign direct investment incentives and time zone attractiveness). However, in terms of the capabilities of workers (quality, cost, type of skills, English knowledge) we still have some way to go.

Employment in Mauritius

The industry has assessed (and the Board of Investment would probably agree) that it needs to add 15,000 people to the workforce by 2015. That means recruiting 3,000 people a year to meet existing demand. Currently there are 12,000 to 14,000 jobs in the sector. We do not have accurate statistics to tell us exactly how many people are employed because it is a very diverse sector. There are some companies that are viewed as local companies, but in fact do business process outsourcing for foreign customers. So it could be that that this figure should be much higher. In terms of where these jobs are situated, the biggest share, 76 per cent, is in call centres (41%) and non-voice BPO (35%). IT outsourcing accounts for 11 per cent and knowledge process outsourcing for 9 per cent, while graphic design, multi-media, and engineering and architectural services account for the other 4 per cent.

We have a good track record and now the task is to identify where to go over the next five years. Regarding the 15,000 extra jobs we have targeted, we need to know in what sectors and in what industry verticals those jobs are. Based on this, we can assess what kind of training programme will be needed to gear this talent pool.

With a population of just 1.3 million, Mauritius has a very tight labour market; it does not have people in abundance, as do many other locations. We therefore cannot do everything; we have to identify the sector we want to focus on to avoid wasting the money spent on training. One issue is that universities are offering courses for which the market is not able to absorb the graduates and the industry has to re-convert them. Moreover, we do not have in place a human capital plan that can be used at all levels of the process to deal with this problem.

Using BPO as one example of processes delivered from Mauritius, there is a lot of variation in the market, not only horizontally, but also going into more complex processes. Mauritius needs talent for basic as well as high value processes. While there is a view that we should move up to value we need activities that can absorb school leavers because ultimately the industry cannot be sustained if recruitment is limited to university graduates. But we also need to address the other levels; to have in place team leaders and supervisors, and to have managers and business leaders to drive the

industry. Growth will not happen if we seek to create 15,000 jobs merely by training 15,000 agents; we must also train and attract, probably from elsewhere, people who can take leadership positions.

The labour market in Mauritius is well positioned in the following areas: English and French language competencies; awareness of and empathy for other cultures of the world; experienced, functional and available leaders and managers; quality education; and customer consciousness. The areas that require more focus are: low level of public awareness about BPO; preponderance of traditional courses in universities; unwillingness of qualified professionals to join the sector.

Some people are not very aware of the different opportunities and careers in the market, and while the industry is changing very fast, the curriculum at the universities is not following at the same pace. This is a big challenge for the industry, because when people come out of universities, they are still not ready to start working.

The other challenge is the unwillingness of highly qualified professionals to join the BPO sector, especially at middle management and leadership levels. A lot of people have decided to be watchful in order to ascertain whether BPO is going to stay for a long time. Here, we need to bear in mind that although outsourcing began over 50 years ago, most of it has been happening onshore in the major markets. So it is not a new thing in itself, but now it is going to different countries where it has never happened before, so people think it is new. The other thing to note is that once a company outsources work to another organisation, it removes its own capability (people, buildings, infrastructure) to do the process, and it is very difficult to bring it back.

Current state

Based on Central Statistics Office projected figures, in 2010 the IT sector is expected to perform better than most other sectors so we need the talent to make sure that this growth is sustained. The IT sector is expected to grow by 12.7 per cent, followed by sugar (8.9%), construction (8.0%), banking (6.5%) and textiles (1.0%). Comparing this with the 2009 performance, IT grew by 15 per cent during this economic downturn year, and the sector contributed about 5.4 per cent to the GDP.

The total labour workforce in Mauritius is 544,000, including 21,000 foreign workers. The large majority of foreign workers are low-skilled people working in the textile factories and only a very small number are in IT. Going forward, what percentage of the labour force in our market is going to be foreign? This is something we need to start thinking about.

Mauritius has about 300 companies involved in voice call centres and non-voice BPO and IT services. Most of these companies are from the UK or France. There are also many companies that are co-owned by Mauritius owners. Some are wholly owned by local companies, but managed by foreigners.

Table 10.1. Employment and revenue forecast in the BPO sector

Year	*Direct*	*Indirect*	*Total*	*Revenue (Rs billion)*
2009	12,000	24,000	36,000	5.4
2010	13,800	27,600	41,400	6.2
2011	15,870	31,740	47,610	7.1
2012	18,251	36,501	54,752	8.2
2013	20,988	41,976	62,964	9.4
2014	24,136	48,273	72,409	10.9
2015	27,757	55,513	83,270	12.5

The figures in Table 10.1 indicate that the total direct employment in the BPO sector will grow from 12,000 people in 2009 to almost 28,000 by 2015, accounting for revenue of some MRs12.5 billion. The figures are based on the following assumptions: that we grow by 15 per cent per annum (although the global market is expected to grow much faster than this); revenue generated per employee per annum is US$15,000; the exchange rate remains constant; and there are no price increases.

Looking at the number of indirect jobs that the sector creates, NASSCOM estimates that in India two million people are directly employed in the sector, but eight million people have got jobs because of the sector. That is a factor of 1:4, but a factor of 1:2 might be more realistic. Basically, as mentioned above, in Mauritius we will have over 80,000 people to support this industry by 2015. This means we have a market and a global industry that can create a lot of jobs. Our concern is to support and capture this opportunity.

Education system output

How many people are we producing annually out of the education system? According to the Board of Investment 6,000 students finished at O Level stage in 2008 and it is almost the same for A Levels. About 5,000 finished at university level. We are therefore getting about 18,000 people out of the system each year and the IT sector needs 3,000 of them.

University enrolment increased at a rate of 10 per cent annually from 2000 to 2010. This is causing concern to some companies because they estimate that by 2015 very few students will be leaving school with a Higher School Certificate (HSC). Most will either leave school at School Certificate (SC) level or go and finish university. There will therefore be a gap because at the moment there are processes where we can match the skills and the job by employing an HSC, but in the future we will have more graduates in the market, which is also a good thing if you are seeking higher value talent. However, there should be a rethink of the different activities in

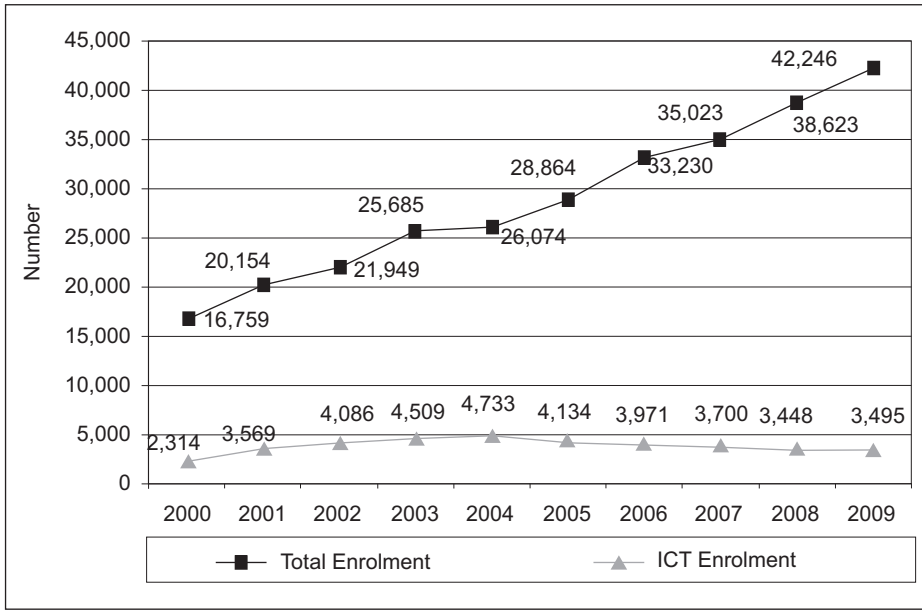


Figure 10.1. IT enrolment trend in tertiary education
Source: Mauritius Tertiary Education Commission

Mauritius – not just about the processes for generating the talent, but also how the talent matches the business activities.

Figure 10.1 shows how total university enrolment is growing, but going down for IT. In 2004, we saw the peak of 4,700 enrolments and then in 2009 it went down. There are many reasons why it has gone down, for instance there has been a boom in construction in the last few years, so more people are doing civil engineering. However, there is also a perception that doing an IT degree can mean ending up as a supervisor in a call centre. As a country, as an industry, we need to start to address this perception issue in the market place. However, the sector needs more than IT graduates and software engineers, it also needs people in law, in finance and accountancy, in medicine and so on.

Human capital

Needs and challenges

There are two sides to the talent pool. One is the quantity and the other one is the quality. With respect to the quantity, the global market is sufficient to support the growth that is anticipated over the next five years.

The IT-BPO industry attracts young people more easily than the sugar industry or the textile industry. This is an advantage. But how can we actually bring more young people into the industry? What are the things we need to look at more closely? First, we need to encourage students to choose science, engineering and maths at a time when globally, even in India and Europe, fewer and fewer of them are willing to take up these subjects. In Mauritius, as indicated above, more young people are going into finance and accounting and fewer into IT.

The other significant, and untapped, pool of talent is the home worker. This pool would be in addition to the 18,000 from the education system. However, if we want to tap into it we need to provide cheap and efficient telecommunications, because without the internet connectivity, these people at home with their laptops and PCs cannot actually do any work.

We also need to reduce or prevent brain drain. In the last two years, because of the economic downturn, fewer people from India and from elsewhere in the region have been going to Europe and the US. However, this is only temporary and will pose a future challenge if it is not addressed. In the IT sector we need knowledge workers but these are the people who are most likely to leave the country. We can deal with the output by improving the education system, but then the graduates need to stay and work here.

We should think about recruiting foreign labour to compensate for lack of resources in very specific areas of the sector. This implies the need to look at the efficiency of the work permit process. Mauritius currently recruits foreign labour mainly in the textile industry.

Mauritius is ideally positioned in terms of our proximity to Africa. Africa has about 800 million people and over 50 per cent of them are under 25 years old. We can use this talent. Instead of trying to sell our capability individually as a country, we can sell our region; we would have the skills to compete with the Philippines and India and South America. The more countries that are involved the more opportunities there would be for talent to rotate around the region and acquire skills. We probably need people with language skills that we do not have in Mauritius, for example, Namibians speaking German or South Africans speaking Afrikaans. Collaboration is extremely important for the region and for Mauritius.

We need to be able to attract highly qualified professionals from the traditional sectors. For example, in India in recent years we have seen bankers leave high-level jobs in that sector and start working for BPO companies. Mauritius also needs to make its IT sector and businesses attractive to such professionals, whether they are in banking, insurance, medicine, engineering or architecture.

We need to decentralise. Our activities are very focused on Port Louis. Some companies are reluctant to employ people who live outside of the capital in towns like

Maheboug, or in the south of the country. By decentralising, we are going to be able to broaden the pool of people to employ.

One of the constraints we have in Mauritius is that it is still culturally unacceptable for parents to let their children work late into the night, whether young women or young men. We had one experience of this during an IT empowerment training programme that required the participants to work in the industry for four weeks. There were three young men in that batch and their mothers refused to let them work at night. The trainer phoned the three mothers but could only convince two of them to change their minds. This is a cultural thing that we are underestimating as a nation. But it is an issue that we have to address, because if we are going to work with the US and with Europe, we need to accommodate ourselves to the different time zones.

We also need to maximise existing infrastructure. One of the problems that we have today is that if we are going to train so many people, we have to ask: do we have trainers and lecturers? Do we have buildings? The universities are free for many hours every day; can we not use these lecture theatres or lecture rooms to deliver training? As different stakeholders come together, these are things that we need to start looking at.

In terms of the quality of our human capital, compared with some other countries, we have a relatively good education system. We have a bilingual advantage. Rwanda has the same advantage as we do in terms of English and French. We have a highly adaptable workforce. Also we have a very strong customer service mentality; hospitality is one of the things that we have proven we can do.

Foreign languages are very important for Mauritius. When people think about India, they think about software development. When people think about the Philippines, they think about customer service call centres. When they think about China, they think about manufacturing. However, when they think about Mauritius, what do they think about? We have to define our identity in this marketplace and one area is become a multilingual platform for BPO and IT services globally. Now we have an advantage in the fact that most people speak English and French and some may speak other European languages or Chinese or Arabic or Hindi. So having all these languages is a good starting point for getting Mauritians to learn additional languages. For instance we produce less than 50 people every year with Spanish and German, which are not traditional. So we need to introduce more languages in the universities and secondary schools because it is going to be a key differentiator for Mauritius.

We also need certification. Now when companies go to different countries, they want to know about the extent of existing certification. They may ask how many CMI level organisations we have in Mauritius (we do not have any) or how many people have Six Sigma (or some other) certification? As a location we need to spend some time and money and effort to actually get this done for all the levels.

The university curriculum badly needs to be updated. We as a company spend a lot of money to equip university graduates with the basic skills they need to be productive. We have tried to talk to people in academia for many years, but nothing has happened. We now need to go upstream to try to address this.

In terms of education, we need to introduce learning in interpersonal skills, or 'soft' skills, to equip people to deal effectively with foreign companies and customers. Soft skills involve behavioural competencies such as communication, problem solving, strategic thinking, and influencing and selling. The problem is our education system is very much academic based with little attention given to developing soft skills. In addition, we should seek to attract foreign universities and to invite more business schools to Mauritius so that we can train more talents with the required quality of education.

We need to train and certify more trainers. If we are going to train more people, we need more trainers, as there are not enough certified trainers on the market. In this regard, we need to re-visit the training scheme, the incentive for training, Human Resource Development Council (HRDC) grants, and also the model for our National Empowerment Foundation.

Industry driven training

The IT Empowerment Training Programme is a joint venture between the Outsourcing and Telecommunications Association of Mauritius (OTAM) and the National Empowerment Foundation. It was launched in 2009 to train people for call centres in English and French. It has since started BPO training for finance and accounting, customer care and software development.

The main challenge for this programme is lack of infrastructure. This is a brilliant private–private partnership, but probably not supported enough by the public side. The government is providing funding, but to train the necessary amount of people we need more infrastructure, such as training rooms and computer labs, and as already noted, we do not have enough trainers.

The fact that we do not provide certification is another issue. In the Mauritian culture people like to go and study and get a certificate and because in our sector historically we have not provided a certificate for BPO operators, people are beginning to think that BPO is not really a career. We have acknowledged this as a weakness and we have partnered with BCI to certify people in our sector in BPO. BCI is a leader in BPO training and certification and has certified over 200,000 people in the Philippines and India. The company is also working in other countries in Africa and aims to certify one million people by the end of 2011.

Conclusion

If the IT-BPO sector in Mauritius does not meet the challenges, we are going to see an increase in the attrition between companies. At the moment, because of scarcity of talent, people are moving from one company to another causing salaries to inflate as companies try to retain staff and attract people from other companies. There are also risks related to intellectual property. If a person has been working for a company and then goes to another company and works for a competitor, that person can use what he/she knows about this customer to benefit another customer. This is a serious and if it happens too often will tarnish the reputation of Mauritius as an outsourcing destination.

This can seriously impact our growth. When India started facing talent constraints, it went to secondary cities where the level of education and communication skills were not as good as in the primary cities. The service quality suffered and consequently the sector lost customers. This could also potentially happen in our sector. Indeed, five years ago call centres were recruiting only HSC. Three years ago they were recruiting SC. Now they are recruiting from Form Four even though it is clear that somebody with less education and experience will not deliver at the same level.

Obviously it is going to affect our FDI, which would slow down the global economy in Mauritius. We need to understand that this industry has a ripple effect on the rest of the economy, directly or indirectly. One characteristic of our labour is youthfulness: the average age is 27 in software development and probably lower in BPO. These young people spend all their salary on clothes; they are a vital layer of the population that allows the economy to keep turning in terms of consumption. So this could be affected obviously if we do not address this. There will be a rise in unemployment because we will not be able to attract more businesses and this could potentially go back into this emigration cycle and overall is going to affect our reputation as an outsourcing destination.

B. The Kenyan Case

Gilda Odera

Overview

We are at a point in Kenya where the IT-BPO industry is picking up and booming. A lot has been put in place over the last three years and our infrastructure is now complete. We have three fibre optic cables in the country, and we have two more coming in by the end of 2011. Our focus is now on marketing and skills. In hindsight

we should have started the skills development even as the fibre optic cable was being laid, so that, when the fibre optic cables were all ready, the people would have been ready as well. Where we are now is that we have excess capacity in infrastructure; we are ready to go. There are a number of companies already coming into the country and setting up. We have local companies expanding their operations, and there is generally an interest in Kenya in terms of the BPO industry.

Focus areas

Although we are mainly in contact centres, we are also in animation. As elsewhere in Africa, we have a rich culture of storytelling. The cartoon, *Tinga Tinga*, which was produced in Kenya, is now running across Europe and in the US and being translated into a movie, a similar process to that of *The Lion King*. We have such huge opportunities in Africa, because our stories are very rich. The unique problem we have in Kenya right now is that Disney is in the country every other week, but there is a shortage of skilled people who are BPO ready. We need to get these people trained and ready as fast as we can.

We are in software development and back office processes. We have a very strong accounting sector in Kenya, and that is an area from which we are seeking to export services. We are also involved in HR processes.

Key issues

Our main problems stem from the fact that the whole industry is new in Kenya. Although we have many people who are trained in the universities, most of them are not ready to work in the various sub-sectors; they still need to go through some preparation stages. We have over 100,000 students graduating every year. This includes 30,000 university graduates, which is expected to rise to 50,000 in the academic year 2010–2011. There is a sudden urge for everyone to go back to school in Kenya. As much as 70 per cent of newspaper ads are about going back to school and on universities, and all of the universities have opened up private enterprises offering opportunities for those who did not manage to get into the public universities. That is why the number of university graduates is expected to keep rising every year. These are graduates from right across the spectrum – law, economics, sociology, medicine and so on – which presents a good opportunity for industry recruitment.

However, as mentioned above insufficient numbers of people are ready to work – as the centres that are already operating are finding out when they have a contract, and need to employ people with practical knowledge. They have to start from scratch and spend up to three months preparing people to work, which is not good for the industry.

Another challenge is that the learning institutions are still not familiar with what the IT-BPO industry is all about. We have a skills task force that has identified the

problem and is putting together a programme aimed at sensitising institutions and getting them interested and ready.

The few institutions that have embraced training in BPO are not able to attract sufficient numbers to pay and register to start being trained. This is a new problem, because two or three years ago, BPO was the craze in Kenya, and everyone was excited about it. A number of people were getting trained but the companies did not have the jobs. The companies are now in a situation where they need to have people who are ready to work in order to get contracts or to scale up but the potential employees are saying they want to see the jobs first. We are at pains to try and get them interested in paying for training with no job guarantee.

We do not have enough trained trainers; a number of universities and institutions say that they are ready to do the training, but that they do not have the trainers. To address this we have to start off by training a large pool of trainers who can go back to the institutions.

Meanwhile, the companies are continuing their own in-house training. This is not going to end because each company has its own unique ways of doing things. Many of them are focusing on soft skills communication and transcription skills and so on. Many students learn basic computer skills in schools but they need training in aspects like using search engines, or doing research.

There is a unique work culture in this industry, and because it is new we have to train people to know and appreciate that, when you are doing international work, you need to be able to adapt to other cultures; you need to handle things professionally, for example meeting deadlines (8am is 8am not 10am). This training can take up to two or three months.

The challenge the companies face is the growing attrition rate as the industry develops. So a company spends a lot of time training all these people and then the next BPO operator comes along, sets up, advertises and takes half the staff. That is expensive for the company. The government is looking at ways of addressing this issue.

Solutions

- The government has established a fund to train trainers for all the different levels of the sector – from the agents to the team leaders to the managers.
- A public–private partnership to introduce finishing schools is one of several World Bank projects in Kenya. Another is a four-year training programme that is expected to turn out 2,500 people for the industry every year. This is a good start but considering the breadth of the industry (contact centres, animation, software development) that number is relatively small. We need to work with various agencies to be able to increase these numbers.

- We need to work with people from other countries who have the expertise that we do not. If, for instance, we want to provide training on human resource and payroll processes, we do not have many people in Kenya who are offering that internationally. We may have the people who are doing the local work in that way, but we would need to partner with companies in Mauritius offering the opportunity to come in and train people in Kenya and take them through this process.
- In terms of work permits, we in the sector need the experts to come in and to be able to work with us. This means we have to engage the Ministry of Immigration to find ways to interpret or apply certain rules to accommodate this unique industry.
- All higher education institutions are now required to incorporate ITES programmes in the curriculum.
- We need to incorporate tried and tested certifications: COPC Inc Standards covering the call centre industry; BCI standards; Edexcel's broad range of qualifications, and all the others. This is essential to build confidence in the country among potential customers.
- The Kenyan government is moving to improve special tax incentives to companies that train their staff. We already have a system where, when you train, you get some rebates, but we want to see those rebates higher for this industry. This is an industry that can employ many more people.
- We are also developing centres of excellence through public–private partnerships (PPPs). A joint project with the World Bank is in the process of establishing a centre of excellence that is expected to produce the highest standards and quality of people for the industry to absorb. The hope is that other institutions, specifically the universities and other training institutions, will learn from this model and be encouraged to become their own centres of excellence. We expect there will be spiralling effects going forward in the next year or two.

Conclusion

In summary, human resource needs in the industry are central. You can have the best infrastructure, and you can do the best marketing; if you do not have the right people with the right skills, the industry is a non-starter in your country.

Note

1. Gartner, Inc. is one of the world's leading information and technology research and advisory companies: http://www.gartner.com/technology/home.jsp

11
The Role of Institutions

A. National Coalitions of Services Providers in the Caribbean

Michelle Hustler

Introduction

This case study is about a services coalition in a developing country that provides a viable solution to developing the services sector in a country. The focus of the case study is Barbados, a very small island (166 square miles) in the Caribbean with a population of 280,000 people. Services constitute 84 per cent of the island's GDP. Services also constitute two-thirds of the world's economy and form the fastest growing component of world trade.

Overview

A coalition is an organisation of stakeholders who have similar goals and who need each other to achieve those goals more successfully. They have many diverse sub-sectoral interests, but common industry-wide objectives. In the case of the Barbados Coalition of Services Industries (BCSI), stakeholders fall into two categories. 'Association Members', of which there are 45 in the BCSI, are professional organisations ranging from engineers, doctors, lawyers and accountants to filmmakers, musicians, reiki practitioners and masseurs. The other membership category is 'Individuals/Companies'.

The BCSI represents the full gamut of what we refer to as the 'non-traditional services sector'. BCSI is not responsible for tourism or offshore financial services, because Barbados is very strong in those two areas, and the whole point of the coalition is to develop and diversify the services sector away from tourism and offshore financial services.

The coalition emphasises co-ordination, co-operation and collaboration. It is an umbrella body for a diverse and fragmented sector. Governments tend to respond well

to co-ordinated lobbying efforts, and this is one of the coalition's roles. The coalition organises and strengthens the services sector. It collects and disseminates information. It fosters networking, partnering and international trade and it contributes to the generation of foreign exchange.

BCSI draws lessons from the US Coalition of Services Industries (USCSI), the first such coalition to be formed. The USCSI was established in 1982 as a response to the WTO Uruguay round. It is primarily an advocacy organisation and its stated objective is:

> *Expanding the multilateral trading environment to include more countries and more services, enhancing bilateral services trading relationships, and ensuring competitive services trade in the global marketplace.*

Essentially the USCSI seeks to expand its market share for its members – very large services companies like AT&T, FedEx, Deloitte & Touche, GE Oil and Gas. The board members and the working committees comprise leaders from MetLife, Microsoft, Citigroup, Verizon and others, and the membership fee is US$20,000. The membership and functionality of the organisation have few similarities with the realities of a coalition in a developing country.

Any services umbrella body, whether or not it is called a coalition, can become a member of the Global Services Coalition, an informal grouping that lobbies on behalf of the global services sector. BCSI is a member. Some other coalitions that are members include: Australian Services Roundtable, Canadian Services Coalition, European Services Forum, USCSI, Hong Kong Coalition of Services Industries, Jamaican Coalition of Services Industries, Japan Services Network, NASSCOM, Taiwan Coalition of Services Industries and International Financial Services London. The following excerpt from a press release of the Global Services Coalition demonstrates its concerns and connections:

> ***Global services businesses call for positive action on trade to create jobs, growth and development***
>
> ***14/10/09 –*** *An unprecedented gathering of over 400 services businesses, governments and other leaders from all over the world took place in Washington over the last two days, with six Trade Ministers, from the United States, European Commission, Australia, India, Columbia and Panama, as well as the Chairman of the House Ways and Means Committee and the Director-General of the WTO.*
>
> *All agreed on the importance of fighting protectionism and allowing trade to bring a multiplier effect to the emerging economic recovery. All agreed that services are fundamental enablers of economy-wide productivity and drivers of economic growth, employment and development. The time has come to recognize this interconnectedness and to refocus the global trade agenda so that new job opportunities in services can provide the necessary platform for sustained economic expansion.*

We call on our governments to draw on the energy of the G20 to overcome difficulties and speed progress in the WTO. G20 Leaders provided a forceful lead in Pittsburgh in September, recognizing that ambitious and balanced completion of the Doha Development Agenda, during 2010 at the latest, is an essential prerequisite in underpinning and sustaining any significant revival of world trade. We urge our governments to re-engage with a commensurate sense of urgency exploring all options to boost confidence and move forward together on all three market access pillars towards a settlement that will achieve positive growth in world trade...

The formation of BCSI

In 1997, the idea of a Caribbean coalition came up at a regional workshop on trade and services. The Caribbean Export Development Agency then commissioned a paper, 'Towards a Caribbean Coalition of Service Industries'. In 2001, CARICOM's Council for Trade and Economic Development agreed that all members of the regional grouping should form a coalition of service industries. Now Barbados was the first; it established BCSI in 2002. Several other coalitions have since been launched, but there are only three that are fully operational today: Trinidad and Tobago, St Lucia and Barbados.

Exploring why the BCSI was established, and the pieces that fell into place: I like to call it a perfect storm because a lot of negative things resulted in something good. Although it was a CARICOM suggestion, at the same time, the professional services providers in the private sector had come together to formulate a response to the Free Trade Agreement of the Americas (FTAA) that was then being negotiated. They were also preparing to enter new agreements with the EU where they would no longer be accorded preferential treatment, and they were facing declines in the agriculture and manufacturing sectors. The year, 2001, was also the year of the 9/11 attacks in New York and Washington, and we felt for the first time how volatile our tourism industry could be, as well as our offshore financial industry.

The Government of Barbados offers free tertiary education, which means lots of very smart people are graduating and unable to find work beyond low-end jobs in the tourism industry. This situation is enhancing the nation's brain drain. There is therefore a need to create value-added jobs. Lastly, Barbados, having a larger educated work force, has a comparative advantage. So for all of these reasons, the government decided to financially support the Barbados Coalition of Services Industries.

The BCSI model

The CARICOM objectives with respect to the development of the services sector in the region are to:

- Provide the services providers with knowledge of export opportunities;

- Organise trade missions to identify and exploit market opportunities;
- Encourage services providers to develop export programmes and promotional activities through local, regional and international collaboration;
- Promote the further development and competitiveness of the services sector;
- Ensure that the highest industry standards are met by all services providers;
- Educate the services providers on relevant aspects of the CARICOM Single Market and Economy (CSME), FTAA, the economic partnership agreements (EPAs) of the EU–ACP, the WTO General Agreement on Trade in Services (GATS) and any other trade agreements or developments on trade in services;
- Educate services providers on relevant government policies that can assist or hinder the export of services;
- Represent the interests of the services sector, including lobbying government and promoting fair multilateral rules for trade in services;
- Promote the formation of services providers into associations;
- Advise governments on market conditions/trends with a view to implement/relax policies to facilitate the growth of local practitioners;
- Encourage strategic alliances/partnerships with regional and extra-regional counterparts;
- Ensure that factors such as population, GDP, size of country and educational resources are contemplated during the implementation of any trade agreement.

At BCSI we have summarised these into five objectives:

- To promote the further development of and competitiveness of the Barbados services sector;
- To encourage services providers to adopt the highest international standards;
- To educate Barbados services providers on relevant aspects of trade agreements and on any government policies or issues that can affect trade in services;
- To represent the interests of Barbadian services providers by lobbying government for legislative and policy changes to promote fair multinational rules for trade in services;
- To provide Barbadian services providers with knowledge of export opportunities, and to promote export activities.

The mission of the BCSI is to foster the international competitiveness of the Barbados services sector by seeking to encourage and enable services providers to export their

services. A developed services sector is informed, organised, supported, contributory, competitive and, most of all, exporting efficiently and effectively.

When it started, the BCSI was not much more than a concept; we knew we needed a coalition but there was no firm work plan and no clear understanding of how to proceed. The templates of the other coalitions that were in existence – the USCSI or the European Services Forum or the Hong Kong Coalition or the British Invisibles (at that time) – had nothing in common with the BCSI reality, with its membership of micro and small enterprises and a board of directors consisting of the association representatives, who generally have not exported. We devised a new model, a progressive strategy towards services exporting. Our template has four components, as follows:

Education and development – The aim of the education is to increase understanding of trade in services and why it is important, what it means to be a services provider and exporter of those services, and export openings in the context of existing agreements and those being negotiated. The BCSI offers a horizontal approach to development, which means it is not sector specific but skills and strategies based to encourage or enable any service provider to export more successfully. For example the use of IT, or the importance of strategic alliances in services exporting, or networking, or relationship marketing. These are areas where we might offer developmental support.

Export promotion – Once you have developed the capacity to export, the next step is export promotion. BCSI to date: we are in the middle of planning our eleventh. The BCSI was one of the first services organisations to offer a services exclusive trade mission and so far has undertaken ten such missions. Again, there is no model for a services trade mission, and it has to be considerably different from a goods mission. Building on our experiences we have now developed a strong services trade mission model.

Lobbying and advocacy – Services providers who have never exported tend to base a lot of their understandings with respect to trade on misconceptions; they tend to take a defensive stance to liberalisation and do not actively consider offensive positions. When we approached our members about negotiating the economic partnership agreement with the EU, they indicated that they wished no additional liberalisation, and of course we could not negotiate in that fashion. Once an organisation has exported, however, they tend to be more offensive. They recognise how some inputs will add value to their offerings and they pay more attention to the policies the government puts in place with respect to trade. We find therefore that persons are much better lobbyists once they have exported. We try to take people through the whole process, from learning about trade and services to developing capacity to export, and on this basis they are better able to lobby the government for the type of framework they wish.

Funding

The BCSI can be described as a 24/7 lobbying agency for the government, which gets paid in advance. The BCSI is fully funded by the government; we receive a subvention every year. Currently we are working with the Ministry of Health to establish a Wellness Council; with the Ministry of Culture to develop a set of incentives and policies for the cultural industries; with the Ministry of Tourism in establishing a strategy for the Health and Wellness Sector; and with the Ministry of Trade in negotiations with Canada. We work with several ministries to collect the private sector's views and to inform the private sector, a service that would otherwise have to be outsourced.

So the government could perceive the subvention allotted to the BCSI as payment for services 'to be rendered'. It could be seen that the government actually ends up saving money, because the amount of advocacy and information dissemination and collection we do on its behalf might otherwise be more costly if there was no coalition.

Role of the BCSI

We have established a core project for each of the BCSI's four export strategy areas:

Education – Our main project is *The Flying Fish*, a bi-weekly e-newsletter that covers trade news, opportunities from all the international financial institutions (which we collect weekly and post on our websites), trade events, and coalition news.

Development – we offer a programme called SECEP (the Service Exporter's Certificate of Excellence Programme). Last year it was a seven-module course (participants could take one or all seven) offering different skills in services exporting.

Export promotion – We organise services trade missions.

Lobbying and advocacy – We established the Association Incubation and Support Unit to support the BCSI Association Membership category, which includes 45 service associations. Eight of these have secretariats, meaning that 37 do not. These associations tend to be very weak; where, at best, they hold an AGM and/or one special event per year. Without strong associations, lobbying and issues related to standards become more challenging, which is why the Unit offers them administrative and development support. Ten associations are currently in our Lobbying and Advocacy Programme. We perform some of their administrative functions, which allows them to focus on the more important elements of running an association – the development of their sector. We also contribute to the development of the associations in devising membership strategies or export programmes that the association themselves can implement.

Box 11.1. Summary of the role of the BCSI

Education or Awareness Building – Raising awareness of the importance of the services sector, and educating the private sector and the governments on trade in services issues.

Institutional Development – Organising the services sector through the establishment of services associations, and strengthening existing associations to serve as meaningful focal points for the sector.

Sectoral Development – Increasing the capacity of service providers to export through sector development initiatives, and encouraging the adoption of the highest international standards.

Private Sector Development – Equipping service providers with the skills to increase their competitiveness nationally and internationally.

Lobbying and Advocacy – Representing the interests of the services sector, promoting a 'services-first' approach by governments, encouraging the adoption of fair multilateral rules for trade in services, contributing the negotiation processes, and collection and dissemination of information.

Export Promotion – Identifying export opportunities, organising trade missions/shows, encouraging associations to adopt export focused programmes, facilitating trade initiatives (inbound/outbound), networking.

A national services coalition requires the support of many in the development of the services sector, namely the professional associations, the government, the private sector, educational institutions, lending institutions, and other business support organisations. These organisations along with the coalition must take responsibility for development of the sector. The government has an important role to play. Many governments talk a lot about their services sector, but, as is the case with other coalitions in the Caribbean, they do not support the coalitions financially – although they are continuously supporting the agricultural and manufacturing sectors.

Challenges

Following are some of the challenges that the BCSI faces:

- Capturing service statistics especially those related to who is exporting what via which mode.
- Inter-regional travel and transportation of goods is both costly and complicated. A single market and economy is not as useful as it could be when our products and personnel have to go up to Miami in the US and then back down again in order to get to Jamaica.
- International property rights, IT infrastructure: again, in Barbados the internet tends to be very expensive, and much slower than what is offered in the US.

- Trade facilitation: this is really practical solutions to trade. When the government negotiates these agreements, and basically says 'Go!' the private sector does not really know how to respond. They have not bridged the gap between what they hope that we would accomplish in, say, the EPA, and what we are accomplishing right now with respect to the EPA.
- Again, private sector perception: people think it is hard to export your services, or you have to be really big, or you have to have some kind of foundation before you can export, and none of that is true. A one-man company – a consultant, an architect, and an engineer, for example – can export their services once they have the right vision.

The most important things to consider when setting up a coalition:

- You need a private sector champion, someone who understands and believes in services exporting and is a pillar of the business community.
- That champion has to be paid: this is really important, because if there is nobody paid to do the work of the coalition, as so often happens, no tangible work really gets done. Everybody involved has a business to run, and running a coalition is a lot of work.
- You need private sector support. Most countries have an agriculture association and a manufacturing association, but very few have a services umbrella body. You need the private sector to push for this, and understand why it is important to have a voice in just the way that the other sectors have a voice.
- Public sector support: government ministries need to understand and tap into the resource potential of the coalition.
- You need a sector assessment: where to start, strong sectors, sectors with the most export potential and so forth.

Financing

Things get really tricky when it comes to financing a coalition. As already noted above the BCSI is fully supported by the government of Barbados. The problem is that our subvention has gone from small to large and now back to small; we are never sure what is going to happen next year – or indeed, year to year. USCSI, on the other hand, at $20,000 a member, is supported by its membership. We have been toying with the business model; if the government does not want to offer the subvention that can sustain the organisation, then we can charge them for the services we are offering or perform other services consultancies and even charge a commission on opportunities we successfully acquire for our members. We also subsidise all of our events very heavily; when there is a trade mission, we subsidise up to 50 per cent of all

costs, including airfare, accommodation and consultancy fees. The alternative would be to decrease the subsidy and increase the contributions of those taking part.

Conclusion

The flying fish logo we have adopted may seem strange since BCSI is not about fish, but it is actually a very good match. Flying fish are very small. But given the right impetus, they can fly the length of three football fields; they can fly really far, if the wind catches them right, and if they are going at the right speed – they break the water and they just go. It is the perfect analogy for the Barbadian services provider; they are also really small, but if you give them the right impetus and the right push, they can compete in any market.

By way of example: A few days into one of our first trade missions, one of the delegates pulled me aside. He was the head of a construction company that had never exported before. He told me, 'We just completed our strategic plan, and it cost a lot of money and it took a lot of time to do. When I get back to Barbados, though, I am ripping it up, because I am not a national company, I am an international company.' It is this light that the BCSI tries to switch on in people: you are not national companies; Barbados is not your market. At worst you are a regional company, and at best, you are an international company. We generate possibilities. This same gentleman went on to do a large construction project at an international sporting event in Guyana, and has established a long-standing relationship with Guyanese construction companies in which he sources products and so forth. This company now includes exporting as part of his strategic plan; he has been successful in Guyana, and he is successful otherwise. This is one of many success stories of the BCSI.

B. Public Support Institutions in Malaysia

Ir. Ahmad 'Asri Abdul Hamid

Introduction

This case study looks at the role of the Professional Services Development Corporation (PSDC) in developing the Malaysian professional services sector. It outlines the rationale for establishing a body such as the PSDC and the challenges that we faced. It ends with an assessment of the way forward in addressing the issues and challenges.

The establishment of the PSDC

In 2000, the government of Malaysia decided that it was time for Malaysia to liberalise its services sector since it had been identified as the engine of growth in the 1995 Uruguay Round. Malaysia had been perceived as a closed, protected market that constrained the development of the services sector, and hence limited its contribution to the country's economic development.

The professional services sector became concerned as a result of the government's decision. The Board of Engineers Malaysia, the body that governs and regulates the engineering profession in Malaysia, together with 21 other professional associations, issued a memorandum to the government outlining the challenges that they would face if Malaysia were to liberalise its services sector at that point in time.

They argued that Malaysia's professional service providers were just not ready for liberalisation, and they needed time. They came up with a number of recommendations about defending and protecting the market, assisting professional services firms in capacity building, and facilitating and supporting the export of professional services firms. They proposed the formation of a lead agency to enhance the capacity, capability and international competitiveness of Malaysian professional services firms.

Against this background the Professional Services Development Corporation was established on 30 April 2002. It was set up as a company limited by shares, and 100 per cent owned by the Ministry of Finance, but placed under the supervision of the Ministry of Works. It is governed by a board of directors comprising public and private sector representatives, and is chaired by the Secretary General of the Ministry of Works.

The rationale for the establishment of PSDC was based on two considerations. The first was the feeling within the professional services sector that they were not ready to face the challenges that come with liberalisation as up to 80 per cent of the firms are small with very limited resources. When it comes to export, if you are small you have to focus your skills, and it becomes difficult to bid for World Bank or Asian Development Bank (ADB) projects. It was felt that public institutional support was required to assist them to find and penetrate export markets initially. The other reason for developing the PSDC is the importance of the professional services sector. In Malaysia, the compound annual growth rate (CAGR,) for the services sector was estimated at 35.5 per cent from 2007 to 2009. The professional services stake has continued to rise; it went up by 216 per cent between 2006 and 2008. It is a growing and highly productive sector: it was estimated in 2008 that the Malaysian employee contribution for professional services sector was about 1.3 times more than the Malaysian average for all sectors.

PSDC have been carrying out surveys since 2008 and we have found that there are 145 professional services firms exporting their services. In terms of breakdown,

the engineering companies lead the way with 25 per cent of them exporting their services, followed by companies in architecture (23%), legal and surveying (15%), and accounting (7%). Overall, 78 per cent is from the construction sector, while 22 per cent is from the non-construction sector: accountancy, legal and so forth.

In terms of size, it is interesting to note that 72 per cent of the exporters are small and medium enterprises (SMEs). In terms of region, most of our projects and firms are in ASEAN and other Asian countries, followed by the Middle East. The involvement of Asian professional services firms in the African continent is very limited.

At the outset PSDC had a problem in identifying the scope; everyone claims to be a professional so where should we draw the line? The PSDC board of directors decided that we would focus on accredited professionals who offer 'a service requiring specialised knowledge and skill, usually of mental or intellectual nature, and usually requiring a licence, certification or registration'. The key element of this definition is that it is a knowledge-based industry, i.e. based on people. These professionals are governed by codes of ethics, and they must have a licence or some kind of certification, qualification or registration accreditation. Our scope, then, covers a number of possibilities from non-construction professions (legal, pharmaceutical, medical and health, and accountancy), as well as the construction ones (architecture, engineering, surveying, interior design, landscaping, town planning and project management).

In terms of our key stakeholders, because of the scope that we cover, we are owned by the Ministry of Finance, and placed under the Ministry of Works. Several government agencies are stakeholders. Some of these agencies do capacity building, some do export, and others are regulatory in nature. Those that are involved in policy include the Ministry of International Trade and Industry (MITI), which is in charge of policy for services, and the Malaysian Industry Development Authority (MIDA), which promotes service investment.

The PSDC vision

PSDC seeks to be the prime mover and leading exporter of professional services in Malaysia. Its mission is to promote our professionals overseas, to build capacity and capability, advocate for the professional, and to be an information centre for the professional services sector.

For capacity and capability building, we concentrate on training in export-related areas like marketing and management, and we try not to duplicate or encroach on the territories of associations and boards by undertaking technical training. We also focus on best practices such as six-sigma and value management, and on soft skills. We include technology and building industrial modelling and 3D design because we believe that in order for many architectural firms to survive or to prosper in the overseas market, they need to know building information modelling (BIM). We also

do training for accreditation – International Organization for Standardization (ISO) and Project Management Professionals (PMP) – because we believe that internationally recognised accreditation is a source of competitive advantage, or at least, a requirement in several markets, particularly in the Middle East.

In terms of international marketing, we promote the achievements and capabilities of Malaysian professional services firms. We use a slogan that was introduced by our former Prime Minister, 'Malaysia Boleh!', which means 'Malaysia can'. Our Prime Minister said, 'If people can build a world-class airport, Malaysia can; if people can climb Mount Everest, Malaysia can'. So he instilled in us 'Malaysia Boleh' and what I am telling the world in promoting our professional services firm is, if other professional services firms can do world-class design, 'Malaysia Boleh': Malaysia can.

We also disseminate information about opportunities and facilitate ventures; help in lobbying for overseas projects and try to get leads in overseas markets for our players; and monitor and assist in addressing issues in international projects. In terms of advocacy, we provide a platform for the professional services sector for discussion, to raise issues with the government and to establish international links. Finally, we have become an information hub for our professional services sector. It is very challenging sending out surveys to our professional services firms: we send out 9,000 survey forms and we get back 400 forms. It takes a lot of persuasion. It is not easy getting information, especially about money; when you ask them about revenue, they will not tell you. So that is why we have statistics on the countries' involvement, we have the scopes of involvement, we have the year of involvement, but we do not have the value. We also publish promotional material for the professional services sector.

Challenges

Company status

PSDC is a very tough organisation to run because the founders established it as a company in order to speed up the process: if you want to set up as another kind of entity, it will take time, but setting up as a company is easier. That poses a challenge because the role that we are expected to play is a developmental one. We are supposed to promote and assist export, and promote and assist capacity building. If you charge high rates to train people to become exporters, they will not come. Instead, if you give them subsidised training they will come. So there is the thing: we are expected to play a developmental role, and we are formed as a company. This means that every year without fail we will get a letter from the Ministry of Finance asking why this company has lost money. Now, they are saying that they are going to stop the supply of fund, and that we will have to be self-sustainable and survive on our own. It is very difficult if you run as a company, and are expected to play a developmental role: there is a contradiction.

Limited stakeholder support

The second challenge arises from the fact that there is limited support from stakeholders. Some of them just do not come, because it is on a voluntary basis, and there are three reasons for that. The first one is this attitude: 'You are a company and I am a company so why do I need you?' We have to develop, then, provide them with something that they need; we have to develop the honey to attract the bee. That is a challenge in itself. The second is that we do not have a source of legal power; we do not have regulatory power or any act to support us. We do not even have the ability to influence policies, and with government funding about to dry up our final source of power will be gone and our ability to attract stakeholders will be weaker. The final challenge relates to our status under the Ministry of Works. This is not something that I complain about, but a lot of others do; accountants in particular want to know why they should come under the Ministry of Works when they have always been under the Ministry of Finance. As a consequence, when we want to champion the cause of our professional services sector, some accountancy firms are reluctant to give us any input.

Moving forward

There have been a number of workshops and high-level meetings to discuss how to position PSDC. One of the proposals is that PSDC be turned into a statutory body, parked under an operational ministry such as the Ministry of International Trade and Industry. Another is that we must be given sufficient and sustainable funding to support our developmental role.

The third one is that PSDC must be formally recognised as a professional services cluster leader, because, to develop the professional services sector as a whole, it needs to be able to influence demand. In relation to production, for example, a lot of firms complain that graduates coming to the job market nowadays are not ready to become professionals – they are not ready to work. PSDC should be looking into such issues and creating training programmes to address them. Being recognised as cluster leader would also give a boost to our efforts to promote ISO (international accreditation) for professional services companies. We say ISO is very useful, and that it is necessary to venture and get projects in the Middle East market. Yet, in local projects, ISO is not given any consideration. This undermines our message; people come back to us and say, 'What is the use of your ISO?' If PSDC were in a position to influence demand, it would be better able to resolve such issues.

Conclusion

The professional services sector is very important to the national economy because it is a highly productive sector, and it can also support other industries. So the success of the professional services sector will also be the success of other sectors.

It is appropriate to establish an entity to spearhead the professional services sector development. However, the entity must be provided with sufficient and continuous funding. The entity must be empowered and recognised as the cluster leader, and ultimately, the success of this entity will depend on long-term and firm commitments from stakeholders.

C. ICT Software Clusters in Uganda

Charles Basajja

Introduction

The ICT Software Cluster-Kampala is a membership-driven organisation that brings together over 50 small and medium enterprises (SMEs) working in software development to share knowledge, information and business opportunities. The cluster facilitators and leadership team created a five-year strategic plan (2010–2015) to give direction to its purpose and thereby provide a guide for implementation of the cluster activities.

Composition

In 2009, an international team of innovative systems and clustering programmes initiated a training of seven participants from academia (most were from Makerere University), the Government of Uganda represented by the Uganda Investment Authority and the private sector represented mainly by SMEs. These pioneering members formed an administrative component called the Facilitation Group (also known as the Executive). The chairperson is the assistant vice chancellor of Makerere University. This later gave birth to the Leadership Group with a chairperson who is also a member of the National BPO Strategy Task Force. The Leadership Group functions as the management team and was elected from the registered membership of SMEs. These two functional settings form the core team that is responsible for the daily activities of the cluster.

What does the cluster stand for?

Vision: To gain recognition for Kampala as the great hub of software development by 2015, and as the leading mover of the Ugandan economy.

Mission: To enhance competitiveness and build capacity in specialised software development in SME companies in Kampala.

Goals:

- To make possible growth and development among business owners working with academia and government to innovate and provide high quality products and services to customers; and
- To use the triple helix advantage to purposely create synergies between academic research and innovation with commercial interests that team up to deliver one solution, with the aid of a good governance environment fostered by the government.

General Objectives:

- To promote standardised projects and business management systems with cluster members;
- To actively build collaboration and linkages among cluster members and stakeholders;
- To establish and maintain sustainable structures that will enable the cluster to run as a professional and profitable company; and
- To stimulate and promote innovation amongst cluster members.

Specific Objectives:

- To carry out activities of opportunities identification, growth and development as well as increase competitiveness, capacity and collaboration between cluster members;
- To carry out activities of advocacy and communication with a view to increase cluster activities and presence in the country;
- To carry out research into the possibilities of taking innovations and commercialising them whilst promoting a conducive environment for operations of various commercial initiatives;
- To establish a standardised approach to project management and technical implementation.

Achievements

Over time, the ICT Cluster has managed to attract membership from various stakeholders in the IT industry and several others from other business sectors. With support from SIDA/SAREC,[1] and working with stakeholders, we have also conducted functional workshops and seminars, and sourced business opportunities for our members. Among other activities, the cluster participates in major EXPOs and trade fairs in its efforts to communicate its vision and attract more enthusiasts. Currently, we are engaged in

the process to establish cyber laws in Uganda, advocating for more relevancy for our members through Private Sector Foundation Uganda, an umbrella body.

Challenges

There are several challenges that an organisation like the ICT Software Cluster-Kampala could be facing yet the most aggressive one is that of busy schedules for all stakeholders, whether from academia, the private sector or government. Insufficient funds is another challenge. We are implementing self-sustaining projects, like the e-Learning Project and the National ICT Awards, to address this challenge but we also need to build trust and confidence among our member companies to take up collaborative business opportunities.

Future projections

In our business plan, which is a component of the strategic agenda, business development is the top priority. We have put in place teams, working to deadline, for the attainment of various goals on projects related to the following areas: Business Development; Technical Certifications; Research and Development; and Advocacy and Communications.

Conclusion

The mandatory concern of ICT Software Cluster-Kampala is a simple commitment to establishing a strong vibrant capacity in IT innovation, enhancing the rate, quality of flow and transformation of innovative ideas into new products and businesses. Through clustering, our member companies will grow and therefore improve their incomes. In the process, the government will be able to achieve growth in the IT sector and therefore the services sector as whole as a result of the cluster potential appropriately harnessed.

IT adaptation in services organisations will increase and thereby make them more efficient, faster and competitive in a global economy. It is evident that the use of IT services, particularly software, to raise productivity has helped several nations with business investments in the IT services sector to achieve higher levels of real, non-inflationary growth and higher living standards.

Note

1. SAREC is a department of the Swedish International Development Cooperation Agency (SIDA).

Section Five

International Trade Negotiations and ITES Export Development

Market access is one of the major concerns of developing countries. Most of the Commonwealth countries that are members of the African, Caribbean and Pacific (ACP) group enjoyed duty free and quota free access to the European market for decades before the World Trade Organization (WTO) was established in 1995. Unprepared for the complexities of the multilateral trading system they have encountered difficulties in negotiating effectively at the WTO because of lack of capacity. Since 1997, the Commonwealth Secretariat has been assisting ambassadors of the Commonwealth developing countries at the WTO in Geneva to strengthen their capacity to participate effectively in the Doha Round.[1]

The two papers in this section focus on commitments at the WTO in the area of trade in services and how this takes place with respect to the movement of natural persons (Mode 4). These issues are viewed from the perspective of the WTO. The importance of telecoms reform is again emphasised, as this is the trigger for bringing down prices.

Under the General Agreement on Trade in Services (GATS), WTO members have made legally binding commitments on trade in services at the multilateral level. The structure of GATS comprises two different types of disciplines. One is a general framework of disciplines, which applies to all services activities. The other consists of the schedules of commitments, one for each WTO member, which specify the extent and nature of market opening.

The general disciplines include non-discriminatory treatment among members, basic transparency obligations, as well as a number of 'good-governance' provisions, including the availability of legal remedies for service suppliers that are adversely affected by administrative decisions. The regime also allows various flexibilities.

These general disciplines imply that even with the absence of specific commitments, there are obligations under the GATS. For example, the 'most favoured nation' (MFN) obligation is a powerful discipline as it prevents discrimination among service suppliers of different nationalities. It also helps all WTO members, in particular the smaller among them, to benefit from the opportunities to access the market that may be negotiated between, or autonomously provided by, the 'heavy-weights' in the system.

The schedule of commitments identifies the service sectors in which market access and national treatment are specifically provided, and also the various conditions under which such access is granted. The GATS is a highly flexible regime. Market access and national treatment obligations apply only in sectors where members have undertaken 'specific commitments'. It is thus possible for each member to adjust its international trade obligations to the particular policy objectives and constraints of individual sectors. Limitations scheduled by members thus typically provide a legal basis for numerical quotas on the number of suppliers or their transactions, foreign equity ceilings or joint venture requirements, or the exclusion of foreign owned companies from domestic subsidy programmes.

An important feature of the GATS is that commitments can be phased in over time, enabling members to make preparatory policy changes and/or institutional (including regulatory) adjustments within a transition period. Nor do commitments have to cover an entire service sector. For example, GATS commitments on legal services often exclude the practice of domestic law, covering international law and the law in other countries only. Members are not constrained to open their public services to competition, and they retain broad scope to regulate for quality and other legitimate policy purposes, even in sectors where they grant full market access and national treatment (the principle of treating foreigners and locals equally).

While the absence of a WTO commitment in a given sector does not mean access to that market is closed, without such commitments no guarantees of access are offered by a member state. If any country wants to have a predictable path for market opening and, ultimately, growth and development, such guarantees are most valuable. This explains why some countries have autonomously scheduled such access commitments, especially in telecommunications, outside of any negotiating context. Some countries that used to adopt a defensive stance vis-à-vis the GATS, have become a driving force in services negotiations in recent years.[2]

Notes

1. See Rege, V (2011). *Negotiating at the World Trade Organization*. London: Commonwealth Secretariat.
2. Mistry, P and N Treebhoohun (2009). *The Export of Tradeable Services in Mauritius: A Commonwealth Case Study in Economic Transformation*. London: Commonwealth Secretariat.

12

GATS IT/ITES Commitments and the Doha Development Agenda

Laura Lee Tuthill

Introduction

There have been a variety of discussions in the WTO of issues relevant to IT and ITES. One of the reasons there has been so much consideration of the impact of technology on business in the services agreement is because many of the services that our negotiators cover form part of what could be called the 'infrastructure of technology-enabled services supplies'.

In WTO the terminology related to IT and ITES has changed over time. Ten years ago we were talking almost exclusively about 'electronic commerce'. We then talked about 'e-business' and 'e-trade' because we realised that the new technologies could have an impact on the way companies do business, not just on the way they supplied their goods or services. Today, we are negotiating matters related to IT enabled services under a rubric we are calling (somewhat obscurely) 'negotiations on cross-border supply'.

WTO commitments

Looking at the number of countries that have taken market-opening commitments in some of the infrastructure for IT kinds of services, we see that at least three of the major support sectors (computer services, telecommunications, and the banking sector) tend to have the highest number of market access engagements in the WTO. That implies they really are globalised industries that can more easily play a supporting role around the world in IT enabled services. There are somewhat fewer commitments on the broader spectrum of support services for online and other IT enabled services, advertising, distribution and various forms of delivery.

The changes in the sector have been essential to governments that want to take advantage of more exports in IT enabled services. The reforms have generally gone quite well. A recent price basket of a new system that the International Telecommunications Union (ITU) is measuring in terms of prices showed that a quite surprising number

of developing countries had moved into the lowest price basket with some of the OECD countries. That was a good sign for progress in IT enabled services.

To the extent we negotiate on improving market access for IT enabled services, we hope that would be a way to help small businesses take more advantage of opportunities in international trade. Bearing in mind the problem of data and where it is available – US data tends to show that the smaller the business, the less likely it is to have internet access or a hosted web for IT enabled services. Hopefully that is changing as prices make it more possible for smaller businesses to afford the level of access they need to do e-business.

GATS is composed of a set of articles that constitutes the obligations and schedules of commitments in which the market axis undertakings – be they great or small – are listed. In terms of guarantees of access in the WTO, although 102 governments (more than any other service sector) have commitments, only 61 of those have indicated in cross-border supply (Mode 1, at least) that they will not impose trade limitations or trade restrictions. There are similar patterns for other sectors, such as banking and telecommunications and computer services as a whole. These are rough averages over a wide variety of sub-sectors but in terms of negotiating improved access, the guarantees will be there for a rainy day even if they are not necessarily needed when things are going well in the sectors of interest to people in IT or ITES.

Key sectors

Looking across the board in some of the IT enabled services sectors, if you isolated industrialised countries, there were three or four sectors that showed up at the very top of the scale for Mode 1 cross-border supply. Between 70 per cent and 96 per cent of countries that committed in computer services, travel agencies, and certain business and professional services, said that they would put no barriers in the way of cross-border supply. The highest – the 96 per cent type of commitments – are mostly in computer services.

Now that compares with emerging economies when we analyse the sectors that had the highest incidences of no limitations for cross-border supply. Interestingly, that might reflect what happens in a negotiating dynamic; you came out with essentially the same sectors, but at much lower proportions of commitment. There may be regulatory barriers other than pure market access restrictions that can affect some (for example, Mode 4) inabilities to negotiate contracts in industrialised countries. But it should be of concern that there is such low incidence of open cross-border commitments (of emerging economies) because of the phenomenon of the subcontracting by some of the larger first-comer developing countries, from which Mauritius has benefitted enormously.

In fact, the globalisation of the whole process for IT enabled services means that you cannot necessarily just target one market, and you cannot necessarily just look at cross-border supply. With respect to sub-contracting IT back office services to other developing countries there is quite a lot of work to be done if governments want to ensure, for either their current exports or potential exports in IT enabled services, that guarantees are there in the WTO for the day when they may be needed.

Professional services

In WTO we also looked at professional services, which tend to be smaller businesses, and the extent to which they could benefit. To some degree, there are certain sectors, like engineering and management consulting, which do quite well compared to others. Apparently, people do not want any cross-border supply of legal services, which has a very, very low level of commitment. Still, even in professional services, where there is a lot of potential for IT enabled trade, there is much work to be done in the WTO context.

IT sectors

In the negotiations in the Doha Agenda to date, computer services is one of the leading areas in which governments have been willing to show their hand and indicate that they will make or improve commitments. The computer services negotiators and *demandeurs,* as we call them in Geneva, have been a very diverse group of both developed and developing countries that have worked extremely well together. They have been trying to address a number of both regulatory and classification issues, so that the commitments will not only be there, but will make sense. This has been a very dynamic area of negotiations.

Classification

We are grappling with several changes in the WTO in terms of classification. For example, do downloadable products fall under services or goods? This is a whole area within itself and there is a great deal of concern overall about the impact of technology on classification issues. Now why does that matter? It matters because in order to ensure that you have commitments on your exports, you have to know what they are called and where they fall in a classification system.

Outsourcing, of course, is a new enough area, but there are many commercial names attached to it, for instance 'customer relations management'. The issue is this: the term 'customer relations management' is not to be found anywhere in any of the WTO or UN classification systems used for taking commitments. So part of our job is to find out where some of these services belong in a generic sense, even if they may be known by new and various names. The trouble is, if you do not know where

'customer relations management' is to be committed, you do not know where to ask for the commitment to be listed, and you do not know once commitments are taken where your rights might be, if you cannot find the commitment.

Cross-border supply

Now, going back to those negotiations that we in the WTO call 'cross-border supply', but to anyone outside the WTO, these would be negotiations on IT enabled services. The negotiating group tends to focus on requesting commitments from others – generally in the areas of back office or front office, logistic and business support services, as well as the knowledge services (like research and development) and some of the professional services – because of the wide range of trading interests of some of the governments involved, from the lower-end to the more sophisticated financial-oriented knowledge services. One of the things they have tried to do is look at classification. These are some of the kinds of services being requested by the group, which calls itself the 'plurilateral negotiating group on cross-border supply'. The members have come up with some solutions for some things: they are requesting a more recent version of UN classification system be used that specifically references call centres. Otherwise, they have tried to pinpoint areas of the existing WTO classification system where they want the commitments made, which is very helpful both to the *demandeurs* and the recipients of requests for improved cross-border supply.

Another interesting thing this group has done is to say that requests are on both Mode 1 (cross-border supply) and Mode 2 (commercial consumption abroad) because we are never sure of where to draw the line between the two. Looking at the way business is done in terms of the structure of a lot of offshoring-outsourcing relationships, it is almost as if cross-border supply and consumption abroad are operating together, and in some cases, even commercial presence (Mode 3) is simultaneously at play. It is an area that those with a vested interest should keep an eye on to make sure that the WTO would be there for you.

Other tools for ITES

Not only is telecommunications and communications reform important for IT enabled trade, but the businesses wishing to get involved must also invest in the computers and many other forms of equipment that is critical to them taking advantage of IT enabled trade. Essentially, the technology behind IT and IT enabled trade is intellectual power and intellectual knowledge, which, at some point, becomes intellectual property that is in itself also traded.

The Information Technology Agreement (ITA) had 70 participants as of April 2011. Officially it covers 97 per cent of world IT trade. These figures should be viewed in the context that while a country might not constitute a huge proportion of world IT

trade, it might find IT trade nonetheless extremely important to its own economy. There are governments also considering joining the ITA in the context of the Doha negotiations, and in the context of accession.

What the ITA members do, either immediately or on a phased basis for developing countries, is agree to implement zero tariffs on a number of IT goods and equipment. ITA members generally would have zero tariffs on software, and non-ITA members would have average tariffs of around 16 per cent. The potential impact of having lower tariffs compared to what non-members tend to have is evident.

The Agreement on Trade-Related Aspects of Intellectual Property (TRIPS) is closely aligned with the IT environment: you often hear about the mobile phone technologies and other computer technologies for doing e-business or setting up websites that have been protected and for which companies want to sell the technology. There are also various fields of open sourcing and similar things. There is an extent to which it seems that the more protected the IT environment is, the more companies will try to share the technologies that can be used to promote innovation. Now the TRIPS Agreement protects trade in intellectual property but does not promote it, as in the sense of the services agreement. Where you are really going to get market access for many kinds of services that have high intellectual property content is rather in the services agreement.

Conclusion

The telecoms and IT services have essentially become the basic infrastructure for even other infrastructure portions of the economy – and clearly for all forms of business – but are critical in particular for IT enabled services.

13

Mode 4: Issues and Ways Forward

Antonia Carzaniga

Introduction

A chapter about Mode 4 in a book about IT enabled services might appear to some as a contradiction in terms – on the one hand services that were traded through the movement of persons and on the other services that are enabled, or traded with the help of IT. But of course, this would be a very superficial take on the issue. Supplying a lot of these IT enabled services often requires, as an essential part corollary to this, associated Mode 4 movements. For instance, if you are trying to export software implementation services it might involve a person visiting prospective clients to make a sales pitch, a person spending a few days or a few weeks at a client's site to analyse their software needs and to discuss technical details and specifications, or it might involve making on-call visits to provide software maintenance services, or to address any technical problems as they may arise. All of these movements underpin much of the supply of IT enabled services, and are the type of movements that would fall under Mode 4 of the General Agreement of Trade in Services (GATS).

What is Mode 4?

When we talk about Mode 4 in WTO we are talking about services that are supplied by a service supplier of one member, and that service supplier may be either an individual (him or herself) or a person who is employed by a service supplier. Through the presence of natural persons, they are supplying services in the territory of any other member.

Category examples

If you take this distinction into account, you end up with a number of categories that WTO members have frequently used when they have undertaken market opening commitments to provide guaranteed access to certain types of natural persons. If the service supplier is an individual, that is the case of a self-employed person, otherwise called a 'professional' in most WTO member schedules. When the person is an employee of the service supplier, there are various kinds of movements, such as a person transferred from the head office to an affiliate (an intra-corporate transferee)

or an employee sent to a different country to provide some kind of service directly to the client on the basis of a contract that his original employer had concluded with the client abroad (what we call 'contractual service suppliers'). Then there are 'business visitors', people whose movement is mainly for the purpose of concluding contracts, establishing business contacts, setting up meetings and so forth.

It is easy to imagine, for instance, a person who is visiting prospective clients to make a sales pitch to fall under the category of business visitors; a person spending a few days at a client's site in another country for a purpose related to the implementation of the software might fall under the category of a contractual service supplier – in the territory of the client, there is not necessarily an affiliate, but he is just moving on account of his company having concluded a contract with the client concerned. You could even think of a role for intra-corporate transferees when an affiliate is established in foreign territory, and then the person has been moved to work for the affiliate, and provides, for instance, on-call client facing. This is already located and employed abroad, and s/he provides services that way. You could perhaps also imagine a self-employed independent professional providing any or all of these types of services by moving abroad and either making a sales pitch or being present at a client side, or making on call visits directly from abroad. All of these types of movements would be considered to fall under Mode 4 of the GATS.

It is also necessary to underline what Mode 4 is not, because when we negotiate in the WTO on Mode 4, it is important to understand the scope of the negotiation. Mode 4 does not cover persons who are seeking access to the employment market of another WTO member, and it does not cover measures that regard citizenship, residence, unemployment or employment on a permanent basis – which is why it is often referred to as 'the temporary presence of natural persons'. Neither does Mode 4 cover foreigners employed by domestic firms in the foreign market.

Given that Mode 4 is a sensitive issue for governments – not only in developed countries, but in most countries in the world – there is a specific provision in the GATS services agreement that reiterates governments are free to regulate the entry and temporary stay of foreigners within their territory, including by applying differential visa requirements, providing that these measures do not undermine the country's commitments in Mode 4.

Mode 4 commitments

Looking at the current situation in terms of Mode 4 commitments in the WTO, where do we now stand? The biggest categories concern movements that are somehow related to the existence of a commercial presence abroad. The two categories in which many developing countries have expressed an interest are contractual service suppliers

and independent professionals. Together they account for only about 7 per cent of all the Mode 4 categories to which WTO members have committed.

Developing countries have clearly identified Mode 4 as one area where they have an export interest, because they feel it is where they could effectively make use of their comparative advantage. But it is fair to say that current commitments in the WTO on Mode 4 are rather shallow. They tend to be limited, first and foremost, by these categories – so access is not guaranteed for all types of movements of persons, but only for specific ones. They are often also limited by other restrictions including by numerical quotas or by what we call 'economic needs tests' or 'labour market tests' (whereby access to the market is determined or guaranteed on the basis of certain – often unspecified – labour market or economic needs in the importing market concerned).

Moreover, commitments are skewed in favour of relatively highly skilled movements and movements that are often associated with a requirement to have a commercial presence in the market. So, for instance, in the case of intra-corporate transferees, it is clearly necessary to establish a commercial presence abroad, before you are allowed to move your staff member onsite as a natural person. This has been identified as an issue of concern by many developing countries, and they have been seeking, in the current round of negotiations, for ways to redress this imbalance in commitments towards relatively highly skilled movements, and movement associated with a commercial presence. The focus of their requests in the negotiations has been on two categories of persons in particular that are dealing from a commercial presence: contractual service suppliers and independent professionals.

Improvements to Mode 4

There have been two rounds of offers where members have submitted their offers of improvements with respect to commitments (in general and in Mode 4) and they overall have been deemed unsatisfactory. If we consider that there are about 70 offers on the table, only about 30 of them propose some kind of improvement to the Mode 4 commitments.

To summarise the main improvements, they concern some additional categories, but a lot of business visitors where they had not been committed before, and not a lot of improvement on the categories that were of greatest interest: contractual service suppliers and independent professionals. There were some more broadly defined categories, such as fewer years of experience required, for example, or a reduced period of pre-employment required before the person could be transferred. Some other improvements concerned the actual fact of adding new sectors to the commitments. This would imply that Mode 4 commitments, which are generally scheduled for all the sectors that are then included in the schedule, would then be applicable there. There was also some increase in the permitted duration of stay. There was nothing, though, that would dramatically change the picture outlined above.

Results of the Hong Kong Ministerial

In terms of negotiations, there were two significant developments at the 2005 Hong Kong Ministerial meeting. First, members agreed a set of objectives to guide them through the rest of the negotiations. There are specific objectives that refer to Mode 4, whereby members are called on, to the maximum extent possible, make new or improved commitments, in particular on the categories delinked from commercial presence, as well as, of course, giving some sort of balance on intra-corporate transferees and business visitors. Also, these objectives target the elimination or reduction of these economic needs tests, because there are often highly discretionary implications or (as well as the objective targets) the duration of stay is sometimes not indicated. Again, this leaves some significant leeway to change things along the way or target the possibility of extending the duration of stay.

The second development that came out of the Hong Kong Ministerial was the launch of a plurilateral process. There has been a plurilateral request specifically targeting Mode 4, which was sponsored by 15 developing countries and addressed only to developed countries – to nine of them in particular. To some extent, the request reflects the same concerns and objectives that had been highlighted in the past by developing countries: greater commitments on categories that do not require a commercial presence, improved commitments for particular services (business services, for instance, of which IT services would be a sub-sector, construction, environmental, tourism and recreational services) as well as targeting the reduction or removal of economic needs tests. It is also noteworthy that the least developed countries submitted another request on Mode 4, which is fairly similar in scope. As a result of this plurilateral process, there have been meetings between the requesting and the requested members, and it is still too early to tell whether this process will result in concrete results as these will only materialise once we see further, revised offers.

Since Hong Kong, we have seen indications of what some of these improved commitments and offers might look like. In July 2008, at what was called a 'Signalling' Conference members exchanged signals – indications of where they might be offering further improvements. The indications were that overall positive signals were given in many service supplier and modes of supply, including on Mode 4, where a number of participants stressed the link between Mode 4 and the development character of the current round of negotiations – the Doha Development Agenda, as it is called. However the Signalling Conference was actually not successfully concluded and at the moment, the negotiations (in particular on services) are to some extent stalled by advances or any progress that might be made in agriculture or non-agriculture market access. So that is more or less where we stand at present in terms of commitments, and where we might be heading in terms of improved commitments in the current negotiations.

Section Six

Exporting ITES – Country Experiences

Concepts without perceptions are empty; perceptions without concepts are blind.
Kant

This section focuses on the experiences of India, South Africa, Kenya, Sri Lanka and Mauritius. The papers are by practitioners, whether public officials, private investors, regulators or consultants. They narrate what they believe are the key factors that need to be considered when engaging in ITES exports. There is no doubt that the issues cannot be discussed in depth in one chapter. What we have are snapshots that may serve to initiate a dialogue between the different participants and hopefully lead to the creation of a network of Commonwealth ITES practitioners. Indeed, the Confederation of Indian Industries already has a very wide-ranging international desk and a specialised Africa desk in New Delhi. The Confederation has organised a huge Africa conclave and also does work in other parts of the world, especially South East Asia and the US.

India's economy has grown rapidly in the last decade driven by services. How did it happen and what was the role of the private sector? The lesson that we can draw is the market is not a problem; there is a market for everybody but there must be a class of entrepreneurs willing to take risks and who are not dependent on state planning or the leadership of bureaucrats. If the local private sector does not have the know-how or capital, apart from attracting foreign direct investment efforts must be made to tap the Diaspora. To succeed countries must play to their strengths and not according to desires or by trying to copy what others are doing.

South Africa is the leading exporter of ITES among Commonwealth African member states, while the Commonwealth Secretariat has assisted Kenya in the elaboration of a strategic plan for the ITES sector. Sri Lanka was one of the first countries to benefit from the Commonwealth Secretariat's technical advice with respect to the development of professional services.

Other interesting responses gathered in the section relate to these questions: Can small states hope to emulate India successfully as they have an issue of scale? Do small island states have a future in IT enabled services? The short answer is an unequivocal yes. Taking the example of India, when its IT and BPO sectors started growing, its domestic market in IT and BPO was very small; so it was not really the size of the

domestic market that made the industry grow, but rather the fact that from the start it was basically an outward-looking industry. That will be true for any small African or Asian country within the Commonwealth. It will have to be a market dependent on external factors.

14
India

Pritam Banerjee, Ameet Nivsarkar and Arunima Sharma

Introduction

India's IT and BPO sector has grown in the last decade or so, from about 1.1 per cent share in global services exports to about 2.6 per cent. So it has more than doubled its share in services exports, which is a phenomenal growth rate.

How come the Indian IT and BPO sector has done so well? One critical element was that there were several Indian entrepreneurs in global IT firms and multinational companies who were dealing with the IT and BPO work for those firms and they saw an opportunity in India. They saw the factors present in India that would enable the sector to take off. This happened in the mid-1980s.

The second thing that happened was a big move towards global cost cutting in the 1980s and 1990s. Global companies and multinational corporations wanted to reduce their operating costs, and that phenomenon continues. Given the competitiveness that has ensued, even a small margin of price and value can make a difference. The third factor was the technology. We had the digital revolution in the 1980s, which meant that the cost of communication and digitising information fell; it used to be much higher in the 1970s and 1960s. In the 1980s we saw a drastic drop in those costs, making it possible for the first time to do things offshore.

There were two other significant developments. One was the liberalisation experience in India, which people mistakenly think started in the 1990s. In fact, it started much earlier in 1984/1985 when Rajiv Ghandi was India's Prime Minister. Many reforms in the IT sector were put in place and liberalisation took off, enabling companies to come in with all kinds of new ideas. The other element is human resources. Part of the story goes back paradoxically to India's need for self-reliance, starting in the 1950s. India always believed in the importance of institutions in creating the skills for itself, so there was enormous investment in engineering schools and other kinds of science and technology centres, especially in the southern parts of the country, which produced the particular human resources needed for the IT sector. Many people often forget the major role of the state in setting up the engineering colleges that produced a very large pool of talent as an indirect result.

We should highlight the role played by the Indian entrepreneurs in coming back to India and seeing all these elements were in place recognised that India provided a great cost position for them to start up IT and BPO outsourcing. That is what provided the key to the Indian IT sector taking off. One good example is Raman Roy, Chairman and Managing Director of the global services company, Quatrro,[1] who came back to Delhi in the mid-1980s with Amex when it started its Japan and Asia Pacific operations, BPO service and IT support service, in New Delhi.

India is still on its IT-BPO journey as it tries to capture the higher end of the value chain. For example, in financial services Hong Kong and Singapore have far greater shares of global trade because of the historical advantage they have in terms of brand liquidity and links with the rest of the world. There are several areas where India is lagging behind but catching up fast, so the Indian IT-BPO story is not yet over. There are many miles to travel and many places to go.

Industry statistics

Market share

The industry has shown resilience and in 2009/2010 grew by about 5.5 per cent. Exports contributed the majority share accounting for about US$50 billion while the domestic market was about US$23 billion. In total, we closed at about US$73.1 billion. In spite of the difficulties we faced in 2009, the industry brought 90,000 jobs into the country, which will take total industry employment to about 2.3 million direct employees. Our research confirms that for every direct employee in the industry another four downstream indirect jobs are created, which puts the indirect employment that has been created by this industry at about eight million.

The US continues to be the single largest market, constituting about 61 per cent of all exports and the UK and Europe together constitute another 30 per cent, so about 91 per cent of all exports go to the US, the UK or Europe. This has been changing over the past few years: the US used to account for 80 per cent of the market. However, it is still not representative of the world and there is plenty of scope to move towards exploring other markets such as Japan, Northern Europe and the Middle East.

Industry sectors

Looking at the sectors that the IT-BPO industry in India serves, banking and financial services followed by telecoms and manufacturing constitute about 75 per cent of the share. Other emerging verticals that we see are health care, retail, and the public sector, but currently the success story, or the majority of the business, is derived from banking, financial services and insurance, manufacturing, and government.

2008/2009 was very difficult for the industry, which had been growing at more than 13 per cent year on year for more than 10 years. Suddenly global markets were going through a downturn, customers were not renewing their orders or taking a long time to renew, existing contracts were being renegotiated, there was huge pricing pressure and more work was being demanded from the industry for contracts that were already signed. Two things helped the industry to grow in spite of this downturn (indeed, it was one of the few industries in the world that grew in 2009). One was the domestic market. The structures and the vibrancy of the Indian economy supported the industry and the domestic market grew at a double-digit rate. The second stemmed from the rapid growth rate in the industry in the previous 10 years, when companies tended to activate a lot of plans. Since they had orders coming in there was no demand constraint, but there was a supply chain constraint and companies were planning to expand in terms of human and capital resources. Therefore, over a period of time companies built up a great deal of unnecessary infrastructure, which gave them an opportunity to look internally and to refocus their priorities on where they could get business from as well as how they could serve this business productively. In fact, some of the Indian companies had record profits in spite of not having significant growth in terms of revenue, because they looked internally, cut down the fat, became more productive and invested in the infrastructure required. These are the two factors that helped India weather the financial storm of 2008/2009.

Unemployment

One constant concern in key markets is whether the IT-BPO industry causes unemployment due in particular to the fact that it works on the offshore delivery model. The large slowdown in most major markets, especially the US, UK and Europe, gave rise to questions about whether unemployment was being caused by the IT-BPO industry and how that could be addressed. We were concerned about whether this would make governments overseas become protectionist and start coming out with legislation or regulation that would hamper the industry. We worked extensively on this and have a team that continues to work with key policy-makers around the world. We are happy to look back and see that sanity prevailed and there was no major restrictive legislative or regulatory action anywhere in the world. However, in this period before employment picks up in the US, the local populations are putting pressure on the elected representatives to do something about unemployment and they do not have an answer, so they have to look at what other responses they can give to their local population.

Changing demographics

Having said that, if one takes a slightly longer-term view, 10 years from now there is going to be tremendous movement in terms of demographics and economics across the world. Large geographies such as Japan, Germany and Spain are undergoing

demographic shifts in that their populations are ageing. In the coming decade there will be an absolute decline of 7 per cent in Japan's population. Spain and Germany are not at that level, but they are going down the same path. Even the US, which will have a net addition to its population, will still have a larger population retiring than is in the workforce. Across the developed world the productive workforce aged between 21 and 59 is diminishing and this is an opportunity for countries such as Mauritius and India – young countries – to see how they can fit into the global world order and provide the amount of services required.

Economic shift

The global downturn has shown that the centre of economic growth is shifting east and more and larger business opportunities are coming from markets that are not traditional ones. India's telecoms success story is a prime example. India adds about eight million mobile connections every month. This is by far the largest absolute market in terms of growth across the world, but this market is very different from the market in Europe or the US because the average revenue per user is 1 per cent or 2 per cent of what it is in the US. However, companies are still profitable and able to serve this market because they have a business model that is very different from the traditional telecoms business model. Therefore, if we are to serve the new and growing geographies, such as China, Korea, India and Malaysia, there is a need for new business models to be developed that can tap this opportunity.

Growth to continue

All in all, the industry is very optimistic that India's growth story will continue. In fact, a NASSCOM study projects that exports will increase from US$50 billion in 2010 to US$175 billion by 2020. India continues to be a destination that will be part of this IT-BPO growth story for the following reasons:

- The talent pool and the education infrastructure are in place;
- The costs of working out of India continue to be very competitive in the rest of the world because there is scale available;
- Companies are moving up the value chain, so they are able to provide more services at a competitive rate and cost;
- Over the past 10 years companies have developed robust processes to enable employees to carry out a significant part of work that used to require consulting experience;
- As the Indian market continues to grow it provides more and more stimulus for the industry;

- The acceptance of the Indian consulting story across the world has helped the industry to grow.

Lessons

What messages are there for those Commonwealth countries that have yet to jump into the business? We can start with the basics, the availability of finance for this particular business and the encouragement of entrepreneurship through various policies. These are the government policies that need to be looked into. This was done very well in India and is one of the reasons that enabled the Indian IT industry to grow. In addition, there needs to be skilled people and language proficiency. In India we have technical education, and language has played a very positive role. As the population in urban cities is largely English speaking, the education in public schools tends to be more English-oriented. We now have emerging markets that we want to cater to and, accordingly, we need to work on language proficiency.

Certification played a very important role. India was one of those countries that had the maximum number of ISO-certified companies, because being a developing nation we knew that the developed countries were concerned that we might not do a good job quality-wise. There are very good laws on quality certification and security certification and companies have been forthcoming in these areas.

The basic requirements for success are as follows:

- A business environment that is conducive to industry needs, with the onus on infrastructure (e.g. telecoms infrastructure) and licensing. This requires government regulatory bodies to work very closely with the industry, understanding the challenges, needs and requirements as they come along.
- Workplace policies, such as requirements to work night shifts or in a general security environment, are very important.
- Social awareness creation to combat certain stigmas related to particular jobs. For example, the debate on call centres typically focuses on whether it is knowledge work or marketing work, or whether the younger generation is being encouraged into slavery rather than to study and do PhDs. The industry and government should take responsibility for this kind of awareness creation, arranging training from bodies such as NASSCOM and CII, which have been working very closely with the industry. Indeed, within universities the programmes for ITES education have also progressed, so students with potential can be picked up and trained accordingly.

Challenges

When a country sets out to establish an IT industry, it is likely to face the following challenges:

- Very strong employee attrition;
- Scalability;
- Rising operational costs and decreasing margins while the industry is growing;
- Data security;
- Storage infrastructure management;
- Disaster management: identify distant geographical locations that are available for use in emergency situations (tsunamis or earthquakes or terrorism or other such periodic environmental/political crises);
- International bandwidth and telecoms connectivity, which is very important feature.

Niches

Ultimately, every country needs to assess the positives in its own market since the IT-BPO global sourcing market is very big. In India there has been phenomenal growth in the telecoms area, some manufacturing and high tech, banking and finance, knowledge development and BPO. But while it may enjoy the largest share of the global sourcing market, the ratio of the total market size compared to its exports is less than 10 per cent. So there is plenty of room for growth and each country can participate in this. In fact, the more countries that can participate in it and make it more secular the larger the rate at which the global sourcing market will grow.

However, each country needs to find its own niche, its own speciality. For example, the speciality for Mauritius is its bilingual population. The French market is one that the Indian industry has not penetrated or been able to succeed in at the rate at which it has succeeded in the English-speaking market. Mauritius has that strength and should play to it. Similarly, each country can identify its strength and play to it rather than becoming a 'me too' to the bigger service providers across the world, like an IBM or an Infosys. This country perspective also applies within the industry. In the Indian IT industry, the larger companies are growing at a faster rate than the smaller companies, because the smaller companies are not able to compete with the larger companies when it comes to economies of scale and operations across the world. The only smaller companies that are growing fast are the ones that decided to specialise.

One could decide to specialise in a particular geographical region, like the French market, for example, or a particular service line, like having a centre with excellent telecoms connectivity and infrastructure that data centres could look at. It could even

be with respect to a specific vertical. For example, Sri Lanka has a disproportionately high number of chartered accountants compared to the rest of the world, so maybe something in the insurance or accounting industry could be the specialisation for Sri Lanka.

The idea is for countries to look internally at what their strengths are, specialise in that strength and be a part of the global dynamic. The Philippines has recently done exceedingly well in English-speaking call centres, with call centres growing faster than they have been in India. The growth is coming from global clients, but also from a lot of Indian companies that are relocating their centres from India to the Philippines. This is excellent, because that will help the entire ecosystem to grow. If the strengths are in the Philippines compared to India then companies can invest and go there as well. Therefore, it is advisable for individual countries to look at what their strengths are and then target not just the end customers but also the large service providers to set up operations. That will make the country grow much faster.

Entrepreneurship

We must emphasise the role of private entrepreneurship in overcoming the initial hurdles posed by the poor quality of infrastructure. Infrastructure continues to be a big challenge, whether in terms of the traffic jams or the power demand. In India, the government has given a free hand to the entrepreneurs and the industry has not been heavily regulated. The entrepreneurs sensed the opportunity and looked at what could be done. So most of the BPO firms that are present in India generate their own power whenever power fails. For instance, in the IT-BPO hub outside New Delhi in a suburb called Gurgaon, there is no power for more than 12 hours a day, so it is captive power units run by the IT and BPO firms that provide power. The same is true for transportation. Most of the companies have very intense Six Sigma-level taxi management services to get their employees to the office and back home again. At Six Sigma level there are 500 taxicabs waiting outside a BPO, each working to ensure on-time performance, maximum fuel efficiency, and that the load of each taxi is not below a certain limit. There is no public transport, so it has to be done this way. In education, the firms did a lot of in-house training to prepare talent for the global market. What the Indian universities provided were language skills and the basic analytical framework, but the firms developed internally the specific skills sets needed for servicing this market. Hence the entrepreneurs have played a very important role and that has led to the companies and the industry growing and succeeding.

Another very important point relates to the linkages that Indian entrepreneurs had with global markets from the outset. Many of the firms that were started in India, whether they were third party or multinational companies coming back to invest in the economy, were led by Indians who were based abroad and had already acquired experience in this field. India gained a unique advantage from having a Diaspora

that was so well networked in the global IT and BPO sector. This is not going to be true for many of the African nations perhaps, in which case they should look to the services providers in mature countries like India or perhaps within Europe and get them to relocate to their countries to offer those services. That is going to be critical; foreign direct investment will play a very important role in ensuring the success of an ITO-BPO sector for these countries.

Public–private partnerships

There were some initial public–private partnership investments made in the 1970s and early 1980s when the hardware segment of the industry was taking off. They were not very successful. There were some success stories, such as HCL, which benefited from some public partnership, but that was purely in the hardware sector. However, it did create some critical skills that were later adapted by the IT-BPO industry. For the most part though, the industry was led by the private sector and, at least in the initial stages, there was not much public investment. In fact, it is often said in India, 'The best thing that the government did with the IT-BPO sector was not to do anything with it at all.' There was no government industry promotion policy or anything of that sort; it grew naturally under its own entrepreneurial steam.

However, there were some government projects and schemes that came later, in the mid-to-late 1990s and continue today; the Software Technology Parks of India (STPI) is one such development scheme and there have been some others. The government has also now taken on board the industry's concerns about the skills shortage and there have been some initiatives there. But private sector leadership has been one of the main reasons why the industry has succeeded so well, because more than any other it needs flexibility to adapt very quickly to changing global situations and it would not be amenable to a five-year plan.

It would be true to say that this has been a private sector success story, but the government has played a very significant enabler role. There have not been any formal partnerships in the industry, but the government has provided an enabling environment in terms of tax policies, encryption, data security and information security policies, and the education support that is required. This approach has proved to be successful in India's case.

Venture capital

On the question of attracting venture capital there is a very simple answer: money flows where there is opportunity. There was no significant government policy to promote venture capital. In fact, the government used to run a number of venture firms that were not utilised for many years. It is the domestic growth along with the success of the industry that has opened the floodgates for venture capitalists to come

in; they see an opportunity and they come in. There is more capital in the world today than ever before and that capital chases the opportunities, which are growing because the traditional markets such as Europe, Japan and the US are not growing. There is de-growth over there, so the venture capitalists have to look at emerging markets for opportunities and that is why they are moving here.

Although the government did nothing in terms of policy on venture capital, it does have an interest. For instance, it created a task force on IT that involved some of the venture capitalists from the US who would make regular visits to India and interact with both the government and the industry. There is a company called Citigroup in India, which played a positive role in providing much of the initial seed funding to many of the IT companies. Citigroup had a scheme whereby it would identify those entrepreneurs who were creating waves and establish a promotional stake with them. A company called I-Flex is one that has grown because of this scheme. There is also some focused venture capital available through government funding agencies. When these companies want to develop they put venture capitalists on their boards to evaluate such entrepreneurship and, as mentioned above, that is how money came in.

To sum up therefore, government can encourage venture capital but this cannot be done on a formal basis. It is also smart to allow multinational companies to come in and do some handholding.

India and Africa

Many of the national member companies have invested in Africa, though largely the involvement has been with northern Africa. Investments have gone into Egypt, Morocco, Tunisia and Algeria. In some of these locations our customers as well as our own member companies have set up development centres and we have some level of interaction and agreements. With Egypt, for example, we are working to see how we can co-operate and work together. It is difficult to generalise for one large continent as such, but we work on a number of mutually beneficial models with various countries, largely at the level of IT assembly. Large companies have the resources and the teams to go ahead and do the evaluation and development in a particular country, but the small and medium-sized companies prefer to work under a platform such as NASSCOM and to interact with their counterparts. Thus we have a fair number of delegations interacting and spending time in other companies.

Tier II and III cities

Developing tier II and tier III cities has been a challenge. It must be acknowledged that India has not been successful in getting tier II and III development to the desired level. About 91 per cent of all business in the IT-BPO industry in India takes place in just six cities. India is a very large country and the rest of the country accounts for only 9 per

cent of the business. Typically, since many of the large cities in the tier I category have educational hubs, the supply of talent is concentrated there as the graduates pass out of the university system. That is one challenge.

The second challenge is infrastructure connectivity, availability of international airports, telecoms and power connectivity. There is also a social challenge we struggle with: the tier I cities have all the amenities required by industry employees – schools, hospitals, shopping complexes, movie theatres – but these are not available in the tier II and tier III locations. This social infrastructure needs to be developed in tier II and tier III locations to attract people to run the offices and developments when they are set up. We are working with the government on this important challenge to ensure that these social aspects are put in place.

Note

1. Raman Roy founded Quatrro in 1992 and it now has more than 220 enterprise clients, 9,000 small and medium enterprises and 300,000 individual customers around the world.

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South Africa

Pumela Salela

Introduction

Technological advances have accelerated possibilities for services trade across borders and have led to more cross-border trade in many services. A number of services that previously could only be provided through physical proximity between the consumer and the supplier can now be traded via the internet or other networks. This includes, for example, e-banking, on-line computer and IT services, many forms of professional and consultancy services, and on-line sales of hotel reservations, airfare and even goods. In addition, many companies can now sub-contract or 'outsource' activities they once performed in-house. Business process outsourcing (BPO) has created many opportunities, not least for developing countries, and has also opened doors to trade for small and medium enterprises (SMEs). Outsourced activities are often fairly low-skill oriented, but increasingly knowledge intensive activities, such as research and development and financial advisory services, are also outsourced.

Background

As early as 2004, the Government of South Africa identified the BPO offshoring sector as one of the high-potential sectors targeted to boost the country's economic growth and create employment. The Department of Trade and Industry as the lead department in the development of the sector drafted a BPO sector development strategy. It then joined the Business Trust and the BPO industry body, Business Process Enabling South Africa, to set up the BPO Sector Support Programme, with the assistance of professional services firms. The programme was established in September 2005 to enable actors in the public and private sectors to work together to establish South Africa as a preferred location for outsourced business processes and thereby to create 100,000 jobs (25,000 direct and 75,000 jobs) by 2010.

On 6 December 2006, the South African Government approved a Cabinet memorandum recommending substantial government assistance and support for the accelerated development of the BPO sector. The assistance programme was formally launched in March 2007. As part of the BPO Sector Support Programme various work streams have been developed and tested since 2006. The work streams focus on:

- Supporting the effective marketing of South Africa as a competitive business process outsourcing location;
- Developing and deepening the pool of internationally competitive talent;
- Creating an enabling environment of incentives and infrastructure to support the sector;
- Improving the quality of the South African offering;
- Strengthening the industry body capable of mobilising and representing the key stakeholders;
- Developing BPO in designated areas (mainly tier II and tier III towns); and,
- Reducing telecommunications prices for BPO.

Why ITES is a priority

The turn of the twenty-first century saw outsourcing gaining momentum among the developed countries of the world. With IT enabled and e-commerce services being integrated with businesses across a wide spectrum of industries, there was a need to be cost-conscious while providing round-the-clock support. The initial years of outsourcing started with small non-core work. However, over time the benefits became clearer and confidence grew. Strong talent and cost advantage, together with professionalism and improved skills in customer relations, paved the way for high-end, critical non-core work to be outsourced. Soon, the numbers of players mushroomed in highly specialised spaces like product development, and they gained popularity due to their strong engineering team and product-management capabilities. In the main, ITES has opened up global commerce, particularly in Mode 1, which involves delivery to another country from the territory of the supplier. Through these activities the necessary foreign direct investment can be brought into the supplier countries, thus generating revenue for the country.

Whilst it is acknowledged that IT enabled services cut across a wide spectrum, which includes various sub-sectors within sectors, the demand for business process outsourcing has outpaced other forms of ITES in recent years. South Africa has identified BPO as one of the priority sectors that has the potential to halve unemployment and poverty by 2014. In South Africa, services account for almost 70 per cent of the contribution to the economy's GDP. South Africa has a US$960 million annual BPO industry, which is forecast to grow to US$1.9 billion by 2015.

ITES has the potential to lift the economic status of a large mass of people. It relies mainly on human resources, which form 50 to 70 per cent of the cost base of any BPO service provider. This means that a much larger share of business revenues gets distributed amongst employees in the BPO industry than any other industry. In terms

of the multiplier effect, for every direct job that this sector generates it provides up to four indirect jobs in the support economy. The increase in the number of jobs and rate of employment is significant.

To serve the export market certain new skills sets need to be developed. Sometimes employers and foreign customers conduct training of such employees. An economy gains significantly through such exercises as it acquires new skills that can be redeployed for domestic purposes as and when required. The growth of the BPO industry also creates demand for ancillary services, such as housekeeping, security, catering, transport, language and culture training, telecoms and computer equipment provision and maintenance, and real estate. Caterers are required for shift catering services. Support staff is required for maintenance of world-class premises. Fleets of vehicles are hired along with shift drivers for call centre employees, to maintain on-time delivery schedules to supplement opportunities for the less skilled and less educated. It also facilitates the growth of small and medium enterprises.

The constant focus on performance metrics such as quality, timeliness, and accountability, helps improve work discipline and professionalism. Such attributes can, in turn, help firms in improving organisational systems and in adopting more globally competitive and strategic management approaches. Moreover, as such generic skills are portable, they can potentially benefit other sectors of the economy. Overall, gains for the country are enormous in that ITES exports help in creating a strong country brand and a high recall value.

Promotion initiatives

South Africa adopted a two-pronged approach in promoting its ITES-BPO sector: to attract top global companies to establish operations and remain in the country; and, to attract companies within identified segments that could benefit from operating in South Africa and expand employment for South Africans.

A number of initiatives were undertaken to execute the marketing strategy. First, gathering market intelligence that focused on global research for the purpose of strategy development. Local and international scans were undertaken to track developments in the operating environment and research undertaken into selected issues. Second, broad-based marketing focused primarily on the organisation of outbound marketing missions and the production of collateral material to support these. Targeted marketing was based on the creation of a database, the development of key account plans and fact packs for priority targets, the creation of an economic model (which could be used by investors to assess potential investments in South Africa and their return on investment), and the provision of support to lead managers for the priority targets. In addition, a value proposition for the country was developed. Support was provided for a number of marketing missions to source countries. Additional support

was provided to facilitate the entry of the first new major investors to South Africa. Finally, a strategy review was undertaken.

As a result of these efforts, in the last three years South Africa has managed to attract four of the world's top players in the BPO space, namely:

- TeleTech, which was the first to respond positively, employs more than 55,000 people in over 17 countries who handle more than 3.5 million customer interactions each day.
- Aegis services its clients from 32 locations with 20,000 seats and more than 31,000 employees. It is part of the Essor Group, one of India's largest conglomerates.
- Teleperfomance has the largest global footprint in the industry with 249 contact centres and a presence in 47 countries, servicing over 75 markets and 18 geographically diverse near-shore and offshore locations.
- Genpact is a leader in the globalisation of services and technology and a pioneer in managing business processes for companies around the world. Genpact manages complex processes in multiple geographic regions, delivering its services from a global network of more than 35 operations centres in 13 countries.

Challenges

The cost of telecommunications and lack of broadband penetration in rural areas continue to inhibit rapid growth in this sector. As a relatively new trend, BPO faces few formal regulations. Nevertheless, it can be affected by measures in related industries. For example, cross-border BPO services that use VoIP or private networks may be confronted with restrictions on the use of telecoms services or requirements that the transmission may be terminated only on monopoly networks. This can raise the cost of performing cross-border BPO and reduce its feasibility. In South Africa VoIP is legal, however the local loop remains to be unbundled. Second, a systematic stream of work-ready entrants is required as an increasing number of global investors view South Africa as an attractive destination. South Africa needs to draw lessons from countries such as the Philippines and Malaysia where linkages have been established between the BPO industry and educational institutions.

To establish a commercial presence to supply BPO, companies must adhere to export market regulations and costs associated with establishment, investment and incorporation in the foreign market, as well as local labour laws. Related to this is the issue of restrictions on government procurement. In recent years, perceptions in some countries about jobs lost to foreign outsourcing have led to laws prohibiting the outsourcing of public contracts, or government procurement of services to foreign

firms abroad. Such laws may also prevent domestic companies from sub-contracting portions of their government contracts to firms abroad. However, a foreign company with a subsidiary in the country concerned may still qualify to bid on government contracts. It has been observed that, initially, investors have a difficulty in understanding South African employment laws and affirmative action policies. However, upon further explanation and the provision of the necessary support to understand local laws, the transition for these companies becomes easier.

As a rule, South Africa does not offer tax breaks. It became a challenge to compete with countries that offer, for example, 10-year tax breaks. However, measures are in place to circumvent the non-availability of tax breaks by offering, at a national level, substantial incentives related to the capital expenditure investment, training and skills development and other additional 'sweeteners' that can be negotiated at a provincial and local government level. The issue of Afro-pessimism and perceptions around the ease of doing business in the African continent remain critical challenges for African countries that aspire to be significant players in the BPO global market. It has been observed that there are still pockets of the Western market where it is believed that the only export Africa has to offer is 'hunger, disease and famine'. This attitude has led to resistance when African countries position themselves as countries that are capable of providing professional and globally competitive ITES. South Africa in particular, has been fraught with the negative perception of crime, so we have adopted the term 'Seeing Is Believing', which reflects the change in investors' perceptions when they land in the country. Other investors have cited the issues of rising inflation and the volatility of the local currency as their major challenges when investing in South Africa's BPO-ITES sector. On the whole, what remains a key objective is how to successfully integrate SMEs into the value chain of major players. Another challenge experienced is how to ensure that BPO-ITES operators are evenly spread geographically across the country, including those areas that are considered rural, in order to stimulate economic development.

Lessons learned

In the same way that a house needs a solid foundation, the ITES sector needs the right policies and strategies to create an enabling environment for long-term sustainability of the sector. Government support is essential from the outset to provide a strategic direction, set out appropriate policy directives and set aside the necessary funding in order to drive the sector forward. Further, collaboration with the industry and its players is important as they are the ones who have first hand experience of the sector and are better able to articulate their needs and the form of support required from the government.

A coherent and nationally co-ordinated message is imperative. Confusion is created if provinces within a country each approach potential investors in foreign markets,

advancing their own value propositions or advantages over other provinces. Potential investors prefer to have one point of entry to work with in a country, be it an organisation or an allocated 'account manager'. Equally important is to identify the key target markets and to have dedicated personnel to present them with a clear and concise value proposition. As ITES is a fast moving sector, what was 'in' yesterday may not necessarily be the trend tomorrow. This dynamism of the sector has to be monitored carefully by conducting benchmarking exercises, and mapping out competition and other country movements. This also opens opportunities for co-operation and joint collaboration in some instances.

It is important that the country strategy is anchored in intensive research and substantiated with accurate facts and figures as potential investors rely on this information to make decisions within a short space of time. Although not strongly articulated, soft issues play a role in the investor's decision-making process. Considerations like cultural affinity, product affinity, business culture and general professionalism of parties involved should never be underestimated. Finally, it is important that progress is constantly monitored and evaluated against set goals to ensure that objectives are met continuously. In some instances this might require a deviation from the original plans; however, as long as the vision is stated and remains unchanged, it will always be possible to attain it.

Conclusions

South Africa is one of Gartner's top 30 destinations, according to a recent report by the research company. However, this is based mostly on the country's good language skills. The country does have the potential to compete with some of the strongest exporters of BPO. The local population generally has good language skills, which is essential in this sector because its functionality is based on telephonic verbal instructions. The areas that Business Process Enabling South Africa, the national industry association, has highlighted for growth include financial services, desktop publishing and software development. Legal process outsourcing has been earmarked as a core, focus area for 2010 and beyond. This would ensure that the country moves up to the higher end of the value chain in terms of ITES export. South Africa's broadband costs and connectivity became less of a concern after the country hosted the 2010 FIFA World Cup, as more undersea cables became available thus leading to increased bandwidth. In light of this positive development, the relevant authorities have already announced initiatives to increase bandwidth at national, provincial and local government levels. This can only be good news for the growth of ITES in South Africa and the rest of Africa. The move will result in increased efficiencies, which will give South Africa further niche competitive and comparative advantages.

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Kenya

Peres Were

> *...Kenya is an emerging market for us, not a Third World country. You can't compare it to most other countries in Africa. It is the perfect place to live... Kenyans have great accents...we believe that Kenya can be successful in BPO...*
> Head of General Electric Business Services, Africa (2009)

Introduction

Kenya has entered into the vibrant global market for business process outsourcing and IT enabled services (BPO-ITES). It however lacks empirical evidence and tailored research to guide its policy decisions and investment options. There is demand and specific requests from the government and key stakeholders in the sector for this type of information.

With this in mind, the School of Computing and Informatics at the University of Nairobi conducted a study, 'Development of a Business Process Outsourcing Industry in Kenya: Critical Success Factors', in collaboration with the Kenya BPO and Contact Centre Society and the Kenya ICT Board. The International Development Research Centre (IDRC) provided funding. The study covers four vendor countries (India, Kenya, Mauritius and South Africa) on the policy, legal, regulatory and institutional frameworks; human resources, youth and gender issues; and various forms of incentives. The study also researched outsourcing issues in two client countries (UK and US). This paper is a summary of the study and its findings[1].

State of the BPO-ITES industry in Kenya

The BPO industry in Kenya has been growing steadily since the first international call centre was opened in 2005. There are currently about 50 BPO-ITES firms operating in Kenya, providing various services such as data processing, digitisation, transcription and call centre. A growing number of firms are offering high-end services such as software development, programming, research and development, and finance and accounting services. The domestic call centre space has been rapidly expanding with large telecoms and banks setting up their captive call centres to handle customer service enquiries. In other developments:

- The landing of three fibre optic cables in Kenya – TEAMS, SEACOM and EASSY – is expected to result in further growth of the BPO-ITES sector in the country. Already internet bandwidth prices have fallen significantly from a high of US$6,000 per megabyte to US$500 per megabyte since the cables were activated. It is expected that prices will go down further.
- There is strong government commitment to the growth and development of the BPO-ITES sector in Kenya. BPO has been identified as a flagship project in the country's long-term strategic plan, Vision 2030. The government of Kenya has also started digitising millions of records dating back to the early 1900s. As the government outsources this work, it is expected to result in increased capacity of the local BPO-ITES sector.
- Through the Kenya ICT Board, the government is developing a Centre of Excellence with funding from the World Bank. This is meant to build capacity so that there is a pool of trained individuals who can work in the BPO-ITES sector. The Kenya Investment Authority is a government agency that is currently developing a trade and investment policy for the BPO-ITES in Kenya. This will include specific incentives to promote growth in investment in the sector.
- The Export Promotion Council, a government agency that is charged with promoting Kenya's export of goods and services, has been providing training and workshops on export readiness for professional services firms as well as organising international networking meetings internationally for them.
- In December 2009 the Prime Minister of Kenya formed the BPO-ITES Working Group to monitor, co-ordinate and streamline the BPO-ITES activities of all government Ministries and agencies dealing with the sector to encourage optimal growth of the industry. The Working Group is also tasked with developing a strategy for rural BPO to be implemented by the relevant government agencies.

BPO Study

Methodology

The researchers used a case study approach as the BPO industry is relatively new in the Kenyan context and not much related research has been done. The BPO industry is still rather complicated to analytically assess. The case study approach is best able to yield a rich picture of the situation that could be further subjected to comparative analysis. It is also noted that the depth of enquiry facilitated by the case study method is significantly greater than other research methods such as surveys, focus groups, in-depth interview, experiments and analysis of archival evidence.

A case study protocol was developed to guide the researchers and to guard against discrepancies between them (Table 16.1).

Table 16.1. Case study protocol

1. Protocol overview	• Research objectives; • Key issues on which the researcher needs to focus.

2. Field procedures	• List of informants included:
	o Policy-maker(s) in the IT sector;
	o BPO association official(s);
	o A senior manager (strategic level);
	o A manager at the tactical level who deals with the BPO client/vendor relationship;
	o The IT manager;
	o A worker at the supervisory level;
	o Workers at the operations level;
	o Targeted youth and women informants.

3. Case study questions	• The key questions to guide the researcher; • For each question: a list of probable sources of evidence including informant comments, documents, artefacts and observations.
4. Guide to the case study report	• Definition of case study audience; • Outline of report (in soft and hard copy); • Guide to usage of documentary evidence; • Set of key documents that should be collected for inclusion as appendices.

During each visit the case study researcher collected the following evidence where available:

- Firm's URL and website information;
- Documents describing the BPO strategy;
- Interview notes/transcripts (as in the protocol);
- Record of direct observations;
- Archival records.

The BPO sectors of interest were data entry services, data transcription services, call centres and contact centres (combination of data entry, data transcription and call centre activity). Interviews were conducted in each sector with clients in developed countries that source BPO services from pioneer or emerging environments, and with those that are considering outsourcing to pioneer or emerging markets as well as with consultants who help clients identify vendors. Policy-makers and BPO association officials were also interviewed.

Key Findings

The research found that in India, Mauritius and South Africa, the BPO-ITES industry is given a high priority, there is a strong and appropriate legal framework, and the

industry associations are effective and key in driving the industry. In South Africa the national and regional associations receive state funding.

On human resources, the study found that India introduces children to science and technology at a very early age and it has a national skills registry. In Mauritius, the national association has been working with the government to create an IT academy to provide training for the industry.

The research found that the countries had differing measures for gender equity, participation of youth in employment and incentives in the BPO-ITES industry. It was particularly noted that South Africa did not have tax incentives but had a variety of investment and training and skills support incentives, while Mauritius had abolished all the tax incentives except for a 15 per cent corporate tax.

For Kenya, the research found a widespread perception that it lacked an effective and focused marketing strategy for selling the country as a BPO destination. It also emerged that Kenya (and Africa in general) is viewed as a country (and continent) with challenged infrastructure, poor work culture and ethics, and a constraining socio-economic environment.

However, individuals and organisations that had visited Kenya and interacted with Kenyans gave a different testimony; Kenya has a high chance of being a favourable outsourcing destination if correct measures are put in place. The study contends that Kenya has key strengths including a highly skilled and competitive pool of labour, neutral English accent, and strategic location as a regional hub for communications and finance. It also produces over 30,000 university graduates and over 250,000 high school graduates annually.

Policy recommendations

The key policy recommendations from this study are:

- Develop a BPO sector policy as pledged in the medium-term plan in Vision 2030.
- In order to address the lack of a strategy and a weak monitoring and evaluation framework, combine the results of this study with those of McKinsey and Company to create an informed strategy for the BPO sector in Kenya and strengthen the monitoring and evaluation functions of the Kenya ICT Board and Vision 2030 Secretariat.
- Create a single IT-BPO sector and mainstream it into the national planning and operational frameworks.
- In order to address the weak legal framework, strengthen existing laws to provide an enabling legal framework for IT-BPO in the short-term, while in

the medium- to long-term, develop separate legislation critical for the sector and compliant with relevant international laws. For youth and gender, amend the Employment Act 2007 to explicitly regulate working hours for employees and to require employers to facilitate safe commuting at night.

- Develop a BPO incentives framework as an integral part of the law that will transform export-processing zones (EPZs) into special economic zones (SEZs). In addition, provide tax, training and start-up incentives for a specific time period to encourage BPO industry growth, especially in the rural areas.
- In order to address the lack of standards, develop BPO standards benchmarked to international standards, and ensure all key BPO firms adopt these standards.
- Regarding the institutional framework, change the mandates of an existing body to enable it to co-ordinate all the institutions that deal with BPO in the short-term, while in the medium- to long-term, create a new entity (body corporate with power and a powerful champion) to co-ordinate IT-BPO activities across all ministries and public enterprises that have a role to play in IT-BPO. In addition, strengthen the Kenya BPO and Contact Centre Society to be the key BPO industry association and create a strong IT association.
- In order to address the lack of an updated skills database, establish a framework for collection and updating of IT skills data and task the national body responsible for IT-BPO co-ordination (as proposed above) with this responsibility.
- Fast-track integration of IT into education as defined in Sessional Paper No. 1 of 2005 on Policy Framework for Education, Training and Research and the National Strategy for Education and Training (2006).
- In order to address BPO skills sets, create a policy and strategy on IT-BPO skills requirements and mainstream into relevant ministries for implementation.
- Develop and implement a marketing, branding and positioning strategy for Kenya.

Note

1. The research team that undertook this study comprised Prof Tim Waema (Lead Researcher), Dr Catherine Adeya, Muthoni Masinde, Gilda Odera, Christopher Chepken, Peres Were, Munyiva Ngea and Peter Kenduiywo.

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Sri Lanka

Fayaz Hudah

Introduction

The ICT Agency of Sri Lanka (ICTA), which is a government agency funded by the World Bank and many other donors, was established in July 2003 as a company, fully owned by the Government of Sri Lanka. It is empowered by law to be the policy-making body and executive agency for IT in the country and to take the lead as implementing organisation for the 'e-Sri Lanka Initiative', a multi-programme strategy using IT for economic development and poverty reduction. ICTA functions under the Office of H.E. the President, which provides it with a unique position to deal with inter-ministerial barriers and achieve results.

The importance of the IT industry is very clear: it is about creating jobs, foreign direct investment, elevating the society out of poverty, a vehicle for economic growth in the country, and all the benefits that will come with that. Sri Lanka has a fairly high level of youth unemployment although overall unemployment is quite low, which is great for an industry that needs a lot of young people in its workforce. It is a transition industry in the sense that it creates skilled people who take those skills into other sectors and help those sectors to grow.

In Sri Lanka, the IT industry is a fairly mature one having been around for more than 30 years. For example, the London Stock Exchange Group recently bought out a Sri Lanka company that automates stock exchanges around the world, and we have one of the top three enterprise resource planning (ERP) companies (industry and financial systems). The industry in Sri Lanka is very different to what you find in India or the Philippines: most of their industry is focused on services, whereas most of ours is actually focused on products. We also have more than 300 companies in IT and related services in Sri Lanka.

The ICT agency looks at e-government and societal improvement from a holistic point of view using infrastructure, development, connected government, content development and private sector development. There are a number of other projects that are being implemented in Sri Lanka for automation and for the improvement of society, using IT as a development tool. This chapter looks at how all of these activities are being reflected in some of the statistics and how people perceive them.

Sri Lanka's current position

The Global Information Technology Report, published annually by the World Economic Forum, uses an index called the Network Readiness Index (NRI), which the World Bank uses to measure the relative readiness of countries in terms of IT development. There is no surprise that the top-ranked countries in this index since 2002/2003 are the leaders in the field, namely Denmark, Finland, Iceland, Singapore, Sweden, Switzerland and the US. In that sense, the assumption is that the index is fairly accurate. (From an economics and statistics point of view, what indexes portray and what it actually means is always questionable.)

Table 17.1 shows the relative position of Sri Lanka among other countries in the South Asian Association for Regional Cooperation (SAARC).[1] The percentile rankings show that Sri Lanka has been improving year on year, which means that the country is doing fairly well in terms of its overall strategy – holistic development using IT.

Table 17.1. SAARC readiness in IT development, by country (2002/03 – 2008/09)

Year	*2002/03*	*2003/04*	*2004/05*	*2005/06*	*2006/07*	*2007/08*	*2008/09*
Countries	**82**	**102**	**104**	**115**	**122**	**127**	**134**
India	–	45	39	40	44	50	54
Sri Lanka	**54**	**66**	**71**	**83**	**86**	**79**	**72**
Nepal	–	–	–	–	108	119	127
Bangladesh	–	93	100	110	118	124	130
Bhutan	–	–	–	–	–	–	–
Maldives	–	–	–	–	–	–	–
Pakistan	–	76	63	67	86	84	98
Afghanistan	–	–	–	–	–	–	–
SL – Percentile Ranking	66%	65%	68%	72%	70%	62%	54%

Source: Network Readiness Index (NRI), Global Information Technology Report

Sri Lanka's ranking on the A.T. Kearney index,[2] which looks at industry indicators such as financial attractiveness, people skills and business environment, jumped from 29 in 2007 to 16 in 2009. The data for this was actually collected before the end of the civil conflict in Sri Lanka, so the country's 2011 ranking is expected to rise even higher, depending of course on how well our competitors perform.

In 2010, Sri Lanka's exports of IT and related services stood at about US$300 million. We have set a target of achieving US$1 billion by 2012, although we might fall short of that because of various other factors outside our control (which I mention below). Regarding the workforce, about 25,000 people work in the IT and BPO export industry directly, and about another 25,000 work in government, the private sector and other areas in the domestic industry.

Education

To make all of these developments happen, the education system has to provide the right type of raw material. Sri Lanka invests fairly heavily in education: there are about 15 government-owned universities, about four million students in schools, and, like many other countries in this region, education is 100 per cent free right up to university level. Our main focus is on improving IT literacy around the country and across all age groups. (Sri Lanka's general literacy level is in the mid-1990s, and has been so for many years because of the education system.) According to a report by the Department of Census and Statistics, in 2009 IT literacy for the population (aged between 5 and 69 years) stood at about 28 per cent. Our target is to achieve 50 per cent by 2012, and based on current trends we expect to surpass this number.

With regard to using IT in education, we look at four different areas: access, connectivity, skills development and content. Our emphasis here is on training schoolteachers. About half of the schoolteacher population (100,000 out of 200,000) is already certified in IT skills, and about 10 per cent of the total population who are skilled beyond basic IT training and capacity, are working as masters and technicians and managing their local operations independently. Around US$200 million has gone into setting up infrastructure in schools, connecting schools, and putting school networks and infrastructure in place. Another US$60 million is now going into building content and materials. There are also a lot of smaller development programmes funded by local governments.

However, there are still some critical problems related to some of the ratios and numbers related to school students, teachers and labs in schools. There are about 9,000 schools in the system. About 3,500 already have computer labs and the goal is to increase this figure to 6,000 by 2012. Schools vary in size from small ones with perhaps 200 students to those with about 12,000 students. It varies across the sector, as the number is sometimes not representative of the population that actually has access to computers. Other projects range from children using their own personal computers to providing students with laptops or small PCs.

Talent pool

In the school system, every year about 400,000 students go into 10th Grade and about 200,000 students reach advanced level. The universities turn out only about 20,000 graduates, which is a problem for us: every potential investor wants to know about the number of graduates when they are looking at locations. Substantial resources are going into external programmes including the setting up of a business education network with 40 centres across the country, each with a minimum of 10 Mbps links, and online university training courses and certifications. Sri Lanka has the largest population of CIMA qualified accountants outside the UK, where it originated. CIMA is a management accountancy qualification that is also applied to the legal profession

and various other professions, mostly aligned with the British and European systems. Talent is available, but we have problems with the number of graduates coming out of our system.

Social infrastructure

Telecoms

Sri Lanka has a very vibrant telecommunications industry. Most software companies provide services and products for the telecoms industry, and some run networks – such as billing, network operations, Short Message Service (SMS) gateways, value-added services and infrastructure platforms – in Cambodia, India, Pakistan and parts of Africa. Telecoms are very strong in Sri Lanka, with almost 100 per cent coverage of the population mostly driven by mobile, as with most other developing countries.

Bandwidth

In terms of international bandwidth, there is a maze of five cables in Sri Lanka. This has created extremely high competition and low revenues per user (RPU) for the telecoms operators. Even in the mobile segment, the telecoms RPU for a mobile operator is at about US$3 per person per month. This is probably even lower than in India, which has a population of a billion. The provision of telecoms as a commodity in this way is not ideal in Sri Lanka, but that is the situation at the moment.

Broadband

Currently, broadband rates are fairly compatible and competitive in Sri Lanka. For domestic use wired Asymmetric Digital Subscriber Line (ASDL) broadband is less than US$5 per month and High-Speed Downlink Packet Access (HSDPA) is about US$2.4 per month. Corporate rates are also coming down, although not as low as in India, where broadband is basically a commodity.

The government is building the National Backbone Network, for which the ICT Agency and the Telecoms Regulator have the lead. The network entails taking a glass fibre backbone into the deep rural areas. Due to the telecoms density and wide coverage in Sri Lanka, the telecoms companies have already built metro-Ethernets and glass fibre networks, but the National Backbone Network goes beyond them into the areas considered to be commercially unviable. This project, by taking broadband to another level, will bring down the cost of broadband even further as the number of users goes up.

The latest technologies are commercially available in Sri Lanka. Many telecoms operators use the country as a test site for new technologies because it is a very compact place and the whole exercise – from infrastructure to deployment to marketing – can

be more easily managed. Some of the IT companies have benefitted because they provide products and services to this industry.

Facilities

Most of Sri Lanka's IT industry is not centralised in a particular IT park or location: it is dispersed all over the country. Various facilities are available including a private IT park with about 600,000 feet already being occupied. It projects that about 1.2 million square feet will come into operation by 2012, and by 2015 this will more than double to about 3 million square feet. This IT park is a wholly commercially driven exercise.

Power is not an issue in Sri Lanka. There is a good supply of hydropower and thermal power, and the government is adding 300 gigawatts of coal power. The government is also commissioning several clean energy projects.

Incentives

The problem of large corporations moving from place to place and exploiting populations in search of more and more incentives is one that happens mainly in developing countries but also takes place in developed countries. For instance, Nokia moved from a city in Germany because some incentives were stopped after a certain period. A few countries, like South Africa, do not give tax breaks but Sri Lanka does have incentives, which are on offer through the Board of Investment. The ICT Agency manages the ICT Capacity Building Programme, which looks at financing or subsidising companies based on their capacity, quality improvement, business development and other such factors. About 200 companies have benefitted from these programmes. We are seeking to target and focus our efforts in these areas going forward.

Conclusion

In the context of outsourcing potential and the amount of work that is available, the dynamics of the game changed in the global economic crisis of 2008. There were companies that went bust and companies that downsized; jobs were lost, unemployment rose and poverty increased in the developed world. Situations arose in which the global majors were moving down into different customer segments; people who previously did not touch contracts below a certain value started moving further down and developing their capabilities in servicing those segments. There is now an increasing focus on targeting SMEs and niche segments on platform-based BPOs, to which they are trying to sell their service offering.

Recently things have been much better and the talk is about 'green shoots of recovery'. Investment promotion agencies need to look at where these recoveries are taking place;

where and in which segments the job creation and growth is happening. This has direct implications for the way they promote and market the industry going forward. On the other hand, according to TPI magazine (2009)[3], in the fourth quarter of 2009 the BPO-ITES industry shrank by 40 per cent globally and discretionary spending on IT projects virtually froze. Intense competition is a reality right now.

This does not mean that all is doom and gloom; it is an opportunity to take a fresh look at both new and old customers. Companies are looking at less complexity in their servicing operations. The teams that work in IT operations, and who are sourcing operations within the companies, are increasing their maturity in that particular space. The role of advisors to companies in outsourcing operations is shifting. Innovations like multi-sourcing and cloud sourcing are creating a different spin in all of this. Captive versus third-party companies is another area that people who try to promote this industry should look at. Also bear in mind that government debt in developed countries is rising while unemployment is still not coming down. This means policy shifts can be expected regarding government incentives and the way that they try to stimulate their economy (and create jobs). These are factors to look at when formulating and marketing our strategies.

The good news is that cost cutting is still king. If we are able to cut costs for the customer – which means we need to understand the customer and offer value year on year – then we still have a place. It is a case of finding that right mix to offer to the right set of customers, and to be able to cater to their specific requirements. That will determine our success as investment promoters in this particular space.

Notes

1. SAARC members are: Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.
2. Online available: http://www.atkearney.com/index.php/Publications/globalization-index.html
3. TPI (Trade Production International). 2009. Fourth quarter. Available online: http://www.tpimagazine.com/

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The Mauritius IT/ITES Experience

Introduction

This chapter consists of five parts aimed at providing a picture of the development of the IT sector in Mauritius from its inception. It starts with an overview of the process of moving the economy towards a knowledge-based economy and then explains the reforms carried out in the telecommunications sector to create an enabling environment. Once this was done, the challenge was to attract foreign investors. How Mauritius is promoted as a viable location for ITES investment is described from the public sector viewpoint while a foreign investor shares his thought process in the choice of Mauritius as the location for his ITES. The final section provides the perspective of a key global player, Accenture.

A. Managing the Transition to an IT-based Economy

Donald Lim Fat

Introduction

This first part of the chapter describes how Mauritius got to where it is today. Going back to the start-up days of the industry in Mauritius, it looks at some of the key policy initiatives that were taken by both the public and private sectors. What was the vision back in 1994? Who were the key players? What were the deliverables? How did we go about doing it? What is the outcome? Concretely, what has been achieved? What are the remaining challenges?

The vision

The vision is fairly simple. Back in 1994, with the impending conclusion of the General Agreement on Trade and Tariffs (GATT), which would result in the erosion of trade preferences, there was great concern in both the public and private sectors about how to transition into an information-based economy. Basically we were looking at how

we would shift from agriculture and other traditional sectors to a new way of doing business, and at new businesses that could be developed.

Key players

Who were the key players? The Prime Minister's Office, the Ministry of Finance, which was very much involved, and of course, the Ministry of Telecommunications were the main players from the government. The Financial Secretary took the lead on programme co-ordination. The main private sector representation came from the Joint Economic Council in Mauritius, which is the umbrella organisation for all of the country's private sector institutions, the Mauritius Chamber of Commerce and Industry, the banking sector and the textiles industry, which is a key player in Mauritius. The government bodies involved were the Exports Processing Zones Development Authority (EPZDA), National Computer Board and Central Informatics Bureau. The World Bank acted as a facilitator, supporting the initiative in various ways towards its achievement. Consultants who specialised in telecommunications provided external support at two levels: strategic assessment and legal drafting.

Deliverables

The objective as we looked at the IT infrastructure, framework and specific applications was a comprehensive transformation. The focus was on telecommunications and the aim was to have several projects that would show clearly to the population the benefits of IT, both in government and in the private sector. The main questions in modernising the telecommunications framework in Mauritius were: how do we get better quality services at competitive rates? What is the role of government? What is the regulatory framework that needs to be put in place? We also had to address the IT related acts, and in terms of government services we pinpointed a few for improvement, for the sake of those services themselves but also to demonstrate the benefits of using IT within those sectors. In financial terms, we set in place a project for a real time gross settlement system for interbank payments. In the stock exchange, we decided there should be an automated share industry, with a registrar general, loan information system, and a set of other services. With respect to cargo clearance, the issue was how to automate the process of submitting import and export documentation.

The process

The process focused on telecoms. The Telecoms Advisory Council was established with the objective of making it as independent as possible. This meant equal membership from both the public and private sectors. In the public sector we had Telco Finance

and the State Law Office, which was very important for redrafting the Telecoms Act. In the private sector we had the leaders in the private sector. The Minister of Telecoms appoints the chair of the Telecoms Advisory Council with a mandate to advise the minister on telecoms policy. We established a steering committee for all of those projects and CIB and NCB were both very much involved in this. The outcome was a new Telecoms Act in 2001. It took a long time and 13 drafts of the telecoms legislation before the Telecoms Act was finalised. The Telecoms Act has meant has introduced competition and multiple ISPs. There are two dominant mobile operators; a third one has not made inroads into the market.

We also developed several successful applications for using IT to deliver services to the public. For instance, no one needs an ID to access the Companies Database, and it is simple, practical and powerful to use: entering a company name is the only step needed to get the registration number. The TradeNet system was developed in 1998 to speed up trade transactions and connect members of the trading community in one data network. Cargo clearance time is very critical for the private sector, because the whole economy depends on cargo clearance. There is an automated process for all the trade procedures. We set up a real time gross settlement system to speed up transfers between banks, and we set up a central depository and settlement system. We are now exporting several systems and services skills that were developed in Mauritius.

Conclusion

The three main factors that contributed to success in Mauritius were: the right mix of players from the government and the private sector; a very focused project management approach; and persistence when drafting the Telecoms Act. There are two significant remaining challenges: resolving the pressing requirements for talent in the booming BPO sector, and the cost of Telco services, which is one item to be addressed from a private sector perspective.

B. The Role of Telecoms Reforms

Dr Krishna Oolun

Introduction

This section highlights some of the major milestones in the reform of the IT sector, and touches on the regulatory framework and how IT is really an economic enabler. It concludes with a look at the major challenges and some thoughts on the way forward.

Telecoms reform

The first major milestone in the reform of the telecommunications sector took place in 1996 when the government published a White Paper on the telecommunications sector, 'Fostering the Info-Communications Society'. The Telecommunications Act of 1998 that followed did not last long as it very quickly became clear that merely having legislation in place was not enough to move forward; the wave of convergence was already there, with elements of IT, broadcasting, and telecommunications. That is why after three years of operation, the initial Telecommunications Act of 1998 had to be revamped into the ICT Act of 2001. There were other initiatives, like the privatisation of the incumbent operator, the Data Protection Act of 2008 and, most recently, major amendments to the Electronic Transactions Act with a view to introducing infrastructure to ensure secure electronic transactions.

The IT market

The IT market today is characterised by two fixed line operators, three mobile operators, and eight international operators with three gateways. We have a broadband internet service, wholesale businesses and the sale of equipment. As our main regulatory functions, we operate ex-ante and we are now moving gradually into ex-post having recently signed a memorandum of understanding with the competition commission of Mauritius. Basically, these are our main functions with regard to the ex-ante. As early as 1994 authoritative data published by the International Telecommunications Union (ITU) showed that IT could be an enabler for the economic sector. For instance, an increase of 10 per cent in a country's mobile density contributes to an increase of 0.7 per cent in GDP. Similarly, an increase of 10 per cent in broadband penetration contributes to an increase of 1.3 per cent in GDP. These figures would indicate that promoting mobile density and broadband penetration is a move in the right direction.

Outcomes for Mauritius

What has been the result of all the initiatives that have been implemented in Mauritius? In terms of tariff, the international private leased circuit, which is one of the fundamental elements for BPO activities and for lease connectivity, has been on the decline.

The volume of mobile traffic has evolved because of one fundamental economic law: increase the volume to reduce the cost per minute. This is one of the reasons why it was necessary to increase demand. How do you increase demand? Liberalise, open the market and create new applications.

There has been a significant increase in the volume of international traffic and a substantial improvement in internet traffic. The tariff has increased since the onset

of liberalisation, and international call rates have decreased as the market has been opened to competition. Mobile call rates for local calls have also undergone significant decrease. Regarding indicators, there has been a constant increase in fixed-line penetration, in mobile penetration and even in internet penetration. However, more work is needed because it is still on the low side.

DSL business connectivity at 2 megabits per second can be obtained for as little as US$300. In terms of ensuring there is a large enough highway for BPO activities international capacity increased from 64 megabits per second in 2001, when we were thinking about opening up the markets, to 465 megabits per second in 2007 when we were fully operational. Today, we have got 3 gigabits per second. This capacity is bound to increase threefold by next year.

Future challenges

Having gone through all these reforms, what are the challenges facing the sector today? As mentioned above, convergence in relation to regulatory reforms is one of the major issues that has to be addressed. Another relates to cloud computing, which when viewed from an economic perspective very often has the effect of converting capital expenditure into operating expenditure. Therefore, from a regulatory perspective, how do you address those issues? What products and services should be left for ex-post, and what are those elements that should be addressed ex-ante? We have introduced what we call the 'rate on return regulation' on our international private leased circuit and we have had a significant decrease.

For the future we have to stop thinking about what we call the cost base determination or cost base tariff, and we have to think about strategic tariffs. This has to be done in collaboration with the industry. Looking at cloud computing and distributed networking, the other element to ensure is security. One of the major drawbacks in cloud networking these days concerns security and trust in your transactions. In this regard, identity management will be something to address from a policy and then a regulatory perspective.

Conclusion

To paraphrase one of the conclusions of the November 2009 World Economic Forum, if you want a sustainable economic base in this world, invest in IT. How do we do that from the regulatory perspective? I believe that regulatory reform appears in a continuum. At this point Mauritius has achieved the government objective to liberalise; we have established industry aspiration – cost base IUC, cost base determination and so on. Now we have to move onto the next step, consumers' interest, which is where we are linking in everybody who is concerned with this sector.

C. Promoting Mauritius

Ken Poonoosamy

Introduction

The following contribution looks at the factors that have prompted investment in the BPO industry in Mauritius. The BPO industry is a huge market to be tapped, and there is already exponential growth as is well known. What is interesting in this BPO landscape is that the emerging offshore markets, including Mauritius,[1] are now gaining market share, rising from 7 per cent in 2005 to 22 per cent in 2009.

Mauritius economy: the reinvention process

During the last 40 years the Mauritius economy has gone through a process of diversification, from trade preferences to global competitiveness. It has shifted from dependency on sugar (70% of export earnings) in the 1970s through manufacturing and tourism in the 1980s and the export of financial services in the 1990s. Since 2006 and going forward the main objective has been to make Mauritius a knowledge diversified platform getting more contributions from emerging sectors like the services sector.

What matters most to investors is the bottom line: whether they can make money and whether they can reduce costs. The entire economic structure of Mauritius changed when the government, recognising the need to focus on the cost of doing business, decided to simplify its tax incentives, tax breaks and tax schemes. In 2006, it initiated a reform process based on three main pillars: a low tax regime of 15 per cent, applied to all sectors across the board at the same level; business entry, i.e. attracting people to come to Mauritius to open up their businesses; and recruiting talent, skills and know how. It is good to know that today, if an expatriate wants to come to Mauritius and work in the IT sector, it takes him/her only three days to get an occupation permit for three years. That is quite a bold change in terms of the way we do business.

Competitiveness

Looking at a range of indexes (Table 18.1), Mauritius is well positioned with different countries in terms of BPO centres. It ranks 17th among 183 countries in the 2010 World Bank Doing Business Survey and is among the top three countries in Africa in all indexes.

Table 18.1. International benchmarks

Index		*Rank*
World Bank Doing Business Survey 2010	✓ ✓	17th out of 183 countries 1st in Africa
Outsourcing Readiness Index (Africa) 2009	✓	2nd out of 15 African countries
Ibrahim Index of African Governance 2009	✓	1st out of 48 African countries
Global Competitiveness Index 2008	✓	55th out of 122 countries
Democracy Index 2008	✓	26th out of 167 countries
International Property Rights Index 2007	✓	30th out of 70 countries
Index of Economic Freedom 2009	✓	18th out of 183 countries
A.T. Kearney Location Index Report – 2009	✓	25th out of 50 countries
Mauritius is among Top 3 in Africa for all indexes.		

Source: Everest Research Institute (2009)

What is it important for us, in terms of attracting global business, is cost competitiveness. Other contributors have already set forth the ways in which we are trying to reduce the cost of telecommunications, and how we attract investors – broadband readiness, intelligent habitat, the ecosystem and, more importantly, talent availability. Mauritius has a cost arbitrage of around 70 per cent compared to its direct competitors in Europe. We suggest to our investors that if they want to establish an operation in the country, the full time equivalent cost ranges from US$18,000 to US$20,000 for basic activity. Mauritius is leveraging its bilingual capacity (English and French), making it more competitive and putting it a position to tap the French BPO market. Taken as a whole, Mauritius is a complete eco-system for global business delivery (Figure 18.1).

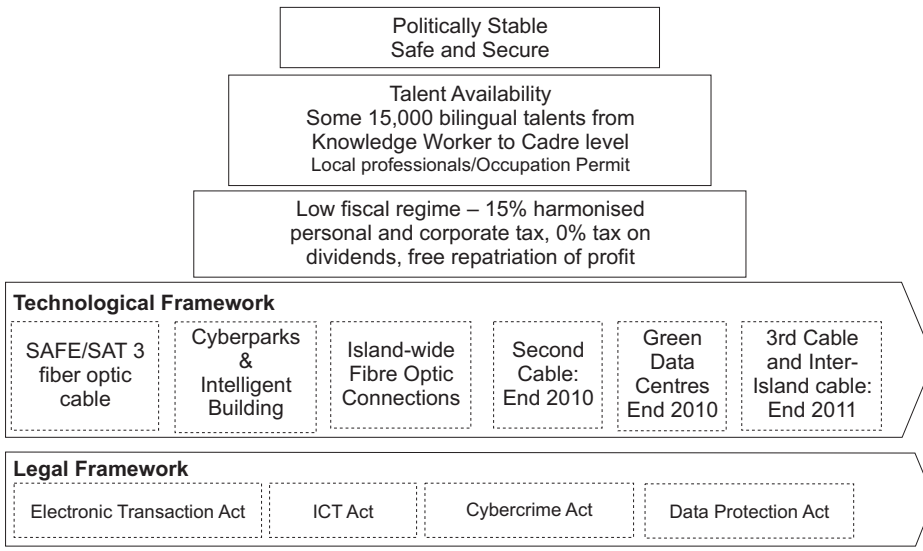

Figure 18.1. An eco-system for global business delivery
Source: Everest Research Institute (2009)

Going forward

In terms of broadband development, the aim is to triple the broadband capacity in Mauritius with connections to additional fibre optic cables. The forecast is for an explosion in demand driven by growth in all sectors. By 2015 international internet connectivity is expected to reach 1.5 Gbps per head (up from 1 Gbps in 2008), which will be equivalent to Hong Kong and Singapore.

Mauritius already has eight intelligent habitats around the island, from Grand Baie Business Park in the north to Rose Belle Business Park in the south. We are also being quite strategic in anticipating the possible future position of the IT sector. We are tapping into a new industry called the land-based oceanic industry. We have already gone into the different phases, but what we need now is to create more value added in terms of businesses. Initially, the project aimed to use the coolness of deep-sea water for activities such as bottling and desalination. However, we realised that a number of green data centres in Singapore and in Europe are facing an important critical factor: the cost of electricity and their carbon footprint. In this light we decided to refocus the project and make a new industry by creating a habitat for green data centres using deep-sea water to cool off servers. The project is being developed on 120 hectares of land and we already have commitments from green data centre providers for around 10,000 square metres.

The talent pool must be increased to meet demand. Mauritius has a gross tertiary enrolment ratio (that is, school leavers between the ages of 18 and 25 who go into tertiary education) of around 41 per cent. That it is not enough to cope with the growing demands of the new sectors; with the liberalisation of telecommunications providers have been showing a great deal of interest. What we need is heavy investment in educating and training our human resource. The industry and the ministry of education have taken a number of initiatives and the regulators are involved in seeking ways to address this issue, but we need to go faster so that we can cope with the new interest.

Looking at IT-BPO services delivery from the Mauritius platform, where do we want to position ourselves? We reject the notion that Mauritius should position itself in the poorly paid, low-end call centre operations, for several reasons.

If we want to double our GDP per capita in the next 10 years, we need to focus on high value niche markets. The niche markets are specialised BPO services, financial services, legal process outsourcing and human resource development outsourcing. What we have also seen is that this is reflected in the evolution of the industry. Of the 300 companies that we have, the BPO software development business continuity and disaster recovery is actually increasing. We have to admit that we are not the Philippines or India. We do not have the talent pool that they have, so in relation to call centres, it is difficult to imagine how Mauritius could have a competitive edge over them. Where we need to focus is the high value added services.

D. Developing an Attractive BPO Location

Paul Halpin

Introduction

This contribution seeks to share some investor perspectives. There seems to be general agreement about the need to have public sector involvement in putting together regulations and legislation that attract and enable the BPO industry and the BPO investor. To be competitive these days, a country must have these regulations and legislation in place, and they must look similar to those established by the biggest players in the industry. In order to be globally competitive in this industry, you must have the same type of telecoms and IT enablement, through legislation and regulation, as that of the best in the world; that is a basic principle.

Staffing

My company, Halpin International, is located in Mauritius and currently invests in BPO activities in the medical and hospitality spaces. The operation has 150 staff combined, which we think we can increase to about 300 on the medical side and 500 on the hospitality side. As for a supply of people, we do not see any difficulty in taking experienced people out of well-paid jobs in the public sector, because many of them were involved in getting the industry to where it is right now, and they really understand the challenge. It is widely accepted in economies that develop, and that espouse new technologies, that the public sector role diminishes at some stage and the private sector role increases. The requirement to control and regulate, and write new legislation, and do all those things that establish an industry, diminishes on an ongoing basis, and therefore the private sector should be able to offer fairly attractive jobs to people who have worked in the public sector. Another aspect of supply in terms of experienced labour is obviously taking people from other relevant sectors, like the medical and hospitality fields in Halpin's case. Of course, in terms of sustaining the supply, the education sector needs to come to the table.

Attracting investors: the basics

Simplicity and support

Everybody agrees on the general basics of attracting investors but we would emphasise two in particular. First, permit simplicity. Allow investors to walk into your country with minimal effort; do not make it difficult for them to get a permit to locate or for

their spouses and children to enter and stay in the country. You will not get a second look unless you simplify your permit infrastructure. The great thing about Mauritius is that the permit infrastructure has been completely overhauled and simplified, and continues to be simplified; if you have all your pieces of paper, you can get a permit to locate here in three days. The impact that that has had on the Doing Business Index ranking organised by the World Bank has been very significant.

In our experience, a spouse can become a major roadblock that prevents an expatriate moving to your country. If spouses can find a reason why they cannot work in the country, or cannot live in the country, or cannot operate a family or a lifestyle, they will not want to move. So, make sure the necessary support infrastructure is in place for spouses.

The central message is this: investors are fickle people, and they will go wherever they want. One other point to remember is that attracting the investor is the first win. Thereafter, you must retain that investor. As to whether you use a carrot or a stick approach, it has to be carrots all the time. If there are any sticks in the bag, you need to get rid of the bag.

How to attract more investors

Continuity and responsiveness

How do you attract more investors than you have up to now, and more investors in the IT-BPO sector than your competitor nations? Whatever your ambitions are – whether it is to be a big player, like India, Sri Lanka and others, or a modest player for additional jobs and another pillar to the economy – you must have continuity of investor-friendly personnel in your country. If you are a country that throws out the team every time there is an election or a change of government, you need to ask yourself if it is wise to do that. Is the brand that has already established itself in the world moving at a sufficient pace to sustain itself without continuity of investor-friendly personnel?

There must be sustained effort put into listening and understanding what it is that the private sector wants; what it is in the business processes of industries like banking, insurance and media that creates opportunities for your economy to service jobs in your part of the world. Mauritius has been very good at identifying individuals in each of the government entities that are responsible for marketing, promoting and facilitating, who can specialise in sectors and who understand the needs and challenges of different industries. Industry specific knowledge is very important. You need a strong government with change agents who are able to make executive decisions and ensure implementation happens, or you will fail to attract investors. There must be investor incentives. There has to be something to bring the investor to your country.

There needs to be continuous policy development, because the wind changes. It is like being on a sailing boat. This is a fast moving industry. Whilst there is continuous policy development, you also need to adhere to the promises that were made in the past. If there is a generation of investors who arrived five, six or ten years ago, and you made certain promises to them, for example about continuity of taxation and fiscal policy or their rights to continue to live and reside in the country, those promises must be assured. Another great thing that Mauritius has done is to maintain all such promises. You also need testimonials from existing investors. It is very difficult for the people from the public sector to market a country without the support of investors who have had good experiences. Nowhere is perfect but if you can be better than someone else, that is your target.

There have to be credible policies for talent development, both for those in school and those who have left school, so that you can draw people from other sectors. It is better still if you have industries where you already have a reputation for excellence. For instance Mauritius is well known for its excellent hotel and tourism industry and a very well established offshore financial centre, with lawyers, accountants and bankers: people who understand overseas transactions and the culture behind large investments.

Value for money

Price controls and progress made on tariffs in telecoms is only one half of the equation from an investor perspective. The other half is: is it value for money? Value for money relates to the quality of customer service the investor gets, from the person who lays the line to the building before operations commence right up to the CEO. The ability of the organisation – that is the Telco or the ISP – to deliver consistent, high quality, responsive customer service, not just Monday to Friday between 9.30 and 4.30 but 24/7, is crucial.

Another very important point is that there needs to be a citizens' welcome for inward investors. Mauritius is very used to welcoming people from all over the world on a tourist basis. They come, they have their holiday, and they go away. However, this is more like the long haul preparing for the Olympics: the bid is awarded eight years in advance; you have to build the central stadium and upgrade other support facilities; you have to develop the essential infrastructure like transport to support the influx of millions of sporting fans for 16 days; the imposition on the citizens is huge. Yet, if you want to be involved and competitive in the global IT enabled sector, it is that big a commitment. The only thing is, the people who come from overseas to watch the Olympics go home, but the IT-BPO imposition and consequent change in culture, in behaviour, in responsiveness, in the attract-and-then-retain story, is huge and does not go away. India, Sri Lanka and the Philippines know this and have done very well out of it. The benefit is that you get to keep your own people in their families at home, instead of having to emigrate. The cost is huge, because those people no longer get

to tell the world, 'This is the way we do it in our country'. The world gets to impose the set of behaviours and the business culture. Those who understand that, and those who show that they get that message without a second question, are going to be successful. Where people oppose that, the clients will leave and then the investor needs to move on.

Facilities

On another level, the availability of places in international schools is very important, as is suitable and available real estate at reasonable cost. Access to like-minded people is also a key factor. When you invite investors, they want to know whether there are people in the country who think like them. Other things that are on the World Bank's Doing Business Index include efficient courts and alternative dispute resolution processes – your ranking on the World Bank Doing Business Index will go up quite a lot if you can speed up the processes in the courts.

Conclusion

There are many opportunities, but it is a globally competitive market and investors do not easily walk in the door. Emerging locations need to focus on what they want to be good at, what sectors they want to attract, and what they think their education system can provide. Professionalism above all is key, and there is a lot of hard work ahead.

E. The BPO Success Story: A Private Sector Perspective

Josie Lapierre

Introduction

This final contribution to the chapter highlights the global company, Accenture, to show the 'value-added' of its presence in Mauritius for BPO. I will also share some best practices from a private sector perspective, but also as a player within the economy of Mauritius today.

Accenture

Accenture employs some 180,000 people in 120 countries across the world. We have 75,000 people in outsourcing. This is broken down between BPO and IT outsourcing

– mainly application outsourcing, and infrastructure outsourcing that is concerned with technology to a greater extent.

We have three main pillars: consulting, technology and business process outsourcing. From a global perspective BPO was set up as one of the three pillars for the first time in September 2009. This is mainly a consequence of the global financial crisis that started in 2008. The crisis had a real impact on consulting because of the short-term contracts, and because clients had to face a number of difficulties. What is interesting in terms of developing this sector is the fact that BPO contracts, even if tough to negotiate, will usually last between five and ten years. This was a global way of thinking and a way of positioning BPO as the third pillar within Accenture, which is in alignment with the way government and the key institutions in Mauritius are seeking to make the IT sector a key pillar of the economy. Although this started some years ago, it has reinforced our strategy and indicated that we are moving in the right direction.

Global Delivery Network

Accenture is structured with key poles in the northern part of the world – in Canada and the US and in Europe. BPO kicked off in India in 2002. China is more recent from a BPO perspective. This is mainly driven by the kind of growth that China is experiencing today, but China is also very much a domestic market so it is mainly focused internally compared to India or the Philippines. We also started business in Mauritius in 2002 with around 70 employees. Today we employ more than 800 people, about 500 in BPO and 300 or so in IT outsourcing. It is not difficult to recruit people, but one of the key success factors has been to maintain sustainable growth. It is easy to recruit, but then you have to retain your employees, and the investors as well. It has to be sustainable from a client perspective.

Another success factor for us in Mauritius has been a very close public–private partnership from the start. This has helped us to build relationships with our clients; when we bring people to Mauritius, it helps to be able to share our experience as Accenture, but also to have the opportunity for our potential clients (because very often it is part of a tender) to meet with key institutions. In this regard, we have had strong support from the Board of Investment and from some other key institutions.

The Empowerment Programme

Developing people has also been important. The Empowerment Programme, in which we have participated for the past three years and shared in our network, has been a big success from our perspective. It is a public–private programme to recruit and train new people, funded 50 per cent by government and 50 per cent by the private sector. On the basis of performance, we either employ them, or give them back to the market. It is a win-win approach both for the public and private sector, because

we are putting newly trained people on the market, but at the same time it helps us to manage our workforce by keeping up with new demands that might come from different opportunities.

Shift in the market

Since the global financial crisis there has been a shift in the market, not only from the investors' point of view but also from the clients' point of view. Few decisions were taken in 2008/2009, especially at board level, because from a purely financial perspective there were so many risks and unpredictable factors. On this basis we have seen an increase in what we call 'up-selling', which has been a major opportunity for Mauritius as a country and for Accenture as a company. Up-selling is meeting more of our client demands from a BPO perspective in the short term. For example, there has been an increase in terms of scope with a client on a contract. This might just be for six months and then be confirmed for a longer-term period, but this is where the public–private partnership programme has helped us a lot.

Workforce

The quality of the workforce in Mauritius has enabled Accenture to progressively grow its business. The current plan is to increase the workforce from 800-plus to 1,400 in the next two to four years. We are seeing more and more business coming to Mauritius as well despite the fact it is very small, with just 1.2 million inhabitants. If you look at the other destinations, there is a lot of synergy in Europe, for example, especially Eastern Europe. One of the benefits for Mauritius as a country is the erosion of the competitive advantage of Eastern Europe. Being bilingual French and English gives Mauritius the possibility to be a differentiator, and is an asset to sell to clients and to the network.

The BPO giants, India and the Philippines, speak English so Mauritius is not at all positioned as an English-speaking country. French is a small market in terms of global companies that are looking at outsourcing to decrease their operating costs by at least 40 per cent. This is where, from a company perspective and from a country perspective, several criteria come into play; a workforce is one of them, and partnership with government and a stable political environment are others. In 2010 for instance, we faced many questions from our people in Europe and elsewhere in the run up to elections, due to negative media reports that gave the impression there was going to be a civil war in Mauritius. This is another challenge, and political and economic stability are key criteria, as well as the inflation growth rate.

Accenture in Mauritius

Accenture has three facilities in Mauritius: one based in Cassis, close to Port Louis, where we have our BPO structure; another at Altima, where we have our technology

services; and we are also on one floor in Cyber City. The way a country is positioned, especially in relation to technology and risk, is critical from a company perspective. When we are looking at BPO, the critical part is that those multinationals are outsourcing their key activities, such as finance, accounting and procurement, to us. For example, if they are in insurance they would be outsourcing their claims or in the case of human resources, their payroll. So, continuity of business is critical. One of the perceived disadvantages of Mauritius is its size – the fact that it is seen as a mere drop in the ocean. These are the kind of gaps that we still need to work on. How do we take care of our country, which is small, for the betterment of its citizens? How do we close the gaps to ensure that our clients and the network are satisfied with the plans? There are unpredictable phenomena such as the recent volcanic activity in Mauritius, and there are other things that can be managed by putting in place appropriate mitigation plans. This is what we need to emphasise to investors and clients: first, that there are solutions and, second, the fact that Mauritius is an island does not mean it is more risky than other countries.

BPO capabilities

Companies in sectors like BPO or technology outsourcing are not competing within a country; they are offshore structures competing with other global companies in other countries so competitive advantage is from a global perspective. It is possible for a small country to compete with India, with the Philippines, with China, but it has to find the differentiated factor. In the case of Mauritius, it has been the workforce and languages. The fact that Mauritius is a bilingual country was a key point for us to sell to our clients and to the network. There are very few countries in the world (Cameroon is another example) that are bilingual in English and French. All the business was going to India until certain developments in the financial services and the IT sector there made investors more risk-averse. This is therefore where there has been a spreading of the footprint from a global perspective. Mauritius is now developing skills in Italian, German and Spanish, positioning itself to be more competitive with Eastern Europe where people are moving out of this kind of job, and there is price erosion as well.

Image of the sector

One of the key components to consider is whether the workforce is prepared to move into this sector. This was an initial barrier in Mauritius because BPO was perceived as call centres – a perception that was further fuelled by promotional pictures of people wearing headsets. From a cultural perspective, because of the diversity of people we have in Mauritius, with influences from Africa, Asia and Europe, it did not look all that thrilling compared to being a lawyer or an architect or similar. In Mauritius, even though young people all have mobiles, are connected to the world and are on Facebook day in and day out, they are still deeply influenced by their parents, who do not approve of their children working in call centres.

We have also provided feedback on this, which the government has taken on board. This has led to improvements in the way the ITES-BPO sector is projected, which has had a positive impact on the population and also helped to enhance the image of the sector. Other success factors are the flexibility of the labour force, an attractive time zone and the fact that we are also operating Central European Time (CET) hours.

Conclusions

Today, in Mauritius we are mainly structured around finance, accounting and procurement, the supply chain and what we call custom. Another key area is experience in operational excellence and productivity. In seeking to ensure you have the right kind of resource pool, you must have a framework. It is not just about recruiting people in IT who are able to do finance and accounting jobs; it is also ensuring that you can recruit all the key skills in terms of IT as well as human resources, support services, people who understand BCM software, and so on. This is also something Mauritius can find readily available in the market, and this is our strength.

Note

1. Other Commonwealth countries that are emerging as offshore destinations in the BPO market include: Jamaica, Malaysia, Nigeria, Singapore and South Africa.

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Trade in services enabled by information and communication technologies could be an engine of growth for many developing countries looking to diversify from commodities-based economies. For this trade policy to be successful governments must establish effective policies and develop the correct regulatory framework, infrastructure and human capital.

This handbook explains the key issues from the viewpoints of the regulator, the investor, the policy-maker and the donor. It provides detailed analysis of the Mauritian experience, which holds useful lessons for small states in particular. It will help policy-makers to learn directly from other countries' experience of developing IT enabled services and will assist private sector organisations to understand how governments frame their policies.

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