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Caribbean Countries Prospects for Service Exports from the English-Speaking Caribbean

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This report was prepared under the auspices of the Caribbean Group for Cooperation in Economic Development (CGCED). Established in 1977, the CGCED is the main forum for policy dialogue and aid coordination among the Caribbean countries, international financial institutions, and bilateral donors. A meeting of the CGCED is held every two years in Washington, DC, and is chaired by the World Bank. The theme of the June 10-14, 1996 CGCED meeting is public sector modernization and reforms that the Caribbean countries can take to successfully adapt to a fast-changing world economy. In addition to country reports, the following regional reports with various perspectives on the role of the state have been prepared for the meeting:

Caribbean Economic Overview

(World Bank)

Public Sector Modernization in the Caribbean

(World Bank)

Prospects for Service Exports from the English-Speaking Caribbean

(World Bank)

Study to Assess the Economic Impact of Tourism on Selected Caribbean Countries

(Caribbean Development Bank)

Infrastructure for Development. A Policy Agenda for the Caribbean

(Inter-American Development Bank and Caribbean Development Bank)

Poverty Reduction and Human Resource Development in the Caribbean

(World Bank)

Caribbean Regional Health Study

(Inter-American Development Bank and the Pan American Health Organization)

**Prospects For Service
Exports From The English-
Speaking Caribbean**

MAY 1996

The World Bank

Preface

This report on Prospects for Service Exports from the English-speaking Caribbean provides analysis of the service export sector and environment for service export and makes recommendations on measures to improve prospects for service export growth. The report was requested by the Caribbean Group for Cooperation in Economic Development (CGCED). The intended audience is policy-makers in the countries covered by the report, namely: Antigua and Barbuda, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago. Background reports on prospects for exports of information, health, offshore financial, professional, and entertainment services are available as a separate volume.

The Caribbean countries covered in this report have made progress in specific service export areas. Those that determine that further development of a service export sector is a priority, however, must take actions to achieve that goal. Although demand for service exports is growing rapidly, generating considerable opportunity, supply from enterprises worldwide is growing apace. Hence, the Caribbean will have to achieve competitive fundamental conditions to leverage geographic and cultural advantages. To this end, a strategy of public sector actions in support of private sector efforts to develop capacity to produce service exports, increase cost competitiveness, improve service export quality, and build market linkages is recommended.

The report is based on interviews with a substantial sample of firms engaged in service export and service activity for the domestic market, as well as policy-makers and private individuals knowledgeable about aspects of the sector. These were complemented by interviews with consumers of service exports and the market knowledge of subsector experts. It also draws on the World Bank Report Caribbean Countries: Policies for Private Sector Development (1994), World Bank documents regarding services liberalization, and literature regarding service production.

Hermann von Gersdorff (task manager), Adrienne Taptich, and Susan Hume comprised the task team for this report. The core report was written by Adrienne Taptich. The report draws on background reports prepared by Robert Schware and Susan Hume (information services); David Scott (offshore financial services); Maggie Huff-Rouselle, et al, of Social Sectors Development Strategies Inc. (health services); Matt Moran of TDI of Ireland (professional services); and Compton Bourne of the University of the West Indies (entertainment services). The health services background report and segments of the information services background report were funded by the Canadian International Development Agency (CIDA). The Irish Trust Fund of the World Bank financed the professional services background report. Peer reviewers were John Nash and Luis Guasch. Krishna Challa is Chief of the Division, Norman Hicks is Lead Economist, and Paul Isenman is Director of the Department that produced this report.

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List of Acronyms

ASEAN	Association of South East Asian Nations
CAD	Computer-Assisted Design
CARICOM	Caribbean Common Market
CET	Common External Tariff
EC\$	Eastern Caribbean Dollars
EU	European Union
FDI	Foreign Direct Investment
FTZ	Free Trade Zone
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GIS	Geographic Information Systems
IBC's	International Business Corporations
IMF	International Monetary Fund
NAFTA	North American Free Trade Agreement
OECD	Organization for Economic Cooperation and Development
OECS	Organization of Eastern Caribbean States
TRIP's	Trade-Related Intellectual Property Issues
UNCTAD	United Nations Conference on Trade & Development
US\$	United States' Dollar
VAT	Value-added Tax
WTO	World Trade Organization

Executive Summary

With key agricultural exports jeopardized and manufacturing exports subject to increasing competition, development of service exports in addition to tourism has come to be seen as the next stepping stone in the economic development path of the English-speaking Caribbean. The region faces ample opportunity for further growth as current non-tourism service exports are relatively small at under US\$1 billion. The English-speaking Caribbean has advantages to leverage, including geographic proximity, shared language, and cultural affinity with the large North American market.

Like tourism in the 1980s, non-tourism service export development could help the English-speaking Caribbean achieve its goals in economic growth in the 1990s and beyond. The development of an efficient services sector is increasingly recognized to be important to overall economic growth. Potential development benefits of non-tourism service export growth include employment for a range of skill levels, reduced vulnerability to external shocks through diversification, and some increase in foreign exchange and tax revenue. Consumers would benefit from availability of a wider array of services that the local market alone cannot support. English-speaking Caribbean manufacturing, tourism, and other service firms that rely on intermediate service inputs, such as information and systems management services, would benefit from development of an internationally competitive service sector in the region.

The English-speaking Caribbean countries covered in this report have already achieved some success in specific service export areas in addition to tourism--notably, offshore financial services in Barbados, and information processing in Jamaica and Barbados. In addition, there are dynamic small to medium-sized firms that have succeeded in exporting their services. Overall, however, non-tourism services export growth in the region has not kept up with the rapid pace of expansion of the sector globally. The region's share of global non-tourism service exports has declined since 1980.

This report's assessment of specific subsectors and service exports in general suggests that there are good prospects for service export growth if Governments take necessary actions. The countries of the English-speaking Caribbean, however, will have to address difficult issues constraining development of the service export sector, and private sector in general, in order to realize these prospects.

The evolving market for service exports

World trade in services has surged dramatically, outpacing strong growth of trade in goods. Global non-tourism service exports grew from approximately US\$14 billion in 1970 to around US\$250 billion in 1990. In the 1990s, service exports have grown at about 9% a year. The global expansion of trade in non-tourism services has been fueled by evolution of both the demand and supply sides of the service equation. The diffusion and commercialization of innovations in telecommunication and information technology have created a demand for services

(to input and manage information) and have revolutionized their supply. Whereas traditionally, the service transaction has required the physical meeting of the service supplier and consumer, communications technology has made it possible to execute many service transactions from afar. Global competition, spurred by liberalization of trade in goods, has led firms to seek new means of improving competitiveness, including shifting of non-critical services from in-house units to outside service providers.

Changes in the international policy arena are also reshaping the environment for service exports. Unilateral liberalization, in particular, has contributed to the expansion of cross-border trade in services. Regional blocs are making strides in integration of markets for services. In 1994, the World Trade Organization achieved its first global accord on trade in services--the General Agreement on Trade in Services.

The market for service exports is highly competitive. The region faces stiff competition for market share both from providers in the target markets and from service exporters from other developing countries. International outsourcing of services becomes appealing to firms when the cost savings are in the order of 30-40%. Hence, domestic service providers in target markets still have a substantial advantage over international contenders. Since language and time differences have not proven insurmountable barriers in many service exports, the English-speaking Caribbean must compete globally with developing countries aggressively pursuing service export markets. Mexico and the Dominican Republic have developed successful non-tourism service export industries aimed at the US market despite language barriers. The Philippines and India export services to the US despite distant location and lack of strong cultural affinity. Thus, the English-speaking Caribbean's geographic and linguistic advantages are not enough to attract service consumers. The Governments of the region will need to put in place the best possible business environment for regional firms to be able to compete.

The English-speaking Caribbean environment for service export

The English-speaking Caribbean countries have made important progress in liberalizing trade in goods and improving macroeconomic conditions. In addition, some actions relevant to liberalization of trade in services have been undertaken. The decision to allow university graduates from CARICOM to work freely in any CARICOM country is thus far the most significant measure. A broad liberalization of trade in services, however, has not taken place. Protection of the sector and constraints to foreign investment have permitted domestic service sectors to continue to operate according to the local status quo, with few linkages to the rapidly evolving global services economy. Barriers to import of knowledge in the form of stringent and bureaucratic work permit regimes limit growth and learning, and promote isolationism rather than keeping up to date with market best practice. These barriers affect trade in manufactures as well.

A range of public policies, in addition to trade-related policies, are constraining non-tourism service export growth and private sector competitiveness in general. Although countries have initiated projects in education, investment in improving the education systems has not been given sufficient national priority. Education systems are the most fundamental infrastructure for long term development of the service export sector in the region because the main source of

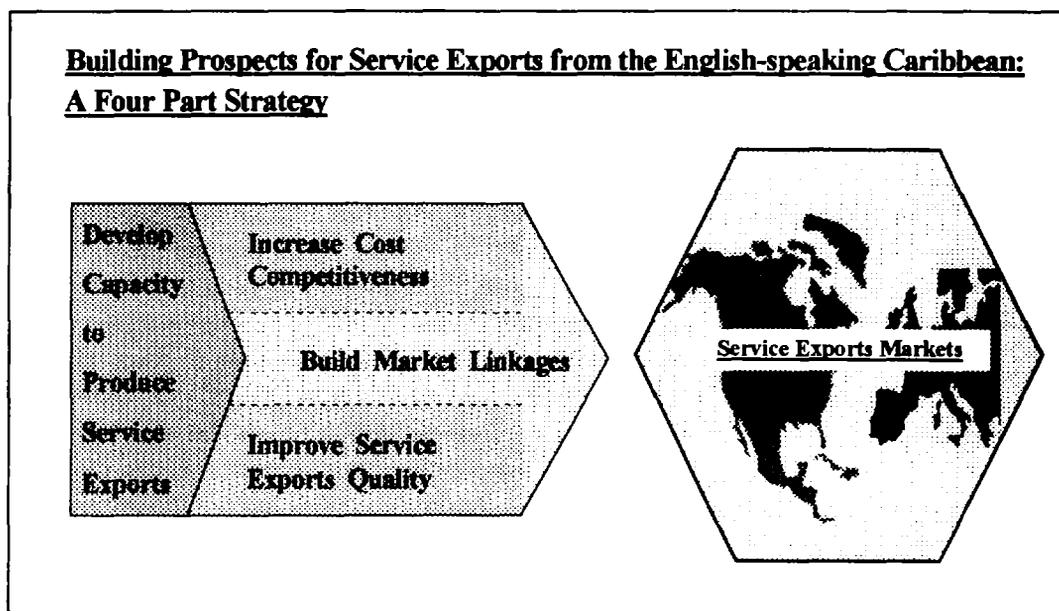
comparative advantage in most service exports is human capital--the productivity of workers in labor-intensive services and expertise of professionals in knowledge-intensive services. None of the countries of the region has tackled the rigidities in the labor markets, which are hampering productivity and competitiveness.

The most important barrier after education and labor policies to service export expansion is the structure of the telecommunications market, which is not consistent with long term development of the sector. Telecommunications legislation needs modernization and regulatory capacity needs strengthening. Complex and discretionary investment and incentive regimes discourage foreign investors and local entrepreneurs. Inadequacies and gaps in fiscal frameworks mean that some service exports are subject to high levels of taxes and tariffs. Fragmentation of the regional market and ad hoc government procurement policies have inhibited development of professional services. In spite of differences in development and circumstances of individual countries, these limitations affect all the countries covered in this report. Addressing these constraints would benefit private sector competitiveness and exports by all sectors.

Service export expansion strategy

Discussion in the region of means to develop service exports has tended to focus on promotion efforts and incentives. Without the ability to deliver a high-quality, cost-competitive product, however, marketing will not be effective. Incentives will not make up for fundamental constraints to establishing and operating a competitive export enterprise. A focus on incentives specific to the service export sector, moreover, could distract attention and resources from making needed improvements in the business environment. Sector-specific incentives are not recommended both because consequent distortions in resource allocation hinder economic growth and the track record of such incentives is dismal. A more systematic approach to getting the environment right for service exports is needed.

A public sector strategy to spur development of service exports should focus on enabling the private sector to achieve four objectives: developing capacity to produce service exports, increasing cost competitiveness, improving service exports quality, and building market linkages. (See illustration below.) First of all, the Governments of English-speaking countries must seek to improve the region's capacity to produce service exports by addressing the scarcity of inputs in the area of human resources (skilled workers, professionals, and managers) and, to a lesser extent, capital. There is an inability to substantially expand service exports in many subsectors due to insufficient inputs. Development of a market-based training support mechanism to foster computer literacy and skills development, and liberalization of work permit policies to ease current limitations in commercially-applicable expertise and management capacity would yield results in the near term. Reducing costs and delays in business entry and in obtaining work permits would significantly improve the environment for foreign investment. Elimination of limitations on foreign equity ownership and licensing requirements is needed. Investment in primary and secondary education and reallocation of resources within tertiary education would establish a basis for long term sector growth.



Once Governments have undertaken actions to ease the scarcity of inputs to service export production, steps to help firms increase service export quality to internationally competitive levels and improve cost competitiveness by addressing policy and infrastructure issues are recommended. Some services produced by the region are not of a quality that meets international standards. Still other services can be provided at a satisfactory level of quality, but at costs that are not competitive.

Negotiating a regional free trade agreement on services and revising government procurement guidelines to allow all CARICOM firms to compete for contracts would constitute progress towards liberalization that could spur quality improvement. Service trade liberalization in multilateral and bilateral fora would be medium term goals. Such efforts would particularly benefit development of higher value-added services, where quality is the key to competitiveness. Labor market liberalization, including a decrease in payroll taxes; modernization of the telecommunications framework and strengthening of regulatory capacity; and reduction of taxes on inputs to service exports would reduce costs. These actions would be especially important for development of high employment, lower value-added services, for which cost is typically the driver of consumer choices once minimum quality standards are met. Reduction of exemptions and remissions from taxes and elimination of tax holidays and other discretionary incentives would make up for fiscal revenue foregone and help fund increased investment in education.

Concurrent with efforts to support improvements in quality and cost competitiveness, the public sector could support private sector efforts to forge linkages with international consumers and other suppliers and thereby develop demand for regional service products. Private sector driven efforts to develop linkages with target markets frequently, in turn, stimulate firms to improve service quality and cost competitiveness.

By taking action, the Governments of English-speaking Caribbean nations can

not only realize, but also improve regional prospects for service export development. Public policies can have a considerable impact on the knowledge, skills, and productivity of its population, especially in the medium to long term. Policies can also improve the environment for private enterprises to enter and operate in the sector. Although the public sector cannot guarantee results, it can substantially improve the chances for successful service export development.

1

Introduction

Despite differences among English-speaking Caribbean countries¹ in culture, natural resource endowment, and stage of economic development, these countries face the common challenge of repositioning themselves to take advantage of new opportunities in the global economy. The region experienced growth through the 1980s of 2.8% per annum -- higher than most developing countries during the same decade. The exercise of political will to implement necessary and difficult structural adjustment measures and subsequent sustained good economic management enabled this level of growth. Preferential market access to the European Union (EU), Canadian, and United States (US) markets supported these efforts, as did continued financial flows from the international financial community. Tourism growth, which averaged over 9% per annum over the decade, accounted for a significant proportion of the region's economic growth. Exports of clothing manufactures by Jamaica and the OECS were also significant.

Notwithstanding the respectable showing of most Caribbean countries in the 1980s, many countries have yet to see the expected take-off in economic growth following structural adjustment. Moreover, traditional export niches and financing sources are at risk. The expected elimination of preferential trading arrangements for bananas by 2002 has brought the future of this industry into question. The erosion of trade preferences may render other traditional and non-traditional products noncompetitive. Tourism growth has slowed. Bilateral aid programs are shrinking.

The English-speaking Caribbean economies are highly vulnerable not only to the vicissitudes of trade policies of OECD countries, but also to price changes for key commodities, given the continued concentration of exports. Petroleum and related products continue to dominate the exports of Trinidad and Tobago. Certain OECS countries and Belize rely heavily on bananas and sugar. Guyana exports mainly rice, sugar, and bauxite. Almost 60% of Barbados' export earnings are from tourism, which peaked in 1989, dropped in 1990 and 1991, and have since been stable at the lower level. The Jamaican economy has become concentrated in enclave tourism and clothing manufacture and assembly operations, in addition to ongoing export of bauxite.

With key agricultural exports jeopardized and manufacturing exports to the US subject to stiff competition from Mexico, development of service exports in addition to tourism has come to be seen as the next stepping stone in the economic development path of the Caribbean.² The term

¹ The countries covered in this report are Antigua and Barbuda, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago. These countries as a group are referred to as "the region" or "English-speaking Caribbean."

² For a definition of services and conceptual framework for service exports, see Annex 1.

“service exports” as used throughout this report excludes tourism.³ Service exports include professional and technical services, information processing services, financial brokerage and management services, and health services.⁴ Caribbean public and private sector leaders have been considering means of tapping regional potential in these and other service exports.

The report

The objective of this report is to provide input into the discussion already taking place in the region about developing service exports. Quality work on specific subsectors and related topics has been completed by Caribbean scholars and businesspeople.⁵ Government officials in most of the countries covered have begun scrutiny of the state of their service exports sector and some have developed and begun implementing strategies for its development. Barbados, in particular, has undertaken methodical study of prospects for Barbadian service exports and developed a strategic plan to develop and market the country’s service export potential. Each of the countries covered is familiar with the current supply of service exports within its shores or frontiers. This report seeks to further enrich regional discussion of service exports by providing analysis of the service export sector in the region based on cross-country knowledge and expertise on the demand side of the market.

Barriers to export in manufacturing are well known. Numerous studies have been carried out on manufacturing in the Caribbean. By contrast, there is not yet a canon on what it takes to develop service exports. Further, studies on the Caribbean have tended to look at a specific subsector in one country. This report seeks to look at service exports more broadly in order to define what factors are important to service export growth, where the region stands on these factors, and what measures could be taken to improve the environment for service export.

The scarcity of data on the services sector that has been problematic in all regions of the world, except North America in recent years, afflicts the English-speaking Caribbean.⁶ As a result, to provide a concrete basis for this report, interviews were conducted with a substantial sample of firms engaged in service export and service activity for the domestic market, as well as policy makers and private individuals knowledgeable about aspects of the sector.⁷ These were complemented by interviews with consumers of service exports and market knowledge of industry experts contacted. Research was focused on a sample of five specific subsectors: informatics⁸,

³ For analysis of the tourism sector, see for example, Study to Assess the Economic Impact of Tourism on Selected Caribbean Countries, Caribbean Development Bank, April 1996.

⁴ For a comprehensive list of service exports, see Annex 2.

⁵ Including Sylvia Charles (consultant), Compton Bourne (UWI), Paul Chen Young (Paul Chen Young and Associates), and Trevor Hamilton (Trevor Hamilton and Associates).

⁶ The countries under study, like most, do not have reliable data on services production and export. Services export figures from balance of payments are typically a residual, and therefore may not reflect actual production. Services production data from national accounts are of limited value for similar reasons. It is not possible to obtain US Department of Commerce data on US services trade with the countries under study or other small economies to protect the confidentiality of firms providing input.

⁷ See Annex 6 for a sample of firms and individuals interviewed.

⁸ Informatics services use information processing, manipulation, or presentation as the core activity of creating value. Examples include data entry, call center operations, document management, and software development.

offshore financial services, health tourism, professional services, and entertainment. These subsectors were selected on the basis of regional interest and to reflect the diversity of the sector.

Subsector research was undertaken to identify policy, institutional, and infrastructure issues affecting the service export sector, to provide a basis for assessing firm level issues, and to serve as a source of examples for general principles presented. For each subsector, a background report was produced that analyzes firm level constraints, the current position of Caribbean firms, and the market for specific service exports.⁹ The discussion and recommendations of this report are not limited to the service subsectors studied in depth, however, but are relevant to the entire service export sector.

Why services and service exports?

The development of an efficient commercial services sector is increasingly seen as important to overall economic growth. The view that a large services sector relative to agriculture and industry sectors was a damper on growth has been rendered obsolete. Technological innovations, mainly in telecom and computing, have led to dramatic increases in labor productivity in many services. In so-called "industrialized" countries, such as the United States, increases in labor productivity in services have enabled burgeoning services sectors to fuel, rather than hamper, economic growth. The computer-based services sector in the United States is growing at an estimated 14-15% a year. It is recognized that manufacturing export is no longer the only means to achieve rapid economic expansion.

Production and export of services has figured prominently in the development strategies of some rapidly developing countries, such as Singapore and Malaysia. These countries are admittedly quite different from the Caribbean in economic circumstances and political culture. Their experiences, however, demonstrate that service export development strategies can stimulate economic growth. Neglect of the sector, or strategies favoring manufacturing, tourism, or agriculture alone could block this potentially important avenue of development. Within the region, Barbados is positioning itself to develop as a services-based economy. The "Information Technology Strategic Plan for Barbados 1994-2004" envisions the development of an information infrastructure through intensive information technology skill building, telecommunications sector reform, and promoting on-line applications and databases for hospitals, courts, and customs.

Development benefits

Potential development benefits of service export expansion include:

- creation of employment for a range of skill levels,
- retention of recently qualified professionals and graduates,
- reduced vulnerability of the economies to external shocks,
- limited increases in foreign exchange and tax revenue, and
- economic growth.

⁹ The background reports on the informatics, offshore financial services, health tourism, professional services, and entertainment subsectors are available as a separate volume.

Intermediate service inputs, particularly professional services and information and systems management services, are increasingly important to the competitiveness of manufacturing, tourism, and other service firms. In addition, local consumers would benefit from improved service quality and availability of a broader array of services with service export development.

Basic service exports, such as data processing, could provide employment opportunities for individuals with at least part of a secondary education and keyboarding skills. Once employed in these jobs, a proportion of these individuals would have the opportunity to increase their skills and migrate to higher value-added jobs. Informatics jobs range in skill levels from basic data entry, requiring literacy and typing, to information processing requiring computer literacy and judgment, to high-skilled applications such as computer-assisted design (CAD) and geographic information systems (GIS). It is estimated that 20,000-30,000 jobs could be created in the region in informatics with a sufficient number of trained workers and a conducive business climate.

Other service exports could tap the creativity and brainpower of the region. Entertainment services could employ individuals with significant raw talent but limited formal education. A vibrant professional services industry could use and develop the regional knowledge base. An increase in internationally competitive opportunities for highly skilled and educated people may help the region retain Caribbean professionals.

Generation of foreign exchange and tax revenue through an increase of service exports could marginally assist governments in meeting their foreign and domestic obligations. In Barbados, data processing, informatics, and offshore financial services generate some US\$75 million in foreign exchange (compared to over US\$500 million from tourism). However, even for offshore financial services--one of the subsectors most likely to generate revenues--the impact on government revenues is likely to be slight. In Barbados, with a dynamic offshore financial market, government revenues from the sector amounted to US\$0.9 million in 1993, compared to US\$8.1 million from the hotel and restaurant tax alone in the same fiscal year.¹⁰ The offshore financial sector accounts for less than 1% of total tax revenues.

Opportunities and challenges

The English-speaking Caribbean faces ample opportunity for growth in service exports. Globally, the size of the potential market for outsourcing by firms in OECD countries is estimated at US\$40-120 billion.¹¹ Decentralized operations and outsourcing have become widely accepted organizational alternatives for North American and many other OECD-based businesses. Global corporations are increasingly common.

Service export sector growth could come from both entry of foreign investors and start-up or diversification by local investors. The total capital investment required for many services is

¹⁰ Figure on Barbados government revenue from offshore financial services from Sylvia Charles, "Non-Traditional Services in the Commonwealth Caribbean: Financial Services, Software Development," mimeo July 1994. Other revenue figures from the Central Bank of Barbados.

¹¹ This figure assumes that 10-30% of jobs in G-7 countries with a high technical potential for long distance service delivery (information intensive, low client contact, no manipulation of physical objects) are contestable internationally. From World Bank, Global Economic Prospects and the Developing Countries 1995.

low compared to manufacturing and tourism. Foreign direct investment in service export enterprises would, therefore, not necessarily lead to substantial inflows of capital. Foreign investors, however, would bring needed linkages to markets and clients. Foreign investment could also lead to transfer of knowledge of international best practice in technology use and service management. The local economy would benefit, as well, from the demonstration value and, in the medium to long term, the increase in trained and experienced workers and managers in the sector. Many Caribbean nationals have expressed interest in independently starting up informatics firms, but have been deterred by constraints in the business environment, the high level of risk, and inexperience in the sector. Joint ventures offer the advantage of coupling foreign expertise in marketing and technology with Caribbean expertise in operations, but are difficult to form and sustain.

For the English-speaking Caribbean, the North American market is a primary target market. In 1994, the United States exported US\$198.7 billion and imported US\$138.8 billion in services. Of the imported services, US\$4.2 billion was in “business, professional, and technical services” (e.g. -informatics, entertainment, medical, and professional services), which included US\$386 million in computer and data processing services and US\$94 million in database and other information services.¹² This represents a fraction of a percent of the North American informatics market, estimated at US\$400 billion.

The market for service exports is highly competitive. The region faces stiff competition for market share both from providers in the target markets and from service exporters based in other developing countries. The region’s near location, shared language, and cultural affinity with the large North American market are frequently cited advantages. Indeed, in offshore financial services, for example, participants prefer locations that are in the same time zone and within short flight range, even though the industry is increasingly a 24-hour-a-day business. English-speaking ability is important for professionals seeking to export to North America or the UK. For many information processing tasks, English language is desirable. Language and time differences, however, have not proven insurmountable barriers to service export. The Dominican Republic and Mexico export information processing services to the US market despite language barriers. Mexico and Costa Rica have also attracted retirement communities. India and the Philippines have developed software and other informatics exports despite distant location from target markets and lack of strong cultural affinity. Thus, the English-speaking Caribbean will have to achieve competitive fundamental conditions to geographic and linguistic advantages for service export growth.

¹² Data from the US Department of Commerce Survey of Current Business, September 1995.

2

English-speaking Caribbean participation in the global market for service exports

World trade in services has surged dramatically over the past 25 years.¹³ Global non-tourism service exports have grown from approximately US\$14 billion in 1970 to around US\$250 billion in 1990.¹⁴ In nominal terms, non-tourism service exports grew an average of 22% per year from 1970-80 and 8% per year from 1980-90. By comparison, merchandise exports grew an average of 19% per year from 1970-80 and 7% per year from 1980-90. Growth of services exports in the 1990's has been uneven, but on average higher than growth in merchandise trade.¹⁵ The growth of transborder trade in non-tourism services has paralleled the growing domestic importance of the sector, particularly to OECD economies. The global informatics industry--including both transborder and domestically-provided services--is estimated to be close to a US\$1 trillion market, up from virtually zero in 1970.

In the aggregate, developing countries are net importers of non-tourism services. The developing world is a more significant exporter of tourism than non-tourism service exports, collecting 18% of tourism receipts compared to 13% of non-tourism service export revenue in 1990. The developing world accounts for roughly equivalent exports of merchandise and non-tourism services. The developing world increased its share of service exports from 1970 to 1990. Countries whose service sectors achieved strong growth in non-service exports include: Thailand, Costa Rica, the Dominican Republic, Malaysia, Singapore, Mauritius, Guatemala, and the Philippines. In the Caribbean, tourism growth has far outpaced expansion of non-tourism service exports.

¹³ Part of the increase in transborder service activity is likely a statistical matter. The unbundling of service activities from industrial enterprises via outsourcing has increased the recorded size of the service sector. Service activity is more often transacted and traded independently of goods and more likely to be recorded separately. Even so, it is commonly held that changes in technology and increasing importance of the use of services to gain a competitive edge have led to real growth in global service export. Furthermore, the unbundling of service activities provides market opportunities not available before.

¹⁴ The data in these two paragraphs are from UNCTAD/World Bank, Liberalizing International Trade in Services: A Handbook, 1995. The figures were originally derived from the "other services" category in balance of payments data, which excludes transport, travel, and property income and remittances. Given the limitations of the data, discussed in footnote 5, the figures are intended to be indicative.

¹⁵ Commercial service exports (including both tourism and nontourism) grew an average of 9% a year from 1990-94, compared to approximately 6% a year growth in merchandise exports.

Caribbean service exports

The Caribbean countries covered in this report have achieved notable progress in specific service export areas. The offshore financial sector in Barbados has seen strong growth in the past five years. Jamaica rapidly developed a vibrant informatics industry in the latter half of the 1980's, although some tapering off has taken place since 1990. Barbados and the OECS have also achieved growth in informatics. Jamaica has had success in attracting the US film industry to the country. Musicians and performers from Trinidad and Tobago and Jamaica have entertained in different world venues, both through major events, such as Trinidad's Carnival and Jamaica's Reggae Sunsplash, and individual performances. OECS countries and Jamaica host health spas.

In addition, there are dynamic small to medium-sized, locally-owned firms that have succeeded in exporting their services. Export of professional services, particularly from the larger economies, to other countries within the region is common. A few local firms in software production, audiovisual services, management consulting, training, accounting, hotel design and construction, and other specialized fields export their services outside the region in varying proportions. These firms typically have established a reputation as providers of high quality services in niche markets in the region and have leveraged their regional success and track record to secure clients from outside the Caribbean. In the offshore financial and informatics service export subsectors, investment by foreign individuals or entities with established links into the target markets has been the more common model.

The Caribbean countries under study produced 0.4% of world non-tourism service exports and 0.8% of world tourism exports in 1990. The contribution of the region to world non-tourism service exports has declined from 0.7% in 1980. The English-speaking Caribbean did not keep up with the fast pace of expansion of global non-tourism service exports.¹⁶

Table 1: Share of World Non-tourism Service Exports, 1970 & 1990 (percent)

HIGH INCOME COUNTRIES			DEVELOPING WORLD		
	1970	1990		1970	1990
European Comm.	62.5%	54.8%	Asia	2.4%	6.8%
United States	9.8	12.8	Latin America	3.8	3.0
Japan	4.9	7.6	Africa	1.1	0.6
Canada	5.3	3.4	Eng-spknng Carib.	0.7*	0.4
Other	7.7	8.7	Other	2.5	1.8
TOTAL	90.2	87.4	TOTAL	9.8	12.6

*1980 figure (This figure only was derived from the IMF Balance of Payments database.)

Source: UNCTAD/World Bank *Liberalizing International Transactions in Services: A Handbook*

Non-tourism service exports have grown modestly in most countries of the English-speaking Caribbean, while global exports have been expanding rapidly. St. Lucia and St. Kitts and Nevis achieved growth of the sector. Of the larger islands, the Jamaican service export sector grew 5% per annum and Barbados' grew 3.5% per annum on average since 1980 in nominal

¹⁶ The region's share of merchandise export value has been largely determined by oil and aluminum prices.

terms. By contrast, the service export sectors in countries such as Malaysia, Costa Rica, and Thailand have expanded at average rates of 12% to 18% per annum.

The size of the non-tourism service export sector in the region is small relative to other export sectors. Non-tourism service exports accounted for under US\$1 billion, compared to roughly US\$2.5 billion in tourism receipts and US\$3.3 billion in merchandise exports in 1993 from the region. By comparison, Ireland exports US\$2 billion, Mexico exports US\$3.2 billion, the Philippines exports US\$3.4 billion, and Singapore exports US\$15 billion in non-tourism services. Exports of informatics from Jamaica, Barbados, and the OECS, and exports of financial services from Barbados account for most of the contribution in terms of dollar value from the region.

Employment in tourism and other services, both for export and domestic consumption, has been growing throughout the region over the past fifteen years, in absolute terms and as a share of total employment. Construction and tourism have accounted for most of the employment growth over the period. Employment in informatics, financial, and professional services (for export and domestic markets) is small, but has exhibited a growth trend in the 1990s.¹⁷ Trinidad and Tobago has the highest percentage of its total employment in informatics, financial, and professional services (6.9%), followed by Barbados (6.3%) and Jamaica (5.1%).¹⁸ The number of people employed in these services represents about half of the number employed in manufacturing in Trinidad and Tobago and in Jamaica, and approximately 60% of manufacturing employment in Barbados. Employment of women at all levels in informatics, financial, and professional services is significant (45% in Trinidad and Tobago in 1993, over 80% in Dominica and Grenada).¹⁹ In the Barbados offshore financial sector, over one-third of managers are women.²⁰

Table 2: Employment in Informatics, Financial, and Professional Services
('000 of workers) **for Export and Domestic Markets***

	1990	1991	1992	1993	1994
Barbados	3.7	3.9	4.1	5.5	6.3
Belize	n/a	n/a	n/a	1.7	2.1
Guyana	n/a	n/a	n/a	7.5	n/a
Jamaica	34.8	40.3	43.6	43.3	47.2
Trinidad & Tobago	23.9	27.7	28.8	27.9	29.7

*OECS data not available

Sources: Barbados Statistical Service, Belize Central Statistical Office 1994 Labor Survey Report, Guyana Statistical Office 1993 Household Survey, Statistical Institute of Jamaica, Trinidad and Tobago Central Statistical Office

INFORMATICS SERVICES. Seventy-two information processing firms employed about 6,500 persons in the region in 1994. Most companies are located in Jamaica and Barbados, the

¹⁷ These figures are not available broken down by orientation of employer to export markets.

¹⁸ Barbados, Jamaica, and Trinidad and Tobago data from the classification "Financial and Business Services" in employment figures of the three sources cited. Belize data includes "Financial Services and Real Estate." Guyana data includes "Financial Intermediation, Real Estate and Business Activities." See Annex for additional employment data.

¹⁹ Data from the Trinidad & Tobago Statistical Bureau and International Labor Organization.

²⁰ Sylvia Charles, *op cit.*

countries with the longest-standing experience in the sector. While most of the companies specialize in data-entry services, Jamaica and Barbados also offer a diverse range of other services, such as software programming, call center operations, and GIS for mapping. The information processing industry in the remainder of the Caribbean is relatively small.

The countries under study have made progress in the transborder supply of data processing services. At the same time, other countries such as Ireland, the Philippines and India have been concentrating on export of contract software programming and other value-added activities, while China, Sri Lanka, Mexico, Zimbabwe, and Mauritius have become fairly popular sites for data entry and conversion international outsourcing activities. Hence, competition for market share is stiff. The region, nonetheless, has considerable scope to expand its supply of informatics exports.

FINANCIAL AND OFFSHORE SERVICES. Due to the importance of confidentiality in the offshore financial service industry, global and regional figures on offshore holdings are not published. Nonetheless, it is clear that the English-speaking Caribbean accounts for only a minute segment of a huge global offshore market. Of the CARICOM big three, only Barbados operates a formal offshore market. Several OECS nations have tried to break into the market, with limited success.

Barbados boasts a small, but growing offshore industry. Of the approximately 1,500 International Business Corporations (IBC's) registered in Barbados, many are involved in some form of offshore financial activity (holding or trading).²¹ Since enabling legislation for exempting captive insurers from taxation was passed in 1986, the exempt insurance industry has grown to 300 entities.²² A limited number of offshore banks (22) have some level of operations in Barbados, mainly in administering offshore trust accounts. By comparison, Bermuda hosts 7,500 IBC's, approximately 1,300 captive insurers, and 375 mutual funds. From the Cayman Islands operate approximately 28,000 IBC's, 300 captive insurers (including 50 reinsurers), 600 mutual funds, and 550 banks and trust companies.

The demand for offshore financial services is closely related to OECD policies, many of which are decreasing the benefits of offshore facilities to OECD citizens. Industrialized country governments have been taking steps that tend to more narrowly proscribe uses of offshore financial centers and otherwise reduce their attractiveness. Double taxation relief under tax treaties is being restricted by "limitation of benefits" clauses which stipulate that only operating entities and not simple booking entities qualify for available benefits. The US, reacting to perceived abuses and the need to raise revenue, has led international efforts to dampen the appeal of tax havens by raising the burden of proof on claimants, eliminating many benefits under tax treaties generally, and outright abrogating certain tax treaties (with the Netherlands Antilles and the British Virgin Islands). Canada has replicated many of these stances, and Latin America is now boosting domestic and cross-border tax enforcement. While these and other factors tend to reduce regional demand for offshore financial services, two powerful, seemingly secular, trends

²¹ International Business Corporations are companies with less than 10% domestic ownership that export all their goods and services, which are granted incentives under the International Business Corporations Act.

²² Captive insurers provide services for a fixed set of clients, in most cases, for only one enterprise.

continue to propel demand: the growth of international business and international capital flows. Established regional players such as the Cayman Islands, British Virgin Islands, and Netherlands Antilles, however, are already well positioned to tap much of that growth.

HEALTH SERVICES. Health care currently accounts for a sizable share of GDP in OECD countries, ranging from 6.6% in the UK to 13.2% in the US. The market for health care services is expected to grow with the aging of OECD populations. Transborder provision of health services, however, is uncommon. Insurance terms in the US and Canadian markets stringently limit coverage outside the countries' borders. Some Europeans travel across country borders within Europe for health services. Developing country export of health services to OECD consumers is rare. A few Germans and Austrians have reportedly begun traveling to former eastern bloc countries for conservative dentistry, plastic surgery, and health spas. Cuba exports specialized health services such as eye surgery and dermatology treatments to Latin Americans. Colombia and Costa Rica also serve the Latin American market.

In the English-speaking Caribbean, health service exports consist mainly of emergency services to tourists. Mt. Hope Hospital in Trinidad and Tobago has sought to serve an international clientele with little response as of yet. There are health spas in Jamaica and OECS countries that offer limited, preventive-type health services. A couple of small entities in the region have begun providing services, such as cosmetic surgery, to non-Caribbeans. In Guyana, a private firm has begun exporting medical testing services to the region and expects to export to the US market in the near future.

The region has had more success in attracting would-be doctors than patients. Offshore medical schools have flourished on the smaller islands in the Eastern Caribbean. In addition, health workers themselves have been an export commodity. The region, especially Jamaica, has exported nursing care to the United States under special immigration and work permit arrangements due to the shortage of US nurses and the high quality of nursing training in the region. This trend has now abated, if not stopped, because of bed closures and layoffs in US hospitals.

PROFESSIONAL SERVICES. Professional services has become a global business. In tandem with globalization of production, professional services firms have migrated to foreign countries to serve multinational clients' needs worldwide. The so-called "Big Six" accounting firms, for instance, have located offices in the region to handle both local clients and international clients' local needs. Professional firms also frequently provide crossborder services. Supply has thus far been mainly by OECD country providers to other OECD or developing country clients. For example, professional services firms from industrialized economies commonly provide leading edge technology-related services to public utilities in developing countries. In addition, many small and medium-sized consulting firms in industrialized countries provide market research, management training, and related services to businesses and public institutions in developing countries, often funded by bilateral and multilateral donors. Developing countries with high levels of education have been able to establish competitive presence in international markets for software consulting by subcontracting services from firms in industrialized countries. Consulting firms in Southeast Asia compete internationally on the basis of their cost structure and the experience they have gained in the "tiger economies" of that region.

The professional services sector in the English-speaking Caribbean exports very little outside the region. Exports of professional services are mainly to other CARICOM countries. An indigenous service capability has developed to complement international service suppliers in the region in serving internationally-oriented sectors, such as tourism in Jamaica and the OECS and oil or mining in Trinidad and Guyana. In Barbados, the legal profession has developed an international finance capability. In civil engineering services, technical capability and expertise in design for natural hazards exists in the larger of the locally established firms in Jamaica and Trinidad and Tobago. In the same countries, a capability exists in general contracting services for small projects and in architectural design and supervision, especially in relation to tourism. Marketing, advertising, and design services oriented towards subregional markets are also focused in Jamaica and Trinidad, and, to a lesser extent, Barbados. International accountancy services are well represented in the region, but the scale of consulting service capability maintained locally by these firms tends to be small, with the firms relying on their international networks to offer an extended range of services to regional clients. Outside of construction-related services, local firms are quite small, often consisting of one or two professionals.

ENTERTAINMENT SERVICES. Estimated annual global sales of recorded music are approximately US\$28 billion.²³ Sales are dominated by a few major producers, but independent labels have garnered a respectable share of the market. Film remains big business, generating revenues in the United States of US\$34.3 billion in 1992.²⁴ The factory model of producing films, however, has given way to a structure dominated by networks of smaller, highly specialized firms. A typical film project involves as many as 50 subcontractors and scores of independent craftspeople.²⁵ With the increasing number of channels operating via cable networks, the demand for video programming has surged. Multimedia firms, fusing technological expertise with creativity, have sprung up to produce ancillary entertainment products--CD-ROM, interactive television, multimedia for museums and tourist sites, as well as commercial multimedia software.

The regional film and video industry is nascent. Jamaica has been active as a location site for overseas film projects. Over the 1985-93 year period, the country earned over US\$50 million from on-location filming, with substantial sums of this from a few production efforts.²⁶

Caribbean music has an established niche in the world music industry. For decades, Caribbean superstars (such as Bob Marley, Shabba Ranks, Lady Patra, and Buju Banton) have captured an international following. Although reggae and calypso sales are high in the US and UK markets, many Caribbean artists record outside the Caribbean. It is estimated that there are some 50 recording studios operating in Jamaica, of varying degrees of technical capacity.²⁷ Exports of recorded music from Jamaica, however, earned only US\$291,000 in 1994 and from Trinidad and Tobago earned a mere US\$91,000 from 1989-94. Exports of musical instruments

²³ All information and data on the recording industry, except where noted, is from Compton Bourne and S.M. Allgrove, "Prospects for Entertainment Services from the Caribbean: The Case of Music," UWI mimeo 1995.

²⁴ US Department of Commerce, Statistical Abstract of the United States, 1995.

²⁵ Joel Kotkin, Center for the New West, New York Times 11/27/94 p.C3

²⁶ JAMPRO/Jamaica Film Office, April 1994

²⁷ Watson & Company Consulting Services, Inc., for the Government of Jamaica, "Situational Analysis of the Entertainment (Recorded Music) Industry."

from Trinidad and Tobago totaled US\$542,000 over the same period. Local music festivals have grown over the past decade, leading to significant revenue earnings in the tourist offseason. More recently, exported music festivals--Jamaica's Reggae Sunsplash and Trinidad's Carnival--have met with success in foreign cities.

3

The changing environment for service export

The global expansion of trade in non-tourism services over the past two decades has been fueled by evolution of both the demand and supply sides of the service equation and by global liberalization trends. Production has become more specialized and complex, leading to increased demand by firms for services to support production. Advances in information technology have accelerated this process.

Use of technology itself has become a source of competitiveness, driving growth in demand for service inputs. In the Caribbean tourism industry, for instance, resorts and hotels are increasingly using information systems for internal management in order to free human resources for guest contacts and customer service and thereby improve competitiveness.²⁸ Links to international computerized reservation networks are necessary for hotels. In both the manufacturing and service sectors, competitiveness is depending more and more on customer service, prompt delivery, and reductions in product-cycle times, all of which require services inputs.

The diffusion and commercialization of innovations in telecommunication and information technology have not only created a demand for services (to input and manage information), but have also driven a revolution in supply. Whereas traditionally, the service transaction has required the physical meeting of the services supplier and the consumer due to the characteristic nonstorability of services, communications technology has made it possible to execute many service transactions from afar. Decreases in communications costs with deregulation and privatization have made long distance provision of services cost-effective.

Global competition, spurred by liberalization of trade in goods, has led firms to seek new means of improving competitiveness, including shifting of non-critical services from in-house units to outside service providers, such as those located in Jamaica's Montego Bay FTZ, to cut costs. As a result, firms are increasingly selecting providers on a quality and cost, rather than geographical, basis. In a survey of large US companies, 17% were found to be engaged in international outsourcing.²⁹ The much-heralded "end of geography" has not yet fully arrived, however. International outsourcing of services becomes appealing to firms when cost savings are

¹⁵ Auliana Poon, *Tourism, Technology and Competitive Strategy*, CAB International, 1993

²⁹ Uday Apte, "Global Disaggregation of Services: Growth Engine for the Less Developed Countries?", World Bank, 1994.

on the order of 30-40%.³⁰ In other words, domestic service providers in target markets still have a substantial advantage over international contenders.

The global policy environment

In addition to technological innovations and globalization of business, changes in the international policy environment for services are reshaping the environment for service exports. Liberalization is the dominant trend in trade in services. Individual countries seeking to improve domestic economic efficiency and achieve growth in their services sectors are unilaterally reducing barriers to trade in services. Regional blocs are making strides in integration of markets for services. In 1994, the World Trade Organization achieved its first global accord on trade in services--the General Agreement on Trade in Services.

Table 3: Policy Barriers to Trade in Services

Cross-border Movement of:	Policy Barrier:
Persons	<ul style="list-style-type: none"> • prohibitions or limitations on entry or ability to work of suppliers, such as visas, quantitative restrictions, work permits, residence permits • professional licensing requirements
Information	<ul style="list-style-type: none"> • limitations on access by local consumers to information networks • limitations by suppliers to telecom networks • non-signatory to intellectual property agreements
Capital	<ul style="list-style-type: none"> • exchange controls or restrictions • prohibitions or limitations on foreign direct investment, especially in sectors where it is the only mode of supply possible • prohibitions or restrictions on remittances (capital movement)
Goods	<ul style="list-style-type: none"> • prohibitions or limitations on temporary import of equipment by service suppliers or repatriating service supplier equipment • tariffs and quotas • censorship of symbolic representation of services (software, music, films)

Liberalization of trade in services takes place by amending border controls, sector regulations, conditions of entry, and other policies that inhibit cross-border movement of persons, information, capital or goods. (These are listed in Table 3 above.) These barriers are not unique to services trade. All affect trade in manufactured goods, as well. The degree of importance of the barriers, however, differs between trade in goods and in services. Policies limiting movement of persons and information are particularly important to trade in services. The forms of barriers to trade in services, moreover, are more diverse. Tariff and non-tariff barriers to trade in goods are typically imposed at the border. Barriers to trade in services include a wide range of policies limiting foreign suppliers' ability to enter and work in the country on a temporary basis, establish a commercial presence in the country, and provide distance services.

Liberalization of trade in services has been associated with growth in service export in countries that have opened their markets. Countries that significantly improved their international

³⁰ World Bank, Global Economic Prospects and the Developing Countries 1995.

ranking as exporters of commercial services from 1975-90 had also increased relative activity as importers of commercial services over the same time period, as a result of unilateral liberalization. These countries include Singapore, Hong Kong, Thailand, China, and Malaysia. By granting local firms access to the knowledge and personnel needed to produce services of a type and quality the market demand and opening domestic service sectors to competition from the outside, the governments improved the vitality and competitiveness of their service sectors.

Table 4: Service Imports by Countries Exhibiting Strong Growth in Service Export

Rank as Exporter			COUNTRY	Rank as Importer		
1975	1980	1990		1975	1980	1990
17	15	12	Singapore	31	32	23
31	21	14	Hong Kong	--	31	22
43	33	22	Thailand	41	41	25
--	28	26	China	--	40	32
47	41	31	Malaysia	35	28	26

Source: UNCTAD/World Bank *Liberalizing International Transactions in Services: A Handbook*

The General Agreement on Trade in Services (GATS)

The aim of the General Agreement on Trade in Services (GATS) is to generate access to markets in order to ignite services trade. Liberalization is seen as the key to dynamism in trade in services, yielding allocative efficiencies in the global economy, benefits to consumers, and opportunities to producers. The GATS agreement negotiated in the Uruguay Round, however, is expected to lead to, at most, limited liberalization of services in the near term.³¹ Liberalization of trade in services has taken place mainly as a result of unilateral actions by countries seeking to achieve domestic economic goals, as in the Asian countries cited in Table 4 above, or through agreements by regional trading blocs.

The GATS, nonetheless, provides a multilateral framework for progressive liberalization of trade in services in the future. All subscribers to the GATS are expected to adhere to the most favored nation clause, which requires equal treatment of foreign suppliers from all countries across all sectors, except for exemptions for policies in specific sectors sought by participants. Transparency is also explicitly raised as an issue for trade in services because restrictions on services take the form of laws, regulations, and administrative guidelines that are applicable to the service provider rather than the service. GATS seeks wide dissemination of all laws and regulations, requiring that members publish all relevant measures and international agreements and advise the Council on Services of legislative or regulatory changes that significantly affect trade in services. GATS also introduces the principles of national treatment (e.g., non-discrimination between foreigners and nationals) and market access for services. Unlike GATT, right to national treatment is not automatic. Under GATS, countries made commitments regarding national treatment and market access on a voluntary, positive list basis. The agreement calls, however, for successive rounds of negotiations to reduce or eliminate the adverse effects of measures maintained by signatories on trade in services. The first round is to begin no later than January 1,

³¹ Bernard Hoekman, "Tentative First Steps: An Assessment of the Uruguay Round on Services," World Bank, 1995.

2000. This will be an important opportunity for the English-speaking Caribbean, for which countries of the region should begin preparation well in advance.

In the Uruguay Round of multilateral trade negotiations, high income countries made commitments for roughly a quarter of the service subsectors under negotiation to impose no restrictions on market access and to give no advantages to national firms. Although this figure is low, it includes commitments made by many high income countries covering business services, computer-related services, and construction subsectors. These commitments are mainly bindings of existing policy ("standstill agreements"), however. A number of important barriers to market access, moreover, are not explicitly covered. Labor legislation, tax regimes, restrictions on land ownership or use, licensing and related fees, existence and reach of competition policies, regulation of monopolies, judicial enforceability of contracts, and other policies can restrict the contestability of markets, but are not specifically included in the schedules of commitments.³²

Developing countries, in general, made few commitments under the GATS. The English-speaking Caribbean, in particular, made very few commitments. Belize, for instance, made only commitments in the health services sector. Barbados made commitments in only six out of a possible 155 sectors.³³ Commitments made by the region do not imply liberalization, but rather a binding of current liberal policies or even preservation of policies inconsistent with the principles of national treatment or market access. For instance, St. Lucia's commitments in reinsurance confirm that only corporate entities can conduct insurance business and that work permit regulations apply to the sector. All English-speaking Caribbean countries included limitations across sectors on commitments regarding supply of services through commercial presence and temporary presence of natural persons. Trinidad and Tobago, for example, included as limitations on market access the requirement of a license for land purchases over 5 acres, a license for foreign acquisition of over 30% of shares of a local public company, registration of foreign investors, and work permit regulations and limitations.³⁴ The English-speaking Caribbean largely missed out on the opportunity to use the Uruguay Round to achieve services liberalization that could have led to economic benefits and international goodwill. This seems to have been due mainly to efforts to protect the local service industry, the lack of priority assigned to GATS by sector ministries in the larger countries, and lack of information and resources in the smaller countries.

The signing of the GATS is a positive step towards liberalization, but is unlikely to generate new opportunities or significant immediate benefits to Caribbean exporters. In the basic telecommunications and professional services sectors where agreements are not yet concluded, the negotiations may yield results of interest. The professional services committee is first considering the accounting profession with the aim of making it easier to trade accounting services. Means that may be considered include establishing international accounting standards and standards for certification. The outcome could not only affect the accounting industry, but also set a precedent for how transferability of licensing or certification might be treated for other professional services. Topics to be covered by the basic telecom annex to the GATS may include

³² Carlos Primo Braga, "Internationalization of Services," World Bank memo, 1994.

³³ These are entertainment services, reinsurance, courier services, software implementation services, specialized medical services, and legal services. See Annex 2 for a list of the 155 GATS subsectors.

³⁴ See Annex 3 for a summary of regional commitments.

nondiscriminatory access to basic telecommunications services, preferences to national suppliers, limitations on the number of suppliers, procedures for market entry, regulatory structure, and safeguards against anticompetitive practices. Jamaica and Trinidad and Tobago are observers to the Negotiating Group on Basic Telecommunications.

GATS does not affect current CARICOM arrangements, and does not preclude any future regional agreements regarding liberalization of trade in services. GATS members are not prevented from being party to or entering into arrangements liberalizing trade in services that meet three conditions: the agreement has substantial sector coverage; it does not a priori exclude any mode of supply; and it provides for the absence or elimination of discriminatory measures between the parties. GATS expressly allows signatories to enter into labor market integration agreements, which must exempt citizens from requirements relating to residency and work permits, as long as the signatories notify the Council for Trade in Services.

Regional trading blocs and liberalization of trade in services

Regional blocs have gone further than the GATS in comprehensive liberalization of services. The EU and NAFTA provide for freedom of trade in services that far exceeds GATS commitments. NAFTA covers all measures affecting all service subsectors not specifically excluded and requires publishing of all nonconforming measure and unbound subsectors. The EU has developed harmonized regulatory directives for a range of services sectors, and common principles of competition and mutual recognition applicable to services as well as goods. Both the EU and NAFTA signatories have public procurement in goods and services open to competition for all firms in the trading bloc. The ASEAN region has also signed a framework agreement on liberalization of trade in services among member countries along the lines of the GATS and is continuing to negotiate commitments in subsectors.

NAFTA represents arguably the most comprehensive package of services trade liberalization achieved in an inter-governmental trade agreement yet. The principles covered, in addition to non-discrimination between national and other NAFTA firms, include common investment codes; more liberal rules on cross-border trade in services, including local presence, right of non-establishment, and licensing and accreditation; protection for intellectual property-intensive goods and services; liberalization of government procurement of services and construction; and facilitation of temporary entry of business people and equipment. NAFTA also has sector-specific liberalization plans for financial services, telecommunications, and computer services, and provides for the establishment of work programs on standards harmonization for land transportation and telecommunications equipment. Procedures aimed at the development of mutually acceptable standards of professional practice are set out as a step to liberalization of trade in "accredited" professional services. All requirements for citizenship and permanent residency to become licensed or certified in a profession were eliminated.³⁵

The most significant measure undertaken by CARICOM towards regional liberalization of services trade thus far is the decision to allow university graduates from CARICOM to work freely in any CARICOM country. Once countries pass enabling legislation, implementation of the

³⁵ Bernard Hoekman and Pierre Suave, Liberalizing Trade in Services, World Bank, 1994.

measure could lead to considerable benefit. CARICOM also agreed on harmonized fiscal incentive regimes in the past, which are de jure still in effect. Many countries are evolving beyond the concepts of tax holidays and public free trade zones emphasized in these harmonized incentives, however, as international best practice has shifted toward non-discriminatory, low hassle, and low tax regimes. In practice, neither investment regimes nor sector regulations are harmonized in CARICOM. Government procurement in goods and services is not open in general to bids by all of CARICOM. When procurement is open to international bidding, other CARICOM members can participate, although there is a perception that they participate at a disadvantage.

Trade in services liberalization efforts by English-speaking Caribbean countries

English-speaking Caribbean countries have not engaged in a broad liberalization of trade in services. Main broad constraints are restrictions on foreign direct investment (movement of capital) and labor mobility (movement of persons). Other issues that are significant, but less pressing constraints to existing firms, are insufficient intellectual property legislation and institutions (movement of information) and residual exchange control legislation (movement of capital). The former is particularly important for service exports in the entertainment and higher value-added subsectors. The latter is equally relevant to services and industry.

There are sector specific and economy wide policies in the countries under study³⁶ that limit foreign investment, including investment in service sectors where a commercial presence is necessary to conduct business. Jamaica limits foreign participation in insurance to 49%. In Guyana, on-line information and database retrieval is operated under a 20 year monopoly. In all countries under study, monopoly rights have been given for a range of telecommunications services. For all sectors, Trinidad and Tobago requires a license for foreign direct investment constituting greater than 30% of shares.³⁷ Licensing is required for a foreigner to own over a given percent of shares in St. Lucia (25%), Dominica (33.3%), Grenada (33.3%), and St. Vincent and the Grenadines (50%). The Alien Landholdings Acts in OECS countries, the property transfer tax of 18% for foreigners in Barbados, and the requirement of payment for land purchase in hard currency in Trinidad and Tobago all limit commercial presence.

The English-speaking Caribbean has significant policy barriers impeding movement of persons. For non-CARICOM citizens, only persons with managerial or technical skills demonstrated to be in short supply are permitted to work in the region. The process of obtaining a work permit is cumbersome, lengthy, and fraught with uncertainty. Work permits are required for all non-CARICOM foreigners, with permission to work without a permit for up to one month (Trinidad and Tobago) granted in some countries. Professional licensing requirements are surprisingly. Jamaica requires local certification in law, management consulting, education services, local licensing in accounting or bookkeeping, taxation, engineering, architecture, medical services, real estate, and advertising; and both registration and licensing for software implementation services, data processing services, data base services, and research and

³⁶ For a more detailed analysis of economy-wide business environment issues, see *Caribbean Countries: Policies for Private Sector Development*, World Bank, 1994.

³⁷ Trinidad and Tobago is considering revising this policy.

development services. Barbados reserves practice of law and medicine to citizens who must also be Board certified and registered.

Movement of information in the region is affected by lack of adequate intellectual property protection, although all countries of the English-speaking Caribbean are upgrading their intellectual property laws in the wake of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs). Trinidad and Tobago and Jamaica are overhauling their intellectual property regimes, including treaty signing, passage of laws, and institutional development. Barbados and the OECS are considering draft legislation from the World Intellectual Property Organization. Trinidad and Tobago has signed or will shortly sign most major international agreements on intellectual property and a memorandum of understanding with the US. Barbados and Jamaica have signed major international conventions, and Jamaica has acceded to the TRIPs agreement. Uncertain effectiveness of existing copyright legislation and enforcement and difficulty in collecting royalties have been reported in the music industry. The intellectual property issue could be a factor constraining software development in the region, and will increasingly become an issue as the region pursues export of higher value-added informatics services.

As for barriers to movement of capital, there are remaining exchange controls and restrictions. Barbados maintains the requirement of exchange control approval for purchase of assets in Barbados by foreigners, or Barbadian purchase of foreign assets. OECS countries apply Exchange Control Acts, some requiring licensing to convert EC\$ to foreign exchange. While the remaining governments intend to abolish all exchange requirements, there are vestiges of restrictive laws currently in force. For example, St. Kitts and Nevis, St. Vincent and the Grenadines, and St. Lucia have registration requirements for the repatriation of capital and remittance of dividends in foreign exchange. The withholding tax on repatriation of profits is high in Jamaica at 25%.

Caribbean service exporters were asked to identify barriers to export they faced in the form of policies of target countries. Although difficulties associated with breaking into the market --difficulty in obtaining information on key trade shows, finding reliable and compatible foreign partners, getting packaging and marketing right, meeting US consumer quality expectations, overcoming credibility issues and signing first contracts, etc.--were frequently cited, no policy barriers of trading partners were identified as obstacles to achieving export goals. As constraints to supply of services are eased, trade policy obstacles of target markets to service export from Caribbean firms may become more important and need to be addressed.

4

Competitiveness of the English-speaking Caribbean service export sector

The barriers to trade described in Chapter 3 have acted as barriers to competitiveness through their impact on the ability of firms to access inputs that enable production of quality, low cost services. Other internal policy and infrastructure conditions similarly affect the ability of firms to meet the stringent quality and cost requirements of the international service export marketplace. (Table 5 below lists the factors that determine competitiveness at the firm level, coupled with policies and other country conditions affecting these factors.)

The point of departure for identifying relevant environmental conditions for service export development was the service export firm. The question “What does it take for a service export firm to be competitive?” was first investigated through study of business literature on services and the examples of successful service firms worldwide. Based on the characteristics needed for a generic service export firm to be successful, the question, “What country conditions act on the firm’s ability to have these characteristics?” was considered. Many of the policies identified in this manner, listed in Table 5, influence not only service exporters, but the competitiveness of firms in all sectors and the prospects of private sector development overall. The relative importance of factors to service export competitiveness can differ from manufacturing or other exports, however. For example, because intellectual capital and technology are key factors of production in many services, policies and infrastructure related to the cost of these inputs and the ability to transform them into services in a cost-effective manner are of particular relevance to service firm competitiveness.

Given the diversity of the service export sector, the relative importance of specific determinants of competitiveness for firms within the sector can vary as well. In general, in high value-added tasks, quality is the main driver of competitiveness. For instance, in health tourism, consumers choose physicians to perform eye or cosmetic surgery based on quality, with cost a distant second factor. A cosmetic surgery clinic in the British Virgin Islands has achieved success based on quality of surgeons and service although procedures are over 50% higher than comparator prices in the United States. High costs are more of a hindrance in high employment, low value-added service exports, such as data processing, lower skilled informatics, and administration of “brassplate” offshore companies. Given the commodity nature of these services, price is a key factor driving potential purchasers once quality standards are assured.

Table 5: Country Factors Affecting Service Export Firm Competitiveness

<u>Determinants of Firm Competitiveness</u>	<u>Relevant Country Policies and Conditions</u>
<i>I. PRODUCT OFFERING</i>	
Offering of a service demanded by the market	<ul style="list-style-type: none"> ← Openness/Barriers to Trade in Services* ← Policies on Foreign Direct Investment
Ability to reliably produce the service	<ul style="list-style-type: none"> ← Macroeconomic and Policy Stability ← Country Infrastructure (power, telecom, etc)
<i>II. SERVICE PRODUCT QUALITY</i>	
Skills of Workers*	<ul style="list-style-type: none"> ← Quality of Primary and Secondary Education ← Availability and Quality of Training*
Intellectual Capital and Management Capacity*	<ul style="list-style-type: none"> ← Quality of Tertiary Education * ← Policies on Labor Mobility*
Access to and Ability to Use Technology Effectively*	<ul style="list-style-type: none"> ← Policies on Import of Technology ← Policies on Foreign Direct Investment ← Availability and Quality of Technology Training* ← Policies on Labor Mobility*
Access to Appropriate Financial Instruments	<ul style="list-style-type: none"> ← Level of Development of Financial Sector ← Capital Account Policy
<i>III. PRICE COMPETITIVENESS</i>	
Productivity/Wage Ratio	<ul style="list-style-type: none"> ← Quality of Primary, Secondary Education ← Availability and Quality of Training* ← Labor Market Policies
Cost of Intellectual Capital and Management*	<ul style="list-style-type: none"> ← Policies on Labor Mobility* ← Labor Market Policies
Cost of Technology*	<ul style="list-style-type: none"> ← Regulatory Framework for Telecom* ← Tariff and Tax Regime Applied to Technology* ← Exchange Rate Policy
Cost of Financing	<ul style="list-style-type: none"> ← Financial Sector Framework and Regulation ← Country Risk ← Capital Account Policy
Tax Costs	<ul style="list-style-type: none"> ← Tax Policy ← Incentive Framework
Initial and Recurrent Costs of Doing Business	<ul style="list-style-type: none"> ← Country Administrative Requirements for Start-Up ← Country Recurring Administrative Requirements ← Tariffs on Utilities

**Denotes factors considered generally to be of greater relative importance to the service export sector than other sectors of the economy.*

*

Service product offering

Barriers to trade have had a detrimental effect on the range and competitiveness of service products from the region. Domestic non-tourism services sectors have mostly continued to operate according to local status quo, with few linkages to the rapidly evolving global services economy. As a result of protection, knowledge of potential product niches and awareness of the demands of the market for service exports are generally low, according to local entrepreneurs. Barriers to foreign direct investment, in particular, contribute to the isolation of much of service economy. On the other hand, once firms identify demand and develop a client base, the macroeconomic stability that has been achieved in the region is invaluable in enabling production of service exports. As with manufacturing, macroeconomic stability and a liberal regime are critical to the development of the service sector. The infrastructure developed to support tourism in the region--airports, hotels, internal transport--facilitates production of non-tourism service exports. There are infrastructure weaknesses that inhibit ability to reliably provide services in some of the countries under study.

Policies affecting product quality and price competitiveness

As in manufacturing, competitive service firms must efficiently use factors of production. For service exports, these are labor, intellectual capital, technology, and capital. In lower value-added services, labor is frequently the main input, although technology and capital are primary factors for certain services such as construction and contracting. Productivity of labor is thus the key to competitiveness of many lower value-added service firms. The intellectual capital of its professionals is typically the most important factor determining competitiveness of a high value-added service enterprise. Overall, human resources in the form of professionals in high value-added services and skilled workers in lower value-added services are fundamental to service competitiveness.

LABOR. A high productivity to wage ratio (e.g., high output per dollar spent on wages) is a source of competitive advantage for a service firm, particularly in the lower value-added services such as information processing, construction, and some health services. Productivity in relation to fully-loaded labor costs in the region is not currently on the leading edge. In terms of wages, the OECS countries (US\$1.10/hr) and Belize (US\$1.00/hr) are considered competitive globally. While the larger islands offer wage rates that are slightly higher (on average between US\$1.50-3.00/hr), they are still within range of global standards. Non-wage costs and rigidities in the labor markets, however, mean that fully-loaded labor costs are 15-23% higher than wages.³⁸ Payroll-related levies increase labor costs in Barbados, Jamaica, St. Kitts and Nevis. Severance procedures in Trinidad and Tobago, Jamaica, Belize, Barbados, and Antigua and Barbuda contribute to lower productivity levels and increased costs. Rigidities in labor markets caused by hiring, termination, and work rules restrictions in collective bargaining agreements and labor regulations increase costs and discourage foreign investment. The costs of management-labor disputes also bid up labor-related costs.³⁹

³⁸ World Bank, *Caribbean Countries: Policies for Private Sector Development*, 1994.

³⁹ *Ibid.*

There is a shortage of workers trained even for lower value-added positions. Indeed, in the informatics sectors, this is the biggest impediment to the development of the sector. Although the labor force in the English-speaking Caribbean has high rates of basic literacy, the size of the labor force with basic computer literacy is insufficient, except perhaps in Belize. It is estimated that the information industry in Jamaica has lost some 3,500-4,000 jobs to other countries as a direct result of insufficient trained labor. Other countries in the region similarly suffer from a shortage of labor that meets industry requirements. Further, new employees must be trained for 2-3 months, which adds to the cost of labor. Productivity of workers, once trained, is reputed to be good in Barbados and Trinidad and Tobago and moderate in Jamaica and the OECS.

INTELLECTUAL CAPITAL. The English-speaking Caribbean has a good base of intellectual capital. There is a surfeit of well-educated professionals in the region. Nevertheless, availability of workers with knowledge and experience in commercial applications needed for service export is limited. In engineering, construction, and other fields, basic technical skills of professionals are seen as strong, but experience and training in a specialization are seen as insufficient by service consumers. Expertise in some areas, such as environmental management and specialized geriatric medicine for retirement services, is scarcely available. There is a shortage of people trained in high skill computer applications. Another form of intellectual capital in short supply is management expertise, which is critical to service quality.

Labor mobility policies hinder service export growth and competitiveness in all countries but Belize. The primary problems with work permit policies in the English-speaking Caribbean are time and uncertainty and, to a lesser extent, cost. Work permit policies are discretionary and sometimes nontransparent, and implementation is slow and frequently ad hoc. Even with recent streamlining efforts, approval of work permits in Trinidad takes about a month. Obtaining a work permit in Barbados can take up to three months. By comparison, work permits in Belize are issued in three days. The combined costs for work permit application preparation and fees are high. An annual permit in St. Lucia costs US\$1,000. A two year permit in Trinidad would cost almost US\$1,000 per year, including processing and monthly fees. A work permit in Belize, however, costs only US\$300 for firms outside the export processing zone, and is free to firms in the zone. Uncertainty with respect to gaining approvals or renewals impedes corporate planning and thereby imposes an additional cost. Delays in production stemming from delays in issuing work permits can be extremely costly. Since intellectual capital is a basic factor of production, firms are reluctant to invest in services in a country where obtaining or renewing a permit to obtain needed skills or knowledge is problematic or uncertain.

In Barbados, work permit regulations may create a bias against local professional firms in favor of international firms in bidding for donor-funded contracts. While international firms are free to import the specialized skills they require on a temporary basis to fulfill the contract, local firms are subject to local restrictions and approval mechanisms. Local firms have addressed the problem by sourcing their special skills needs through international firms. The effect of this disadvantage is that local firms cannot build their own networks of international associates and must obtain specialized skills on a per contract basis through an international partner at significantly higher cost. In addition, administratively imposed restrictions on direct hire can conceivably cut the gross margin on a contract for local professional firms by over 75%.

TECHNOLOGY. One factor in achieving competitive levels of labor productivity is technology. Access to technology and external support services is not a significant issue in the English-speaking Caribbean. Operational and maintenance costs are competitive. The costs of tariffs and taxes on technology for service exporters vary widely within each country due to the proliferation of incentive programs in the larger countries and level of discretion involved in the smaller countries of the region. For example, imports of technology could be subject to indirect taxes of zero to 65% in Barbados. A financial service or informatics service exporter set up as an IBC in Barbados would pay no tariffs or taxes on hardware or software. A domestically-owned informatics firm, or an entertainment or professional services firm would pay up to 25% in tariffs, an average of a 20% consumption tax, and a 20% stamp tax on imported technology. If a health spa or retirement community were large enough to be able to set up under the Barbados Hotel Aids Act, only reduced rate stamp taxes would have to be paid (15% instead of 20%). Imports of medical equipment would likely be free of tariffs and taxes. A health spa or facility that did not qualify under the Act would be subject to full taxes and tariffs. Like in Barbados, the range of tax and tariff costs on service export technology is broad throughout the English-speaking Caribbean.

CAPITAL. Firms must be able to offer adequate credit to clients. This, in turn, means firms must have access to financing mechanisms. Regional service firms have trouble gaining access to the working capital that would enable them to offer competitive credit terms to consumers. Many must ask for considerable payment up front, which puts them on uneven footing with competitors in the target market and other countries. Because service firms often have little in the way of assets usable as collateral, gaining access to credit is a persistent issue worldwide. Since banking practice in the Caribbean region under study is based on lending against physical assets, however, access to capital is even more of a barrier for domestic entrepreneurs in the region seeking to export services. Firms are frequently unable to use moveable assets or receivables as collateral. Use of trade paper (letters of credit) or performance bonds as collateral, which is a “low-tech” means of overcoming the collateral issue, is not accepted practice in the region.

Capital represents a smaller share of cost for many service export firms than hotels and most manufacturing, but is not insignificant. Domestic firms in the region without access to foreign financial markets must pay regional finance costs that are relatively high. Service firms typically need short term working capital to fund business development and marketing costs, and to cover operational costs (salaries, travel, overhead) until payment is rendered. Less long term credit is needed by service exporters than by many manufacturers. Short term credit seems to be the main barrier. Service exporters did not report availing themselves of credit from national development banks. National development credit facilities are geared for long term, collateral secured lending to manufacturing and agriculture, although some small and medium programs that offer guarantees (Small Business Development Company Ltd. in Trinidad and Tobago) or venture capital (Trafalgar Development Bank in Jamaica) could be beneficial to potential service exporters.

Government-imposed costs to service firms

In addition to macroeconomic policies, government-imposed costs, including taxes and tariffs, initial and recurrent costs of doing business, and tariffs on inputs to service firms such as electricity, telecom and utilities, affect ability to compete on a cost basis. In all service subsectors, taxes and incentives are not the primary determining factor in whether and where to set up an

export enterprise. In many subsectors, however, once other fundamental criteria are met, they can make a difference as to whether an enterprise could be financially viable. High tax, entry, and operational costs compromise viability of low value-added service exports, in particular, as margins are thin. As some of the areas with potential for employment creation--informatics and some health tourism--are in this category, these issues merit particular attention.

TAX AND TARIFF REGIME. The proliferation of tax incentive programs implies that the tax burden on non-tourism service exporters in the English-speaking Caribbean ranges from nearly zero to prohibitively high. Trinidad and Tobago Free Trade Zone occupants and Jamaican firms either located in the Free Trade Zones or with Free Trade Zone status pay virtually no taxes. Belize Export Processing Zone occupants pay neither taxes nor work permit fees, although there are currently no service providers in the zone. Barbados IBC's are charged 2.5% income tax and are exempted from all indirect taxes. Non-tourism service firms that obtain coverage under the Fiscal Incentives Acts of the OECS countries, which are intended for manufacturers but could be used to cover non-tourism services in some cases, benefit from tax holidays and exemptions from customs duties, consumption tax, and stamp duties on imports. In Trinidad and Tobago, exporting firms outside the Free Trade Zones that meet conditions relating to foreign exchange earnings, employment, technological development, and use of raw materials are eligible to receive a rebate on income tax of 15% of taxable income under the Finance Act of 1988, but no service firms have done so. Exporters are eligible for rebates of consumption or VAT taxes in Barbados and Trinidad and Tobago. Health tourism facilities that are residential and large enough to qualify under hotel incentive acts receive tax benefits ranging from accelerated depreciation to tax holidays. Musicians and audiovisual professionals typically pay tariffs at high consumer goods rates on instruments and equipment. Service firms in the region that do not fall under any special programs are subject to corporate income tax rates ranging from 30% in Dominica, Grenada, and Montserrat to 45% in Guyana; tariffs of 0-25% under CET⁴⁰; and assorted indirect taxes.

There are no programs in the Caribbean countries under study which broadly prevent taxes on inputs to exported services. Because regional firms compete on price with suppliers around the world, many of whom are subject to reduced taxes, this can make firms that fall outside the tax relief net noncompetitive. In manufacturing, it is well recognized that subjecting exporters to full tariffs and consumption or VAT taxes on inputs leads to "export of taxes" that compromises domestic firms' ability to compete in international markets. Similarly, only the exceptional lower value-added service firm would be able to compete in the export market under a full tax situation. Hence, there are almost no service exporters in basic data entry operating outside of special incentive programs in the countries under study. Barbados' offshore sector has flourished under a low tax regime; under a full tax regime, it would likely not be competitive. In Barbados, domestic entrepreneurs cannot compete in basic informatics export since currently not eligible for IBC status.⁴¹ Throughout the region, health services not affiliated with hotels, such as spas or wellness programs for retirees, would have difficulty competing with hotel-based services that enjoy tax relief. Special property taxes on foreign acquisition of land, if permitted at all, reduces regional competitiveness in attracting retirees and retirement communities.

⁴⁰ The maximum tariff rate will be 20% as of 1/1/98.

⁴¹ Legislation, however, is being considered which would allow domestic ownership of IBC's greater than 10%.

COSTS OF ENTRY. Initial costs of starting up a service export enterprise in the English-speaking Caribbean are high due to complexity and bureaucratic impediments. A potential investor must first determine what investments are permitted under which type of legal and ownership structures and what incentive packages apply to particular service exports, and then proceed through labyrinthine administrative requirements (approval for investment, corporate registration, land acquisition/lease approval, work permit approval, qualification for incentives). In the OECS and Trinidad and Tobago, laws and regulations developed for manufacturing are being adapted to the circumstances of the informatics sector through discretionary processes, which are nontransparent, ad hoc, and typically take time to resolve.⁴² Services that do not clearly fall under incentives regimes or regulations--a not infrequent case in all countries--are considered individually. For professional services and health services, discretionary arrangements are made to deal with individual situations where formal regulations and practice are restrictive. Even where procedures are well-established, local bureaucracies can move very slowly and uncertainly. Whether someone is applying for a permit to work or to build a nursing home, the time elapsed between application and approval can literally take years and the intervening period is one of uncertainty and (usually) waning interest for an investor.

Local investors may have prior knowledge of the system or contacts that facilitate maneuvering through bureaucratic requirements. For foreign investors, however, this is a more serious obstacle. The complexity and inconsistent nature of the investment and incentive regimes for service entities mean potential foreign investors must expend significant time and financial resources to evaluate entry into the sector. Moreover, foreign investors have access to many countries. Since the outcome of an investigation of opportunity and application for qualification for incentives would be uncertain, many foreign investors will seek locations where there is greater clarity and less risk of wasted expenditure.

Infrastructure

EDUCATION. Because knowledge of professionals and skills of workers provide the basis for service export competitiveness, education and training are fundamental. The main infrastructure needed for services development is a strong primary and secondary educational system that graduates students that are trainable--that is, who are strongly literate and numerate and able to learn new tasks. In countries with successful service export sectors, the governments have emphasized quality basic education. Singapore, Ireland, and Mauritius all invested heavily in education in launching efforts to develop their service sectors. The quality of primary and secondary education is an issue in all countries covered, with the possible exception of Barbados. Jamaica and Guyana have experienced deterioration of historically strong school systems. High proportional public spending on tertiary education limits funds for investment in basic education, thereby increasingly limiting the supply of qualified students for tertiary level education.⁴³ Within the tertiary education system, funding mechanisms disassociated from student enrollment levels have led to particularly tight resources in business and commercial programs.

TRAINING. Most countries of the region have not yet made the shift from public training programs to support for private, enterprise-based investment in training. Particularly in technology-based services, training programs must be constantly adapting quickly to changes in

⁴² Legislation to facilitate investments in informatics is under consideration in the OECS.

⁴³ World Bank, *Caribbean Region: Access, Quality, and Efficiency in Education*, 1993.

demand and investing in new technology, which is seldom the case with public training. Public academy-based training is often destined for rapid obsolescence since stifled by rigid administration, difficulty in contracting trainers at noncompetitive salaries offered, and low levels of investment.⁴⁴

In Jamaica, the HEART program collected approximately US\$19.5 million in tax revenues for training. It spent half of these funds on its own academies and other programs, while the other half remained unspent. Scarcity of resources is, thus, not an issue. Responsiveness and anticipation of changes in demand and effective application of these funds, however, are of concern. A 1990 tracer study showed that only 50% of HEART academy graduates in skill areas such as data entry found jobs in their field of study. Private sector interests report that despite positive recent reforms in the program, HEART programs are supply-driven and meet only a small segment of skill needs at entry-levels. Trinidad and Tobago's Youth Training for Employment Partnership Program (YTEPP) address the needs of this segment of the population. A broad, private-enterprise based training incentive, however, is not yet in place in Trinidad and Tobago. The Barbados Investment Development Corporation offers a training incentive to new investors. The OECS hosts several private training institutes.

TELECOMMUNICATIONS. After education and training, telecommunications is the most important infrastructure for service exports. International experience has shown that an information services industry cannot develop and survive without efficient, high quality telecommunications at a low price. In offshore financial services, as in informatics, reliable telecommunications and power supply are needed to support substantive local operations (beyond "brassplate" services).

The English-speaking Caribbean region enjoys modern digital telecommunications, but services are expensive in all countries except Guyana. Jamaican firms with access to Jamaica Digiport rates pay more competitive rates. Cable and Wireless' stated commitment to reduce and equalize rates for data transmission will help address one part of this issue. This commitment is significant for the OECS countries, which will be able to offer rates that are competitive with Barbados, Jamaica, and Trinidad and Tobago. Voice rates, however, remain too high throughout the region and act as a critical deterrent to service export development. In Guyana, international rates are moderate, but service availability is too severely limited to support service export growth beyond audiotext services currently exported.

As telecommunications service is crucial private infrastructure, the regulatory framework and institutions for telecommunications constitute critical public infrastructure to support services export development, as the case of Japan demonstrates (see box below). In the long term, the regulation and ownership structure of telecommunications will become a major determinant of international competitiveness in informatics and other data communications intensive businesses. In most of the Caribbean region, the telecommunications laws do not provide for effective control over the telecommunications provider. There is a strong need for up-to-date laws which will enable the countries to properly regulate telecommunications operations. Strengthening of the technical capacity of regulators is also called for in most countries.

⁴⁴ Julian Schweitzer, "Vocational Education and Training: The Role of the Public Sector in a Market Economy," World Bank, 1994.

Telecommunications Deregulation: the case of Japan

Japan had two public monopoly telecom providers and a highly regulated industry until deregulating amendments in 1982 and new telecom law enacted April 1985. Japanese banks, trading companies, and others that would benefit from cheaper on-line services pushed for the changes. Producers of telecom equipment and foreign forces (mainly US) also supported liberalization and deregulation. The new law eliminated restrictions on use of circuits (liberalizing information services such as inventory management, data processing, and computing services) and divided telecom firms into two categories: those that own their own circuits and those that lease circuits from the former. The second group has unrestricted entry. (In the first, foreign ownership was limited to 30% of the firms.) This enabled the communications and information industries to flourish.⁴⁵

POWER. Power supply is competitively priced in most of the region and fairly reliable, but outages do occur enough to be a problem for computer-based operations. Uninterruptible power supplies and surge protectors are considered mainstays of any informatics or financial operation. Guyana suffers from recurrent power outages, although these are becoming less frequent. Rates in Belize for electricity are high at US22¢ per kw hour in Belize--nearly eight times Mexico's rate and five to six times the rate of Central American neighbors.

OTHER INFRASTRUCTURE. An effective public system of law enforcement, including both police and the judiciary, capable of maintaining an acceptable level of security is fundamental to the development of a vibrant service export sector. For subsectors that entail movement of consumers to the region, in particular, adequate security is necessary. Investment and export promotion agencies are perhaps more important to services than to manufacturing since direct investment is the most likely mode of supply for some services and country reputation strongly affects service providers' ability to obtain clients. Other public infrastructure that supports the service export sector includes airports, immigration services, and customs. Other private infrastructure relevant to service export development includes training facilities, passenger and cargo air transportation, and hotels.

Quality perception and client management

Client quality perception and ability to manage the client's experience are key factors in competitiveness of service firms (and manufacturing firms that base their strategies on service components). Hesitations on the part of consumers and potential consumers of English-speaking Caribbean services, particularly high value-added services, have tended to focus on ability to deliver a quality product, rather than price. This is likely due to both actual issues of quality and issues of quality perception. The characterization excludes offshore financial services offered in Barbados, which are reputed to be of competitive quality internationally. Because reputation may be more important in services than manufacturing, issues of quality perception are particularly problematic for service firms in the region.

⁴⁵ Sazanami, Yoko. "Japan's Trade and Investment in Finance, Information, Communications, and Business Services" in Trade and Investment in Services in the Asia-Pacific Region, Chung Lee and Seiji Naya, eds. Westview Press, 1988.

It has been shown that services have a higher perceived risk of purchase than manufactured goods.⁴⁶ Purchasers of services (e.g., computer network integration services or law services) often cannot preview the exact product they will receive. A potential buyer of a manufactured product, by contrast, can typically study the product before making a decision whether to buy, and can be fairly confident the good received will be identical to that seen. For firms that intend to outsource a service function or purchase a service, minimization of risk is a critical part of selecting a service provider.⁴⁷ As a result, a successful firm must be able to cultivate the confidence of potential customers to develop a client base. Further, the need to carefully manage client relationships does not end with the signing of a contract. Because objective measure of service product quality is often difficult, client perception of quality is critical. The service firm needs to manage the experience of the consumer at every stage of service provision to ensure positive perception of service quality on the part of the consumer and to encourage return business. Profitability has been shown to depend more on customer loyalty than on firm size or rank in services industries.⁴⁸

In the Caribbean countries under study, technical skills in many fields are high. It is in the area of marketing and client relationship management that many service providers need skills development. "Consulting skills" of many regional professionals are not of internationally competitive standards, due in part to lack of exposure to such standards as a consequence of the level of protection of the services industry.

Given service consumer risk aversion, country reputation can have a lasting impact on individual firm competitiveness. If a country has developed--fairly or unfairly--an unfavorable reputation in terms of quality, reliability, or ability to deliver a service, it is more difficult for an individual firm to obtain clients. Conversely, country efforts to foster quality service provision and address reputation issues abroad can benefit export prospects. Caribbean service providers could face skepticism from some consumers of services due to dissatisfaction with quality of services provided by a regional firm in the past or because the region does not have a history of expertise in many areas of specialization. It is important, however, that any marketing efforts be backed up by provision of quality services by regional enterprises to avoid the risk of further damaging credibility as well as reputation.

Policy constraints to competitiveness

Policies in the countries under study are not in full alignment with a service export oriented strategy. Investing in the education systems and increasing the flexibility of domestic labor markets need to be given primacy as national goals. Several countries have initiated projects in the education sector. None, however, has tackled the rigidities in the labor markets. Difficulty in obtaining work permits is also constraining growth of the sector in all countries but Belize. The monopolistic structure of the telecommunications market is not consistent with long term development of the sector. Modernizing of telecommunications legislation and strengthening of regulatory capacity have not been addressed. The complexity and discretionality of the investment and incentive regimes with respect to many service exports is discouraging to foreign investors.

⁴⁶ John Bateson, "Understanding Services Consumer Behavior" in The AMA Handbook of Marketing for the Service Industries, Amacom, 1991.

⁴⁷ Harvard Business Review, 5-6/95.

⁴⁸ Harvard Business Review, 9-10/90.

Moreover, CARICOM harmonized fiscal incentives and individual country incentives have been geared mainly to manufacturing. Incentive policies that exempt manufacturers from paying any tax could reduce resources available for education, which would be prejudicial to long term service sector development.

As previously mentioned, given the diversity of service exports, the relative importance of constraints varies to some degree within the sector. Table 6 lists major constraints to development of specific subsectors identified through interviews and subsector assessments. Skills of human resources were identified as a constraint across all subsectors, although some firms indicated that they had sufficient trained workers and professionals. The constraints facing high value-added informatics were found to be more like those facing professional services. The constraints listed in Table 6 apply to all countries under study with some exceptions. For Barbados, infrastructure and skills are not viewed as constraints to the offshore financial service industry. In Guyana, access to telecom is the primary constraint to informatics service export; cost of telecom and work permits are not critical constraints. For Belize, the cost of electricity should replace computer literacy skills as the primary constraint to informatics development, and work permits are not a constraint.

Table 6: Major Constraints to Service Export in Four Subsectors

INFORMATICS	OFFSHORE FINANCIAL	PROFESSIONAL SERVICES	HEALTH TOURISM
1. Skills of Human Resources: Computer Literacy	1. Infrastructure: Laws, Institutions, and Regulatory Capacity	1. Skills of Human Resources: Specialized skills	1. Infrastructure: Health Care System
2. Cost of Telecom	2. Skills of Human Resources: Specialized Financial	2. Skills of Human Resources: Consulting skills	2. Skills of Human Resources: Specialized MDs
3. Productivity/Wage Ratio: Nonwage Labor Costs	3. Work permits	3. Regional Market Fragmentation	3. Work permits
4. Skills of Human Resources: Advanced Computer	4. Cost of Telecom	4. Access to Financing	4. Alien Landholdings Act

Source: Interviews with service firms, consumers, and industry experts

5

Prospects for selected service exports

Subsector studies suggest that, if actions are taken to improve the enabling environment, there are services with good prospects for export growth in the short to medium term. These include a range of informatics services, upscale health spas and retirement services, and music recording and video production services. In the longer term, with regional integration, professional services could flourish, leading to export outside the region. These are clearly only preliminary indications, however, and are intended to be illustrative. With the right environment, the private sector will identify and engage in production of service exports with good prospects.

INFORMATICS. The Caribbean region under study possesses advantages and near-term constraints as a site for export of information services. To capture market share, informatics service providers in the Caribbean region must match service quality and reliability of target market competitors, and offer significantly lower rates as a sort of risk premium. Nonetheless, given the growth trends in the sector, prospects for the region are potentially quite good if constraints are addressed. Development of informatics combined with further development of professional services could lead to opportunities in higher value-added informatics services. Fostering development of basic information processing businesses in the near term, however, can provide an important inroad to higher value-added information service exports. (See Box below)

Moving Up the Informatics Value-Added Chain: the case of India

India's software industry exports started to grow in the late 1980s when it offered low cost data entry services and on-site programming services to firms in industrialized countries. The total value of software exports now exceeds US\$300 million. A number of firms used data entry services as an inroad into international software production. These diversified their services and, over time, acquired higher technical and managerial skills essential to working internationally in the latest programming technology. For example, the software exports division of one Bombay-based firm was set up in 1975 to provide reliable, outsourced data entry services. It now has 400 software professionals working in applications such as banking, telecommunications, transportation, and government. It specializes in establishing dedicated offshore development centers for large corporations. To serve its customers, the firm has set up its own dedicated links to Singapore and Texas. It has also introduced internal quality control procedures designed to meet international standards. The company's migration up the value-added chain has been based on its demonstrated achievements and gaining confidence of overseas customers.

Although the Caribbean offers wage rates competitive with target markets, additional labor costs are high and only a small proportion of the labor force has the skills required by the industry. Availability of entrepreneurs in the English-speaking Caribbean willing to act as partners

in informatics ventures or suppliers of informatics services to expressed demand is also lacking. There is a need to increase the number of Caribbean private sector individuals who want to participate in the industry. Firms unable to gain access to protection from export of taxes and tariffs in the lower value-added information services are virtually precluded from competing successfully internationally. Given the potential for this sector and corollary development benefits, especially in employment-generation, efforts to resolve these problems could be well worthwhile.

OFFSHORE FINANCIAL SERVICES. Even though the countries under study are not risky in absolute terms, they are considered more risky than major competitors. For CARICOM members such as Barbados, Jamaica, Trinidad and Tobago, and the OECS, other English-speaking Caribbean countries are the most direct natural competition. For Caribbean competitors, UK dependency status is an important advantage which helps firms overcome client risk aversion. Although the Caribbean countries covered in this report are politically stable, potential investors find the backing of an OECD power reassuring. Potential offshore clients also see recourse to the UK courts as valuable insurance. The judicial systems of the Caribbean tend to be overburdened, such that long delays in attending cases are common. Local individuals voice concerns about the consistency and predictability of the legal system, which are echoed by potential offshore clients.

While Jamaica, Trinidad and Tobago, Belize, Guyana, and the OECS are short on professionals with financial expertise and linkages to target markets, successful regional competitors have a broad human resource base (albeit heavily weighted toward expatriates). The high bureaucratic costs in obtaining work permits in the countries under study is particularly prejudicial since it discourages expatriate financiers from relocating their expertise and market contacts to the region. Regional competitors also have the advantage of having achieved critical mass in terms of their business and ancillary infrastructure. With the exception of Barbados, the laws and regulatory capacity to enable offering of offshore products and supervise the subsector are not in place. Belize has passed offshore banking legislation, and Trinidad and Tobago is beginning work on enabling legislation. The legal framework with respect to domestic financial systems has not yet been fully modernized in Jamaica and the smaller economies, although Guyana has made progress in this direction and Jamaica is reviewing legislation.

Regulatory capacity for the domestic market is already stretched in most countries without the additional burden of an offshore sector and related money laundering issues. The costs of obtaining expertise able to develop and implement regulations to prevent money laundering would be high. It is not clear that the benefits to new regional entrants into this subsector would outweigh the costs. The employment generated by the offshore financial services subsector in the region has been modest, and the subsector would likely continue to create few jobs. The countries would have to forego virtually all potential tax revenue from the offshore sector to enable firms to compete. Regional competitors with comprehensive legal arrangements, relative even to Barbados, have been deepening their markets and expanding their product offerings, and achieving highly competitive cost structures which would be difficult to match. Investment in strengthening the domestic financial sector would likely yield greater economic returns than investment in entering the offshore market.

PROFESSIONAL SERVICES. The small size of the markets of individual countries in the English-speaking Caribbean increases the importance of integration in the region and liberalization of the sector. As long as service firms in the region are restricted in their ability to compete for all

contracts in the region, the pace of development in the sector will remain unsatisfactory. Further, regulations on movement of people act as barriers to the development of professional services. Firms are established on sub-economic scales to take advantage of the protection. Many firms are salary sources for only one or two individuals, with no prospects for development to a commercial scale of business. Individual practitioners play an important role, particularly in sectors characterized by an uneven demand for narrow niche specialization's or sectors where the price structure cannot support the overhead of a large scale organization (such as accountancy services for small and microenterprises). It is rare, however, that the breadth of specialization of one or two individuals will be marketable on a scale sufficient to meet the needs of a large segment of the market or to cover the costs of an internal business support infrastructure. The current structure of the professional services sector, with predominantly individual practitioners or small partnerships, consequently makes it difficult to compete for international contracts.

Some regional professional services firms could aim to break into the export market. These firms would have to develop technical skills specialized and cutting edge enough to capture export business, market themselves actively, and manage tight financial constraints. Operating a professional service business in export markets requires considerable financial resources and facilities beyond the requirements of domestic market operations. Successful firms in the region reported great adversity in achieving viability as a provider of professional services to the local market, such that meeting the expanded requirements for export may be beyond the reach of many local firms. By improving "consulting skills," forming associations, and developing reputation, however, Caribbean professionals can work to gain a larger share of the work for the numerous international clients and agencies operating in the region. To enable this, local firms should have access to international expertise to the same degree as foreign companies.

HEALTH TOURISM. That most potential consumers of health services in the North American and European markets do not have insurance coverage for out-of-country care severely limits the field of health services with good prospects. Only services not covered by health insurance could realistically be considered. Another daunting barrier to export of conventional health services is the perception that obtaining health care in the Caribbean is risky. Quality is clearly the driver in health care decisions. Questions about quality of care in the Caribbean will exist in the consumer's mind and will be difficult to overcome. With Caribbean nationals leaving the region to obtain health care services, such perceptions may not be unfounded. Indeed, secondary and tertiary health services in the region have been found generally weak in recent assessments.

Given these considerations, health tourism has greater potential than conventional health services. The English-speaking Caribbean has non-price advantages in spas and retirement communities, and potentially cosmetic surgery and addiction treatment. The region has a reasonably good supply of qualified medical doctors and nurses. However, specialized skills for cosmetic surgery or addiction treatment are not readily available, particularly the skills of doctors who would be considered top class in the target markets. For retirement communities and cosmetic surgery, the inability to rely on the local public health care system as a back up is a serious constraint. With the exception of the Mt. Hope Complex in Trinidad and Tobago and private hospitals in Jamaica, private sector health care in the region is largely limited to individual and very small group practices providing ambulatory care with minimal capacity to provide back up to other services.

For doctors from outside the region interested in setting up practice in the English-speaking Caribbean, or investors interesting in setting up an export facility, there are not formal regulations for health sector development. Much of what happens is as a result of private sector contacts, interpretation of existing but outmoded laws and regulations, and perspectives of current officials on the initiative that is being considered. Licensing of professionals can also create barriers, and professional registration processes vary among the countries making cross-country practice more difficult. The uncertainty and lack of transparency concerning work permits, Alien Landholdings, and visas create disincentives to potential investors and buyers in the retirement market. Concerns about personal security risks in Jamaica, and perhaps other countries, could inhibit demand for health tourism, especially retirement communities. For other countries in the region, the retirement market merits further study as the benefits in terms of employment creation, capital inflows, and revenue from taxes could be significant. Expatriate Caribbean's and young, healthy retirees would be logical initial target populations.

Service Export Growth: the case of Ireland

Ireland has a population of roughly the size of the English-speaking Caribbean (3.5 million inhabitants) that has been plagued by unemployment. The small home market, small size of firms, scarcity of certain types of equipment and higher skills, and lack of specialization were identified as constraints to competitiveness in export. Studies found labor productivity to be 75% of that in southeast England.

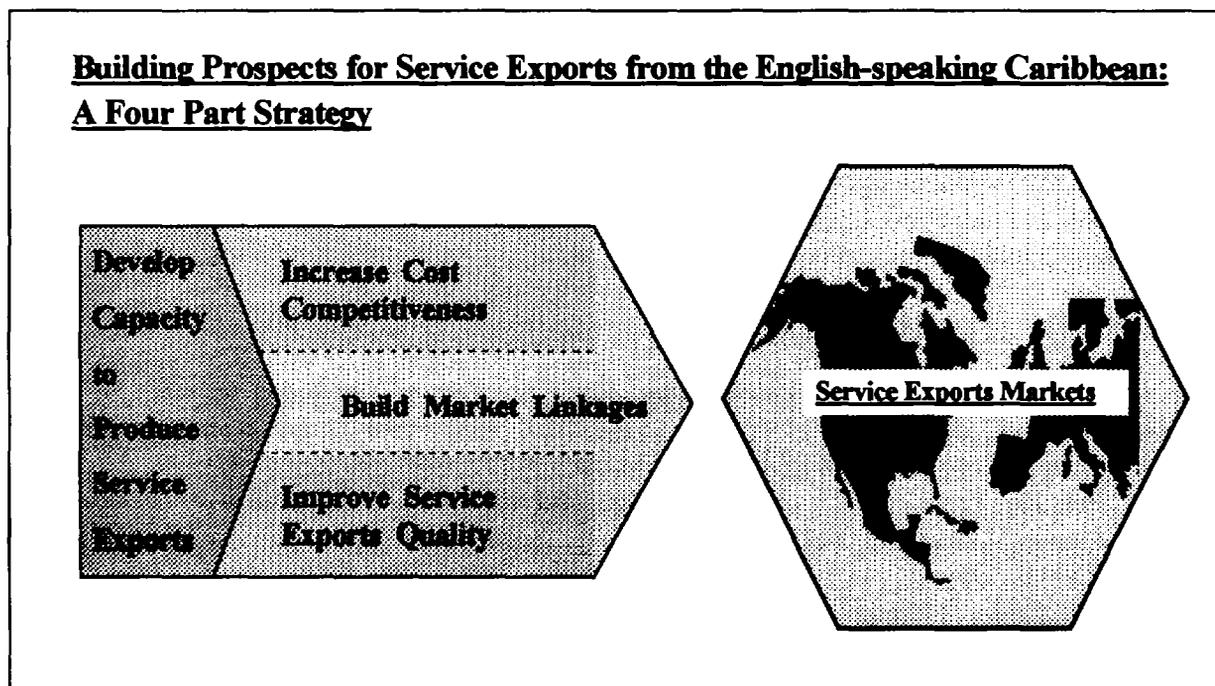
EU integration dramatically expanded the size of the market to which the Irish readily have access, increased competition locally, and liberalized labor mobility and trade in services between Ireland and the EU. In response, Ireland has focused attention on its educational system, since the level of educational attainment was lower than that in its target market and competitor, the EU. The Irish government increased total government expenditure on education, from 16% in 1965 to 20% in 1993, with most of the increased spending going to teachers' salaries. Ireland also instituted a Business Expansion Scheme, including provision of a one-time fiscal incentive to investors. The investment promotion agency took an active role in supporting service export efforts. Trust funds with multilateral banks were established to support market entry and development of the professional sector. Over the period 1993-94, around 40,000 new jobs were created in the services sector.⁴⁹

⁴⁹ Organization for Economic Co-operation and Development, *OECD Economic Surveys: Ireland 1995*.

6

Service export expansion strategy

Discussion in the English-speaking Caribbean on means to promote service export development has tended to focus on export promotion and adjustment of incentives to attract foreign investment in service export enterprises. Without the ability to deliver service export products that are high-quality and cost-competitive, however, export promotion *per se* will not be effective. In addition, special incentives will not make up for fundamental constraints to establishing and operating a competitive service export enterprise. A focus on incentives specific to the service export sector could distract attention and resources from making needed improvements in the business environment. Further, the track record of such incentives is dismal. A more systematic approach to getting the environment right for service export growth is needed.



The public sector can play an important supporting role in fostering service export development, although private individuals would be the ones to engage in entrepreneurial activity. Public sector support for service exports development can be seen as a strategy of actions catalytic to achieving the four objectives illustrated above. First of all, the governments of English-speaking countries must seek to improve the region's capacity to produce service exports by addressing the scarcity of inputs, in the area of human resources (skilled workers, professionals, and managers) and, to a lesser extent, capital. Once Governments have undertaken needed actions to ease the scarcity of inputs to service export production, recommended next

steps would help firms to increase service export quality to internationally competitive levels and improve cost competitiveness by addressing policy and infrastructure issues. Concurrently, the public sector could support private sector efforts to forge linkages with international consumers and with other international suppliers to develop demand for regional service products. Private sector efforts to develop linkages with target markets can stimulate firms to improve service export quality and cost competitiveness, and hence can have synergism with efforts to these ends.

The recommendations of this report would benefit manufacturing as well as service export sector firms, in part because the division between manufacturing and service firms is increasingly blurred. Producers of manufactured products with few possibilities for product differentiation through manufacturing processes use service inputs as a means to achieve product differentiation. For example, for the US shoe company Nike, service inputs are the key to its competitiveness. In fact, the firm no longer manufactures its products. In addition, for many manufactured products, customers have come to demand a certain level of service support. Companies such as the US firm General Electric, known originally as an appliance manufacturer, spend as much on service inputs as on manufacturing inputs. Actions to improve service capacity will further benefit manufacturing over time as regional firms upgrade service components of their goods in response to international competitive pressure.

Similarly, efforts to foster development of the non-tourism service export sector could benefit the tourism industry. High-end information services could help tourist facilities maintain a broader array of linkages to target markets, improve efficiency, and dedicate more personnel time to client service. In addition, tourism product offerings could be expanded to include health and business services. The strong regional tourist industry means that some infrastructure for service exports is already in place--frequent transport to the region from target markets, good business travel facilities, and communications capabilities. Development of the non-tourism service export sector could increase business travel to the region.

Develop capacity to produce service exports

- **Primary and Secondary Education:** *increase focus on education*
- **Tertiary Education:** *establish partnerships with other universities in computer programming and rapidly-evolving fields*
- **Private Training Credits:** *encourage and maximize effectiveness of training by creating a simple and nondiscretionary incentive to firms for qualified training expenditures*
- **Computer Literacy:** *establish standard measures of computer literacy attainment and training credits to promote private sector training in computer skills*
- **Work Permit Liberalization:** *give firms access to needed expertise*
- **Foreign Direct Investment:** *eliminate limitations on and licenses for FDI, particularly in service export fields*
- **Bureaucratic Red Tape:** *facilitate and streamline the administrative process for setting up an enterprise and compliance with regulations*

To enable provision of services, scarcity of additional persons prepared to fill jobs at all levels in the service export industry must be addressed. To promote long term development of the service export sector, each government must now invest its attention and financial resources to

achieving even higher quality and more widely accessible primary and secondary education. Students need access to an education that prepares them to work in an environment where they engage in a constant learning process to keep up with technological change and evolving market demand. At the tertiary level, universities will have to rethink how they allocate resources given changes in the environment their graduates face and possible reorientation of country priorities. Universities may be called upon to devote more attention to general computer training, advanced programs in computer studies, and programs and coursework related to business applications. At a minimum, linking of funding of disciplines to enrollment levels is recommended. Partnerships and exchanges with foreign universities in computer programming and other rapidly-evolving disciplines, as well as technology-intensive fields, could complement regional expertise.

Given that human resource capacity development, particularly at the higher levels, will take place over the course of years, however, intermediate measures are called for. Liberalization and streamlining of work permit policies to enable local firms to easily access foreign expertise for short term consultations or longer term participation in operations is critical. Otherwise, the lag in development of managerial and professional skills could delay increases in employment. Imported managers and technicians, moreover, bring contacts with target markets that will be extremely useful to the region as it seeks to enter new export fields.

In addition, training will need to be upgraded to improve skills and teach computer literacy. International experience has shown private training facilities and on-site training to be most effective in providing useful and current information. Public sector support of private training through a simple and nondiscretionary incentive is recommended. Examples include public sector copayment of 50% of qualified training expenditures or allowing a tax write-off of 75% by the paying individual or business. Guiding principles should include: allowing students to decide the courses they need, requiring students or businesses to share costs so that students take initiative in ensuring that training is high quality, and funding training entities that meet minimum criteria based on the demand they generate.

To introduce computer training in primary and secondary schools, the public sector will have to engage in creative programs, given the high costs of obtaining technology and hiring computer teachers. Possibilities include partnerships with the private sector, aid agencies, or multinational charitable or other organizations. Reliance on private computer training may be the most tenable option for the short run in most countries. Recognizing that learning by doing is an effective form of training, the formation of enterprises using lower skilled labor should not be discouraged explicitly or implicitly. Both individuals and entire enterprises can migrate up the value-added chain once basic skills are established in ground floor enterprises.

Entrepreneurship has been hindered in the region by complex and time-consuming entry requirements and operational red tape. By reducing these obstacles, more local entrepreneurs may be willing to step forward to take the risks involved in starting a service or other business. This would also encourage foreign investment, as potential investors base their decisions on where to locate an operation in significant part on administrative ease.

By reducing bureaucratic red tape and delays involved in setting up a business and by liberalizing labor mobility policies and streamlining procedures, the Governments will significantly improve the environment for foreign investment in service exports in the region. Given the

scarcity of capital in the region and low willingness of local entrepreneurs without experience in the sector to invest, foreign investment will be important in the near term to service export development. As the English-speaking Caribbean is competing with countries that have open and streamlined foreign investment regimes, the region will have to take action to attract foreign capital. Elimination of licenses for foreign direct investment and the limitations on foreign equity ownership, especially in service export fields where foreign direct investment is the principal mode of trade, is necessary. Allowing firms to purchase or sign long term leases of small tracts of land would also be important for some service exports.

Improve service exports quality and cost competitiveness

- **Free Trade in Services:** *negotiate a regional agreement on trade in services, as a step to liberalization, allow all CARICOM firms to compete for government procurement contracts*
- **Labor Market Liberalization:** *reduce rigidities in hiring, work rules and severance payments; implement expedited, clear, and nondiscretionary procedures for issuing long term work permits; eliminate short term work permits*
- **Telecommunications Sector Legislation and Regulatory Capacity:** *develop modern, liberalized telecommunication sector legislation and regulatory regime; invest in improved technical capacity of regulators*
- **Employment Taxes:** *reduce payroll taxes and obligatory contributions of employers*
- **Reduce Export Taxes:** *offer duty and consumption tax drawback or exemption for inputs to service exports (including for partial exporters)*
- **Update Regional Harmonized Incentive System:** *aim for simplicity, low hassle, and low tax rates for exporters of all sectors*
- **Financial Sector Development:** *modernize banking regulations and strengthen supervisory capacity; to increase financial sector efficiency, reduce financial costs*

Liberalization will stimulate dynamism of the services sector and encourage firms to improve quality of output. In the long run, liberalization on a unilateral basis or through the GATS forum would be the goal, as the means of maximizing trade creation. A regional agreement on trade in services would provide an intermediary step. It would enable countries to address barriers to trade in services prior to the next round of GATS negotiations in the year 2000. It would begin exposing firms to increased competition that would allow processes of forging regional linkages among firms, consolidation, and skills-upgrading to begin. Regionalization, including opening government procurement to all CARICOM firms, would allow firms to develop scale sufficient to be more competitive internationally and would enable greater specialization. With narrower specializations, professionals would more likely be able to keep current with international trends. A range of policy adjustments, including establishing tax legislation applicable to regional partnerships and corporations, would be required.

To enable quality to rise, governments will have to focus on increasing competitiveness of labor markets, as well as facilitation of training. Labor must obtain the skills and have the incentives to work at the best of their capabilities. Training in modern management techniques for service industries can improve managerial capability in motivating workers to achieve. With skills improvement, reduction of rigidities in the labor markets will create incentives for workers to

achieve competitive levels of productivity and take advantage of ongoing training to adapt to the evolving workplace.

Reductions in employment taxes, severance payments, and other non-wage costs and obligatory contributions are important to enabling firms to enter the competitive service export marketplace. This could include bureaucratic simplification to reduce costs to firms of compliance with labor taxes and regulations. Improvements in labor mobility, as well, could improve cost competitiveness. Currently the time and financial costs of hiring resident outside expertise, and the risk premium for the firm and individual due to uncertainty of ability to renew a work permit, are very high.

Development of a competitive framework for telecommunications is a necessary basis for the long term success of the service export industry. Investment in effective regulatory capacity for the telecommunications sector would also be likely to yield positive returns in terms of service export development. Service exporters need access to a range of telecommunications services at low costs in order to compete on cost in many service export areas, including informatics and financial services. Access to information networks at reasonable cost is also necessary, such that attention to the regulatory framework for information intermediaries to permit entry is warranted. The ability of regional professionals to access the information available through the internet at a reasonable cost would also improve their ability to update their knowledge and complete assignments in a timely and cost-effective manner, and is increasingly necessary to compete in knowledge-based fields.

For firms in lower value added services to be cost competitive, mechanisms to reduce taxation of inputs to service exports are needed. Drawback of tariffs and value-added (or consumption) taxes on imported technology hardware and software would reduce taxation of service exports. These mechanisms would need to cover both foreign and domestic producers of non-tourism services, and be available to partial and pure exporters. Because domestic firms can be pioneers and drivers of sector development in the early stages, it is counterproductive to reserve benefits to foreign investors, as is the case with Barbados IBC's. A low corporate tax regime for all exporters, regardless of ownership (e.g., foreign or domestic) or sector (e.g., manufacturing or services), is recommended. Because domestic firms are more likely to enter the export sector as partial exporters, making tax incentives available on a prorated basis should be explored.

The reduction of taxes on inputs to service exports and payroll levies would imply a reduction in fiscal revenue, while the recommended increase in investment in education would require increased government expenditures. The suggested means of making up the difference would be decreasing of exemptions and remissions of taxes, dramatic reduction of discretionary exceptions to tax policies, and elimination of tax holidays. All firms would pay taxes; exporters of manufactured goods, agricultural products, or services would be subject to a lower corporate tax. This simplification would facilitate tax collections and thereby help increase revenues.

In part because countries are attempting to appear to comply with the previously negotiated regional agreement on harmonized incentives, from which many country regimes have now deviated, incentive regimes are nontransparent and complex. This previous incentive regime was geared towards manufacturing and has not adapted well to the needs of service exporters.

Even for manufacturing, the agreed tax holiday based incentives may not be the most effective for the country.⁵⁰ Incentives in Jamaica have been shown to have some effect in encouraging capital investment, but do not function to offset weaknesses in policy and infrastructure.⁵¹ Incentives such as initial investment allowances and accelerated depreciation, or investment tax credits, however, are more effective than tax holidays in achieving the objective of encouraging capital investment. Development of agreed principles or harmonized incentives that are relevant for the export services sector, as well as industry, and are broad enough to apply to new export fields that may arise, would be beneficial.

Further financial sector modernization through reform of the regulatory frameworks and strengthening of supervision and regulatory capacity can lead to lower financial costs to service export firms. For enterprises to offer competitive financing arrangements to consumers, they need to have access to financing. Collateral issues are sure to arise. Enabling financial institutions to accept trade paper or receivables as collateral would help ease collateral constraints. Preparation of a secured transactions law and improvement of registries of property (and liens on property) will expand the range of collateral that banks can confidently accept. Reviewing the lending policies of development banks, from the perspective of the needs of service exporters for short term credit, would also be useful in improving access of potential entrepreneurs to credit.

Build linkages and reputation

- **Professional Associations:** *create links with investment and export promotion agencies*
- **Market Penetration Support:** *market the countries as locations for establishing outsourcing enterprises (and as a supplier of outsourcing services to firms that opt not to invest directly) through investment promotion agencies, and establish relationships with outsourcing intermediaries via export development agencies, consider one time business development cost-sharing schemes.*

Translation of improvements of supply capacity, quality, and cost into export of services will require development of demand. The relatively low level of experience of domestic service providers in export will mean the need for market research, product development or adaptation, and forging linkages with consumers. Foreign professionals and enterprises, in the short run, can be helpful in bringing their linkages with them to the English-speaking Caribbean. Facilitating entry of foreign service professionals through eased labor mobility policies and foreign direct investment in nontourism services through open and clear policies are means of taking advantage of global resources. Since joint ventures are often difficult to establish and maintain, domestic participation rules should not be imposed. Once the hurdle of initiating regional linkages and establishing the country's reputation in a subsector is passed, it will be easier for domestic firms to forge independent linkages.

Professional associations, the investment promotion agencies, and export development agencies all should serve important roles in a concerted effort to develop demand for regional export services. Investment promotion agencies can not only seek and facilitate foreign

⁵⁰ World Bank, Caribbean Countries: Policies for Private Sector Development, 1994.

⁵¹ Paul Chen Young and Associates, Study of investment incentives for the Planning Institute of Jamaica, 1994.

investment in service export, but also present materials on outsourcing suppliers in the region as an option for those who elect not to invest directly in the country. Export support agencies can establish relationships with the growing number of outsourcing intermediaries in target markets. In addition, the network of Caribbean professionals abroad could be a valuable source of connections into the target markets. Export support agencies could seek to develop this network to act as an intermediary between local firms and international contacts. Finally, if fiscally plausible, a government could elect to provide one time cost sharing support for product research, development, and marketing to firms seeking to enter the export market.

Conclusion

Countries in the English-speaking Caribbean that decide that further development of a service export sector is a priority must take actions to achieve that goal. It will be difficult for the region's service export sector to flourish naturally under current conditions. Although the demand for service exports is growing rapidly, creating new opportunities, supply is growing apace. Firms worldwide are competing actively for a share of the burgeoning market.

The governments of the Caribbean can improve regional prospects for service export development.⁵² The main source of comparative advantage in many service exports is human capital--the productivity of workers in labor intensive services and expertise of professionals in knowledge intensive services. A country's public policies can have a substantial impact on the knowledge, skills, and productivity of its population. Policies can also improve the business environment for private enterprises to enter and operate in the sector. For those countries of the region that determine that the benefits of service sector development outweigh the political costs of bringing about change, this report puts forth a strategy that includes a number of specific actions. Although the public sector cannot guarantee results, it can substantially improve the chances for successful service export development.

⁵² The World Bank and other donor agencies are supporting such efforts in the region through primary and secondary education projects, projects aimed at private sector development and export expansion, and economic and policy dialogue.

Annexes

Definition of Services and Conceptual Framework for Service Exports

A Service is defined as a product with a price tag that cannot be dropped on one's foot. Services are typically characterized by intangibility and often by nonstoreability, in addition to transactability. Historically, the supplier and consumer would have had to meet in most cases for the transaction to occur. Through technology innovation, the transaction can occur through a "virtual" meeting (phone, internet, or satellite) or the transmittal of information.

A Service Export is an instance of transborder provision of services. Modes of service export are often categorized by movement of service provider and consumer. There are also long distance services where information is transmitted, but neither producer nor consumer moves.

Modes of service export

	Consumer Does Not Move	Consumer Moves
Producer Does Not Move	A	B
	Information Processing Offshore Services	Tourism Health Services
Producer Moves	C	D
Temporary Movement of Labor, Capital	Construction Professional Services	Passenger Transport
Establishment of a Commercial Presence in Target Market	Financial Services Telecom Services Foreign Employment	Foreign-owned Tourism, Foreign-provided Health

Many services can be transacted through more than one mode. Education services, for instance, could be provided through: (A) distance learning, (B) students attending a foreign institution, (C) setting up an institution to teach locals in a foreign location, or (D) teachers and students traveling to a site foreign to both for a site-specific course. For entertainment services, the audience (consumer) or the artist (producer) could travel. In professional services, the producer typically travels, but also the consumer could travel or the service could be encoded into a report (information) that crosses the border.

Movement of capital across borders can be a precursor to or an outcome of a service export. Foreign direct investment takes place for a producer to locate near the consumer to transact a service (C). Repatriation of fees or remittance of salaries occurs when a service provider (individual or firm) locates in a consumer country (C).

SERVICES SECTORAL CLASSIFICATION LIST

<u>SECTORS AND SUB-SECTORS</u>	<u>CORRESPOND- ING CPC Section B</u>
1. <u>BUSINESS SERVICES</u>	
<u>A. Professional Services</u>	
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 para-medical personnel	93191
k. Other	
<u>B. Computer and Related Services</u>	
a. Consultancy services related to the installation of computer hardware	841
b. Software implementation services	842
c. Data processing services	843
d. Data base services	844
e. Other	845+849
<u>C. Research and Development Services</u>	
a. R&D services on natural sciences	851
b. R&D services on social sciences and humanities	852
c. Interdisciplinary R&D services	853
<u>D. Real Estate Services</u>	
a. Involving own or leased property	821
b. On a fee or contract basis	822
<u>E. Rental/Leasing Services without Operators</u>	
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
<u>F. Other Business Services</u>	
a. Advertising services	871
b. Market research and public opinion polling services	864

c. Management consulting service	865
d. Services related to man. consulting	866
e. Technical testing and analysis serv.	8676
f. Services incidental to agriculture, hunting and forestry	881
g. Services incidental to fishing	882
h. Services incidental to mining	883+5115
i. Services incidental to manufacturing	884+885
	(except for 88442)
j. Services incidental to energy distribution	887
k. Placement and supply services of Personnel	872
l. Investigation and security	873
m. Related scientific and technical consulting services	8675
n. Maintenance and repair of equipment (not including maritime vessels, aircraft or other transport equipment)	633+ 8861-8866
o. Building-cleaning services	874
p. Photographic services	875
q. Packaging services	876
r. Printing, publishing	88442
s. Convention services	87909*
t. Other	8790

2. COMMUNICATION SERVICES

A. <u>Postal services</u>	7511
B. <u>Courier services</u>	7512
C. <u>Telecommunication services</u>	
a. Voice telephone services	7521
b. Packet-switched data transmission services	7523**
c. Circuit-switched data transmission services	7523**
d. Telex services	7523**
e. Telegraph services	7522
f. Facsimile services	7521**+7529**
g. Private leased circuit services	7522**+7523**
h. Electronic mail	7523**
i. Voice mail	7523**
j. On-line information and data base retrieval	7523**

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

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

k. electronic data interchange (EDI)	7523**
l. enhanced/value-added facsimile services, incl. store and forward, store and retrieve	7523**
m. code and protocol conversion	n.a.
n. on-line information and/or data processing (incl.transaction processing)	843**
o. other	
D. <u>Audiovisual services</u>	
a. Motion picture and video tape production and distribution services	9611
b. Motion picture projection service	9612
c. Radio and television services	9613
d. Radio and television transmission services	7524
e. Sound recording	n.a.
f. Other	
E. <u>Other</u>	
3. <u>CONSTRUCTION AND RELATED ENGINEERING SERVICES</u>	
A. <u>General construction work for buildings</u>	512
B. <u>General construction work for civil engineering</u>	513
C. <u>Installation and assembly work</u>	514+516
D. <u>Building completion and finishing work</u>	517
E. <u>Other</u>	511+515+518
4. <u>DISTRIBUTION SERVICES</u>	
A. <u>Commission agents' services</u>	621
B. <u>Wholesale trade services</u>	622
C. <u>Retailing services</u>	631+632 6111+6113+6121
D. <u>Franchising</u>	8929
E. <u>Other</u>	
5. <u>EDUCATIONAL SERVICES</u>	
A. <u>Primary education services</u>	921
B. <u>Secondary education services</u>	922

C. <u>Higher education services</u>	923
D. <u>Adult education</u>	924
E. <u>Other education services</u>	929
6. <u>ENVIRONMENTAL SERVICES</u>	
A. <u>Sewage services</u>	9401
B. <u>Refuse disposal services</u>	9402
C. <u>Sanitation and similar services</u>	9403
D. <u>Other</u>	
7. <u>FINANCIAL SERVICES</u>	
A. <u>All insurance and insurance-related services</u>	812**
a. Life, accident and health insurance services	8121
b. Non-life insurance services	8129
c. Reinsurance and retrocession	81299*
d. Services auxiliary to insurance (including broking and agency services)	8140
B. <u>Banking and other financial services (excl. insurance)</u>	
a. Acceptance of deposits and other repayable funds from the public	81115-81119
b. Lending of all types, incl., <u>inter alia</u> , consumer credit, mortgage credit, factoring and financing of commercial transaction	8113
c. Financial leasing	8112
d. All payment and money transmission services	81339**
e. Guarantees and commitments	81199**
f. Trading for own account or for account of customers, whether on an exchange, in an over-the-counter market or otherwise, the following:	
- money market instruments (cheques, bills, certificate of deposits, etc.)	81339**
- foreign exchange	81333
- derivative products incl., but not limited to, futures and options	81339**
- exchange rate and interest rate instruments, inclu. products such as swaps, forward rate agreements, etc.	81339**
- transferable securities	81321*
- other negotiable instruments and financial assets, incl. bullion	81339**

g. Participation in issues of all kinds of securities, incl. under-writing and placement as agent (whether publicly or privately) and provision of service related to such issues	8132
h. Money broking	81339**
i. Asset management, such as cash or portfolio management, all forms of collective investment management, pension fund management, custodial depository and trust services	8119+** 81323*
j. Settlement and clearing services for financial assets, incl. securities, derivative products, 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. <u>Hospital services</u>	9311
B. <u>Other Human Health Services</u>	9319 (other than 93191)
C. <u>Social Services</u>	933
D. <u>Other</u>	

9. TOURISM AND TRAVEL RELATED SERVICES

A. <u>Hotels and restaurants (incl. catering)</u>	641-643
B. <u>Travel agencies and tour operators services</u>	7471
C. <u>Tourist guides services</u>	7472
D. <u>Other</u>	

10. <u>RECREATIONAL, CULTURAL AND SPORTING SERVICES</u>	
(other than audiovisual services)	
A. <u>Entertainment services</u> (including theatre, live bands and circus services)	9619
B. <u>News agency services</u>	962
C. <u>Libraries, archives, museums and other cultural services</u>	963
D. <u>Sporting and other recreational services</u>	964
E. <u>Other</u>	
11. <u>TRANSPORT SERVICES</u>	
A. <u>Maritime Transport Services</u>	
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. <u>Internal Waterways Transport</u>	
a. Passenger transportation	7221
b. Freight transportation	7222
c. Rental of vessels with crew	7223
d. Maintenance and repair of vessels	8868**
e. Pushing and towing services	7224
f. Supporting services for internal waterway transport	745**
C. <u>Air Transport Services</u>	
a. Passenger transportation	731
b. Freight transportation	732
c. Rental of aircraft with crew	734
d. Maintenance and repair of aircraft	8868**
e. Supporting services for air transport	746
D. <u>Space Transport</u>	733
E. <u>Rail Transport Services</u>	
a. Passenger transportation	7111
b. Freight transportation	7112
c. Pushing and towing services	7113

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

General Agreement on Trade in Services: Commitments by English-speaking Caribbean Countries

The following pages present the commitments made by the English-speaking Caribbean countries under study regarding liberalization of services under the GATS. These commitments are presented according to the relevant service subsector (e.g.- offshore financial services, informatics, etc). They are also divided into the two categories of commitments made under GATS -- those concerning market access and national treatment.

Explanation of Terminology

- i) **Commitment** : Refers to the decision made by a country to allow greater foreign access to their service markets.
- ii) **“None”** : If the word “none” appears in the schedule, then a commitment has been made by the government to allow free service trade for the specific industry.
- iii) **“Unbound”** : If the word “unbound” appears in the schedule, then a commitment has not been made and the government is not bound to any GATS regulations. Thus free trade for that service is not available.
- iv) **Horizontal Commitment** : Refers to a commitment that applies to every sector included in the entire schedule for a country.
- v) **Cross-border Supply** : Refers to the trade of a service not requiring the physical movement of a supplier or a consumer. For example, electronic data interchange.
- vi) **Consumption Abroad** : Provision involving movement of the consumer to the country of the supplier. For example, tourism.
- vii) **Commercial Presence** : Services sold in the territory of a Member by legal entities that have established a commercial presence there but originate in the territory of another Member. For example, retail banking products would need a commercial presence in order to be marketed.
- viii) **Presence of Natural Persons** : Provision of services requiring the temporary movement of natural persons. Any complex service needing personnel from the originating country because high-tech labor is unavailable in the destination country.
- ix) **Unlisted Entries** : Blanks appear in many schedules. This may be due to unavailable information or pending negotiations. Typically, a country has chosen not to reduce protection for that particular industry.

Commitments on Market Access: Information Services

	Software	Data Processing	Telecom. Services
Antigua & Barbuda			
1) Cross-border supply	none	none	
2) Consumption abroad	none	none	
3) Commercial presence	Business Act	Business Act	
4) Presence of natural persons	see footnote*	see footnote*	
*Joint ventures are encouraged; with approval up to 100% can be foreign owned.			
*All non-nationals are required to obtain a work permit; permits are granted if qualified nationals are unavailable.			
Barbados			
1) Cross-border supply	none		
2) Consumption abroad	none		
3) Commercial presence	none		
4) Presence of natural persons	none		
Guyana			
1) Cross-border supply			none
2) Consumption abroad			none
3) Commercial presence			monopoly
4) Presence of natural persons			unbound*
*Unbound, except with respect to measures relating to senior managerial personnel and technical experts not available in the local labour market.			
Jamaica			
1) Cross-border supply	none	none	
2) Consumption abroad	none	none	
3) Commercial presence	regist.,license	regist.,license	
4) Presence of natural persons	unbound*	unbound*	
*Branches of companies incorporated outside of Jamaica are required to register their instruments of Incorporation with the Registrar of Companies their before they may carry on a business. Part X of the Companies Act states their legal and administrative responsibilities.			
*Work permits and visas are normal requirements for entry and in some cases licensing may be required as well. Permits are given if the skills are unavailable locally.			
Trinidad & Tobago			
1) Cross-border supply	none	none	
2) Consumption abroad	none	none	
3) Commercial presence	none	none	
4) Presence of natural persons	none	none	

Information was unavailable for the following countries: Belize, Dominica, Grenada, St. Lucia, and St. Vincent & the Grenadines

Commitments on Market Access: Health & Tourism

	Medical	Hotel & Resort Devlp.	Hospital Services
Antigua & Barbuda			
1) Cross-border supply	none	none	
2) Consumption abroad	none	none	
3) Commercial presence	Medical Act	H. Propri. Act	
4) Presence of natural persons	see footnote*	see footnote*	
*Joint ventures are encouraged; with approval up to 100% can be foreign owned.			
*All non-nationals are required to obtain a work permit; permits are granted if qualified nationals are unavailable.			
Barbados			
1) Cross-border supply	unbound		
2) Consumption abroad	unbound		
3) Commercial presence	natural reqd.		
4) Presence of natural persons	registry reqd.		
Belize			
1) Cross-border supply	none		
2) Consumption abroad	none		
3) Commercial presence	none		
4) Presence of natural persons	unbound*		
*Unbound, except for senior managerial personnel and technical experts not available in local labour market.			
Dominica			
1) Cross-border supply		unbound	
2) Consumption abroad		none	
3) Commercial presence		see footnote*	
4) Presence of natural persons		see footnote^	
*Subject to alien landholding regulations, exchange control regulations. Limited to development of hotels with more than 50 rooms. Hotels less than 50 rooms must undergo an economic needs test.			
^ Limited to managerial and specialist skills levels. Subject to work permit and immigration regulations.			
Grenada			
1) Cross-border supply		unbound	
2) Consumption abroad		none	
3) Commercial presence		see footnote*	
4) Presence of natural persons		see footnote^	
*Subject to alien landholding regulations, exchange control regulations. Limited to the developments of hotels in excess of 100 rooms. Hotels with less than 100 rooms must undergo an economic needs test.			
^ Limited to managerial and specialist skills levels and as indicated in the horizontal section. Subject to work permit and immigration regulations.			
Guyana			
1) Cross-border supply	none	unbound	
2) Consumption abroad	none	none	
3) Commercial presence	none	none	
4) Presence of natural persons	unbound*	unbound*	
*Unbound, except with respect to measures relating to senior managerial personnel and technical experts not available in the local labour market.			

Commitments on Market Access: Health & Tourism

	Medical	Hotel & Resort Devlp.	Hospital Services
Jamaica			
1) Cross-border supply	none	none	
2) Consumption abroad	none	none	
3) Commercial presence	reg,lic,exam	regist.,license	
4) Presence of natural persons	unbound*	unbound*	
*Branches of companies incorporated outside of Jamaica are required to register their instruments of Incorporation with the Registrar of Companies their before they may carry on a business. Part X of the Companies Act states their legal and administrative responsibilities.			
*Work permits and visas are normal requirements for entry and in some cases licensing may be required as well. Permits are given if the skills are unavailable locally.			
Saint Lucia			
1) Cross-border supply		none	none
2) Consumption abroad		none	none
3) Commercial presence		> 100 rooms	none
4) Presence of natural persons		only higher level	see footnote*
*Subject to horizontal limitations concerning work permit regulations, medical registration and certification, and medical officers ordinance.			
Saint Vincent & the Grenadines			
1) Cross-border supply		none	none
2) Consumption abroad		none	none
3) Commercial presence		see footnote^	Ex. Cont. Act
4) Presence of natural persons		Immigration	see footnote*
*Subject to horizontal limitations concerning work permit regulations, medical registration and certification, and medical officers ordinance.			
^Subject to Commercial Code, Exchange Controls Act, Hotels Proprietor Act, and Aliens Landholding Act.			
Trinidad & Tobago			
1) Cross-border supply	none		none
2) Consumption abroad	none		none
3) Commercial presence	none		unbound
4) Presence of natural persons	none		regis.&certif.

Commitments on Market Access: Offshore & Financial Services

	Re-insurance	Banking Deposits	Banking Lending
Antigua & Barbuda			
1) Cross-border supply	none		
2) Consumption abroad	none		
3) Commercial presence	Insurance Act		
4) Presence of natural persons	see footnote*		
*Joint ventures are encouraged; with approval up to 100% can be foreign owned.			
*All non-nationals are required to obtain a work permit; permits are granted if qualified nationals are unavailable.			
Barbados			
1) Cross-border supply	none		
2) Consumption abroad	none		
3) Commercial presence	none		
4) Presence of natural persons	none		
Dominica			
1) Cross-border supply	none		
2) Consumption abroad	none		
3) Commercial presence	Insurance Act		
4) Presence of natural persons	immigration reg.		
Grenada			
1) Cross-border supply	none		
2) Consumption abroad	none		
3) Commercial presence	ex.cntl.&Indhld.		
4) Presence of natural persons	immigration reg.		
Guyana			
1) Cross-border supply	none	none	none
2) Consumption abroad	none	none	none
3) Commercial presence	none	none	none
4) Presence of natural persons	unbound*	unbound*	unbound*
* Unbound, except with respect to measures relating to senior managerial personnel and technical experts not available in the local labour market.			
Jamaica			
1) Cross-border supply	none		
2) Consumption abroad	none		
3) Commercial presence	see footnote^		
4) Presence of natural persons	unbound*		
*Branches of companies incorporated outside of Jamaica are required to register their instruments of Incorporation with the Registrar of Companies their before they may carry on a business. Part X of the Companies Act states their legal and administrative responsibilities.			
*Work permits and visas are normal requirements for entry and in some cases licensing may be required as well. Permits are given if skills unavailable locally.			
^Currently, Jamaican law says that entities should be at least 51% Jamaican. However, this law is under review and may be removed soon.			
Saint Lucia			
1) Cross-border supply	none		
2) Consumption abroad	none		
3) Commercial presence	only corporates		
4) Presence of natural persons	work permit req.		

Commitments on Market Access: Offshore & Financial Services

	Re-insurance	Banking Deposits	Banking Lending
Saint Vincent & the Grenadines			
1) Cross-border supply	none		
2) Consumption abroad	none		
3) Commercial presence	s.t. Ins. Acts		
4) Presence of natural persons	s.t. Immigration		
Trinidad & Tobago			
1) Cross-border supply	none		
2) Consumption abroad	none		
3) Commercial presence	regis. & certifica.		
4) Presence of natural persons	none		

*Information was unavailable for Belize.

Commitments on Market Access: Professional Services

	Legal	Accounting	Architect	Engineering	Advertising Services
Antigua & Barbuda					
1) Cross-border supply	none	none	none	none	
2) Consumption abroad	none	none	none	none	
3) Commercial presence	Business Act	Business Act	Architect Act	Engineers Act	
4) Presence of natural persons	see footnote*	see footnote*	see footnote*	see footnote*	
*Joint ventures are encouraged, with approval up to 100% can be foreign owned.					
*All non-nationals are required to obtain a work permit; permits are granted if qualified nationals are unavailable.					
Barbados					
1) Cross-border supply	unbound				
2) Consumption abroad	unbound				
3) Commercial presence	natural reqd.				
4) Presence of natural persons	see footnote^				
^Attorney must be admitted to local Bar and registered under the Legal Profession Act					
Guyana					
1) Cross-border supply	none	none		none	
2) Consumption abroad	none	none		none	
3) Commercial presence	none	none		none	
4) Presence of natural persons	unbound*	unbound*		unbound*	
*Unbound, except with respect to measures relating to senior managerial personnel and technical experts not available in the local labour market.					
Jamaica					
1) Cross-border supply	none	none	none	none	none
2) Consumption abroad	none	none	none	none	none
3) Commercial presence	Jamaica Bar	license req.	J-Vent. pref.	J-Vent. pref.	regist., license
4) Presence of natural persons	unbound*	unbound*	unbound*	unbound*	unbound*
*Branches of companies incorporated outside of Jamaica are required to register their instruments of Incorporation with the Registrar of Companies their before they may carry on a business. Part X of the Companies Act states their legal and administrative responsibilities.					
*Work permits and visas are normal requirements for entry and in some cases licensing may be required as well.					
Permits are given if the skills are unavailable locally.					
Trinidad and Tobago					
1) Cross-border supply	none				none
2) Consumption abroad	none				none
3) Commercial presence	none				none
4) Presence of natural persons	none				none

*Information unavailable for the following countries : Belize, Dominica, Grenada, St. Lucia, and St. Vincent & the Grenadines.

Commitments on Market Access: Entertainment Services

	Entertainment Services	Sporting Services
Antigua & Barbuda		
1) Cross-border supply	none	
2) Consumption abroad	none	
3) Commercial presence	Business Act	
4) Presence of natural persons	see footnote*	
*Joint ventures are encouraged; with approval up to 100% can be foreign owned.		
*All non-nationals are required to obtain a work permit; permits are granted if qualified nationals are unavailable.		
Barbados		
1) Cross-border supply	none	
2) Consumption abroad	none	
3) Commercial presence	none	
4) Presence of natural persons	none	
Dominica		
1) Cross-border supply	none	unbound
2) Consumption abroad	none	none
3) Commercial presence	landholding reg.	landholding reg.
4) Presence of natural persons	immigration reg.	immigration reg.
Grenada		
1) Cross-border supply	none	unbound
2) Consumption abroad	none	none
3) Commercial presence	see footnote"	ex.cntl.&indhld.
4) Presence of natural persons	immigration reg.	immigration reg.
"May be required to employ national artists, entertainers. Limited to theatre, musical ensembles, bands, dance troupes. Subject to exchange control regulations and alien landholding regulations.		
Jamaica		
1) Cross-border supply	none	
2) Consumption abroad	none	
3) Commercial presence	regist., license	
4) Presence of natural persons	unbound*	
*Branches of companies incorporated outside of Jamaica are required to register their instruments of Incorporation with the Registrar of Companies their before they may carry on a business. Part X of the Companies Act states their legal and administrative responsibilities.		
*Work permits and visas are normal requirements for entry and in some cases licensing may be required as well. Permits are given if the skills are unavailable locally.		
Saint Lucia		
1) Cross-border supply	none	none
2) Consumption abroad	none	none
3) Commercial presence	none	unbound
4) Presence of natural persons	work permit	none
Saint Vincent & the Grenadines		
1) Cross-border supply	moral matters	none
2) Consumption abroad	none	none
3) Commercial presence	see footnote^	not applicable
4) Presence of natural persons	Immigration	Immigration
^Subject to Commercial Code, Exchange Controls Act, Hotels Proprietor Act, and Aliens Landholding Act.		

Commitments on Market Access: Entertainment Services

	Entertainment Services	Sporting Services
Trinidad & Tobago		
1) Cross-border supply	none	none
2) Consumption abroad	none	none
3) Commercial presence	unbound	unbound
4) Presence of natural persons	none	none

Information unavailable for Belize and Guyana.

BARBADOS: Employed Labor Force by Industry Group, 1979-1994

(in '000 persons)

	1979	1984	1989	1990	1991	1992	1993	1994
GOODS-PRODUCING SECTORS	29.0	27.8	29.4	28.1	24.5	23.4	22.0	23.7
Agriculture & Fishing	8.7	8.4	7.1	6.6	5.9	6.0	5.2	5.9
Manufacturing	12.3	12.5	12.0	11.9	10.1	10.0	9.9	10.0
Construction & Quarrying	8.0	6.9	10.3	9.6	8.5	7.4	6.9	7.8
SERVICES-PRODUCING SECTORS	66.4	65.3	73.8	77.2	76.3	72.8	73.1	76.9
Transport & Communication	6.7	5.1	4.8	6.5	4.8	4.2	4.5	4.2
Finance & Business Services	4.3	3.3	4.1	3.7	3.9	4.1	5.5	6.3
Government 1/			19.5	21.3	23.2	20.9	19.8	20.8
Electricity, Gas, & Water	1.0	2.0	1.5	1.5	1.6	1.7	1.3	1.0
Commerce 2/	23.9	19.8	15.7	16.5	15.6	14.2	14.6	15.3
Tourism 2/			9.6	10.5	8.9	9.6	9.3	10.4
Other Services 1/	30.5	35.1	18.6	17.2	18.3	18.1	18.1	18.9
TOTAL	95.4	93.1	103.2	105.3	100.8	96.2	95.1	100.6

Source: Barbados Statistical Service

1/ Government included in "Other Services" for 1979, 84

2/ Tourism included in "Commerce" for 1979, 84

JAMAICA: Employed Labor Force by Industry Group, 1979-94

(in '000s persons)

	1979	1984	1989	1990	1991	1992	1993	1994
GOODS-PRODUCING SECTORS	312.8	362.6	387.9	355.0	347.8	355.0	326.4	320.0
Agriculture, Forestry, Fishing	232.7	257.8	247.7	239.6	243.7	247.3	220.8	218.1
Mining, Quarrying, Refining	7.7	7.7	6.4	7.2	5.1	5.8	7.8	6.8
Manufacturing	72.4	97.1	133.8	108.2	99.0	101.9	97.8	95.1
SERVICES-PRODUCING SECTORS	368.5	416.3	483.9	536.6	554.1	545.1	570.0	590.9
Transport, Storage & Communics.	29.1	36.3	42.8	34.2	35.8	36.3	40.1	40.1
Construction & Installation	31.8	32.7	54.9	56.9	58.2	59.1	62.1	66.3
Financing, Real Estate, Insurance, Busin	--	--	--	34.8	40.3	43.6	43.3	47.2
Community, Social, Personal Services	--	--	--	246.3	243.8	229.1	228.9	236.8
Electricity, Gas, Water	--	--	--	5.4	5.8	4.9	4.5	5.0
Commerce, Tourism, Restaurants	87.9	109.4	136.2	159.0	170.2	172.1	191.1	195.5
Other Services	219.7	237.9	250.0	--	--	--	--	--
INDUSTRY NOT SPECIFIED	0.0	0.0	0.0	4.8	5.8	5.8	9.9	12.4
TOTAL	681.3	778.9	871.8	896.3	907.7	905.7	906.3	923.1

Source: Statistical Institute of Jamaica

TRINIDAD & TOBAGO: Employed Labor Force by Industry Group, 1988-93

(in '000 persons)

	1988	1989	1990	1991	1992	1993
GOODS-PRODUCING SECTORS	103.2	104.3	100.2	108.5	104.7	101.2
Agriculture	48.2	50.6	46.2	47.0	46.9	45.8
Manufacturing, Mining, Quarrying	55.0	53.7	54.0	61.5	57.8	55.4
SERVICES-PRODUCING SECTORS	268.8	261.6	273.8	292.5	301.1	303.4
Construction, Electricity, Water	48.1	45.3	47.5	53.9	51.6	51.4
Transport, Storage, Communication	28.9	27.1	27.3	27.3	29.4	30.1
Commerce & Tourism	61.4	61.3	62.8	67.4	69.4	71.1
Finance & Business Services 1/			23.9	27.7	28.8	27.9
Community, Social & Personal Services 1/			112.2	115.7	121.7	122.7
Other Services	130.0	127.7				
Not Classified	0.4	0.2	0.1	0.5	0.2	0.2
TOTAL EMPLOYMENT	371.6	365.7	374.0	401.0	406.0	404.6

Source: Trinidad & Tobago Central Statistical Office

1/ Included in "Other Services" for 1988,89

1994 CRX Certifications in Subjects Related to the Service Export Sector

	INFORMATICS				PROFESSIONAL SERVICES			ADMIN and GENERAL			
	Typewriting	Info Tech	Electronics	Elec. Engin.	Building Tech	Tech. Drawing	Account	Office Pract.	Book-keeping	Pr. of Business	Mathematics
<i>Antigua</i>	48	2	0		78	75	108	47	104	93	124
<i>Barbados</i>	150	113	30		4	363	495	456	89	292	791
<i>Belize</i>	169	57	9		0	53	91	87	72	63	313
<i>Dominica</i>	21	1	20		0	24	231	116	9	199	116
<i>Grenada</i>	6	1	12		0	28	64	113	2	403	124
<i>Guyana</i>	68	22	45		5	209	886	342	22	423	633
<i>Jamaica</i>	810	78	230	160	150	1351	4851	2587	68	3094	3458
<i>St. Kitts & Nevis</i>	49	0	3		0	45	122	54	21	120	81
<i>St. Lucia</i>	183	9	0	8	82	210	321	190	59	417	425
<i>St. Vincent & Gren.</i>	35	0	5		0	57	245	119	1	314	167
<i>Trinidad & Tobago</i>	815	162	212	57	8	992	4048	1484	93	3717	5602
REGION	2354	445	566	225	327	3407	11462	5595	540	9135	11834

Source: Caribbean Examinations Council

**Sample of English-speaking Caribbean Firms
and Institutions Interviewed for this report:**

Barbados

Barbados Chamber of Commerce & Industry
Barbados Development Bank
Barbados External Telecommunications
Barbados Investment Development Corporation (BIDC)
Barbados Manufacturers Association
Barbados Mutual Life Assuance Society
Barbados Shipping and Trading Company
Caribbean Data Services, Ltd.
Caribbean Development Bank
Caricom Export Development Project
Center for Management Development
Central Bank of Barbados
Chancery Chambers
Consulting Engineers Partnership, Ltd.
Coopers and Lybrand
Eastern Caribbean Consultants
Eastern Caribbean Economic Management Program
Ernst & Young
Glenhuron Bank Ltd.
Goddard Enterprises
Interport Limited
KPMG Peat Marwick
Ministry of Foreign Affairs, Foreign Trade, and International Business
Ministry of State
Offshore Business Advisory Services
Ronny Carrington Assoc.
R.R. Donnelley Barbados
Securities Exchange of Barbados
Sedgwick Management Services Ltd.
Shepbar Engineering Associates Ltd.
Systems Caribbean Ltd.
Walcott Jones & Goodridge

Guyana

CARICOM Secretariat
Guyana Telephone & Telegraph
Guyana Office of Investment
Ministry of Trade, Industry and Tourism
Bio-Med Clinical Lab

Jamaica

Central Bank of Jamaica
CIBC
Citibank
Creative Marketing Ltd.
CSC Geographic Technologies, Inc.
Databay Limited
Deloitte Touche
Design Collaborative
Direct Response Marketing
Dunn Cox Orrett & Ashenheim
Eagle Merchant Bank
Ecotech, Inc.
Global Consultancies
Government Administration Reform Program
Horizon Group Ltd.
ICWI Group Ltd.
Institute of Business
Jamaica Digiport International Ltd.
Jamaica Exporters Association
Jamaica Promotions Corporation (JAMPRO)
Matlaw Construction
Media Track, Inc.
Ministry of Finance
Mirand Response Systems
Mona Informatix
Myers Fletcher & Gordon
Paul Chen-Young & Associates
Price Waterhouse
Private Sector Organization of Jamaica
Quality Management Consulting
Securities Exchange of Jamaica
Tourism & Information Technology
University of the West Indies
Vilcomm
West Indies Home Contractors, Ltd.

OECS

ACT-Agricultural Information Center
Arlington BBS
Atlantic International, Ltd.
Barclays Bank PLC - Grenada
Barclays Bank PLC - St. Lucia
Bledman & Riviere
Bryden & Minors
Business Systems Inc.
Cable and Wireless - Dominica
Cable and Wireless - St. Lucia
Cable and Wireless - St. Vincent
COMPDAC Computer Consultants
Computer Centre Ltd.
Computer Entrepreneurs, Ltd.
Computer Solutions, Ltd.
Computer Village
DBES
Delisle Walwyn & Company Ltd.
DEVCO (Development Corporation of St. Vincent and the Grenadines)
Digital Imaging & Technologies, Inc.
Dominica Coconut Products
Dominica National Development Corporation
Eastern Caribbean Central Bank
Eastern Caribbean Computer Specialists
Express Data Systems, Ltd.
Geo F. Huggins & Co, Ltd.
Grenada Telecommunications, Ltd.
Henry Henry & Bristol Chambers
IDM, Ltd.
Institute of Self-Improvement Systems
Integrated Business Services
Island Computers
J.E. Bergasse & Company, Ltd.
J.Q.Charles, Ltd.
Jonas Brown & Hubbard (Grenada) Ltd.
L.L.Ramdhanny & Co, Ltd.
MacPennies Computers, Ltd.
Minvielle & Castanet, Ltd.
Nevis Computer Data Company, Ltd.
Premier Computer Service
Professional Secretarial Services, Ltd.
Reed Data Services
Royal Bank of Canada - Dominica
SKANTEL (St.Kitts and Nevis Telecommunications Ltd.)
St. Lucia National Development Corporation
St. Vincent Chamber of Commerce and Industry
St. Vincent Institute of Technology
TDC Business Equipment and Office Furniture, Ltd.
The Bank of Nova Scotia - Grenada
Tropical Software, Ltd.
W.E. Julien & Co., Ltd.

Trinidad and Tobago

Anthony C. Lewis Associates, Ltd.
Central Bank
CFATF Secretariat
Central Statistical Office
Chase Foods, Ltd.
Computers & Control, Ltd.
Coopers & Lybrand
De Nobriga, Inniss & Co.
Emile Elias Group of Companies
Eric Williams Medical Sciences Complex
Ernst & Young
Institute of Banking
Ministry of Finance
National Business Advisory Board
Neal & Massy Group
Nealco DataLink
ORACLE Caribbean Distributors
Price Waterhouse
Real Time Systems Group
Republic Bank, Ltd.
Telecommunications Services of Trinidad & Tobago, Ltd.
Tourism & Industrial Development Co. (TIDCO)
Trinidad & Tobago Free Zones Company, Ltd.
Trinidad Contractors, Ltd.

IMAGING

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