

**Identifying the export trade barriers of the business services
sector in South Africa**

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Abstract

A service can be traded either directly between a consumer and provider of the service or a service can serve as an input into the manufacturing of various products and other services that are traded. Trade in services has therefore become an essential part of global trade and contributes significantly to global, as well as South African economic growth, development and productivity. Service trade has furthermore been growing at a greater rate than trade in manufactured goods. The growth of services trade can be attributed to growth in goods trade, technological advances, rising per capita incomes, micro-economic reforms, as well as increased consumer and business demand, and technological change.

According to the GATS' (General Agreement on Trade in Services) services sectorial classification list, the service sector can be classified into twelve major categories and these sectors can further be divided into 160 sub-sectors. One of the sub-sectors that have been identified that has significant growth potential globally and for South Africa is the sub-sector, 'other business' services. This sub-sector falls under the sector, business services. Trade data revealed that this sub-sector is one of the top three traded service categories internationally, as well as for South Africa. For the purpose of this study the focus was specifically on 'other business' services provided by members of the BEPEC (Built Environmental Professional Export Council). The services performed by the members of the BEPEC are: consulting engineering, architectural, quantity surveying, and construction project managing services. These services are inputs into the manufacturing or construction of human creations such as buildings, structures, dams, roads etc.

Trade barriers, however, hinder the free flow of services from the service provider to customers in other countries. This is no different for the providers of 'other business' services. Therefore in order to increase the competitiveness of South Africa's 'other business' services sector internationally; the primary objective of this study was to identify the internal, as well as external barriers experienced by the exporters of 'other business' services. These internal and external barriers were identified by means of a questionnaire that the members of the BEPEC, who are exporters of 'other business' services, completed. Once these barriers were identified recommendations were made to the South African government.

The most significant internal barriers were found to be:

- lack of information about foreign markets;
- lack of information on how to enter these foreign markets;
- lack of personnel who are experienced in export activities;

- scarcity of internal financial resources for export purposes and export promotion.

The most significant external barriers were found to be:

- exchange rate risk and the risk of non-payment;
- corruption and bribery;
- risks involved with political instability in a country;
- restrictions on immigration provisions such as delay in obtaining entry visas, residency or work permits;
- poor infrastructure;
- foreign government procurement policies;
- distance to the target market.

All of the identified barriers can mostly be addressed by the South African government by providing training, the provision of market related information, and trade negotiations.

Key words: services, trade, 'other business' services, BEPEC, internal barriers, external barriers, liberalisation of services, GATS

Opsomming

Dienste kan of direk gelewer word vanaf die dienste verskaffer na die verbruiker of dienste kan as 'n inset dien in die vervaardiging van verskeie produkte en ander dienste waarin handel gedryf word. Handel in dienste het daarom 'n kardinale deel begin vorm van globale handel en dra in 'n groot mate by tot die globale sowel as Suid Afrikaanse ekonomiese groei, ontwikkeling en produktiwiteit. Handel in dienste groei ook teen 'n groter koers as handel in vervaardigde goedere. Die groei van handel in dienste kan toegeskryf word aan die groei in die handel van vervaardigde produkte, tegnologiese vordering, stygende per kapita-inkomstes, mikro-ekonomiese hervorming asook verhoogde aanvraag onder verbruikers- en besighede asook weenseen tegnologiese veranderings.

Volgens die GATS (General Agreement on Trade in Services) se klassifikasie lys vir die dienstesektor, kan hierdie sektor in twaalf hoofkategorieë ingedeel word., Hierdie sektore kan verder in 160 onderafdelings verdeel word. Een van die onderafdelings wat uitgewys is met merkwaardige groeipotensiaal globaal sowel as vir Suid-Afrika, is die onderafdeling “ander besigheidsdienste”. Hierdie onderafdeling word ingedeel in die sektor besigheidsdienste. Handelsdata het getoon dat hierdie onderafdeling een van die top drie dienstekategorieë is waarin handel gedryf word – internasionaal sowel as in Suid-Afrika. Die doel van die studie was om spesifiek te fokus op ander dienste wat voorsien word deur lede van die BEPEC (Built Environmental Professional Export Council). Die dienste wat deur die lede van die BEPEC gelewer word, sluit in: konsulerende ingenieurs, argitekturele, bourekenaars en bestuursdienste van konstruksieprojekte. Hierdie dienste dien as insette in die vervaardiging of konstruksie van mensgemaakte skeppings soos bv. geboue, strukture, damme, paaie ens.

Handelshindernisse belemmer die vry vloei van dienste vanaf die verskaffer van dienste na die verbruiker van dienste in ander lande . Dieselfde geld die verskaffers van ander dienste. Die hoofdoelwit van die studie was om die interne sowel as eksterne handelshindernisse uit te wys wat die uitvoerders van ander besigheidsdienste ervaar Sodoende word moontlikhede ondersoek om die mededingendheid van die Suid-Afrikaanse sektor van “ander besigheidsdienste” internasionaal te verhoog. Hierdie interne sowel as eksterne handelshindernisse is uitgewys deur 'n vraelys wat voltooi is deur die lede van die BEPEC wat “ander besigheidsdienste” uitvoer. Nadat die handelshindernisse vasgestel is, word aanbevelings aan die Suid-Afrikaanse owerheid gemaak.

Die mees prominente interne handelshindernisse wat uitgewys is:

- tekort aan inligting aangaande buitelandse markte;
- tekort aan inligting rakende hoe om die buitelandse markte te benader;

- tekort aan personeel wat ervaring het in uitvoer aktiwiteite;
- skaarste aan interne finansiële bronne vir uitvoer doeleindes en uitvoer bemarking.

Die mees prominente eksterne handelshindernisse wat uitgewys is:

- risiko rakende die wisselkoers asook die moontlikheid van geen betaling;
- korrupsie en omkoperie;
- beperking t.o.v. immigrasie bepalinge soos vertraging in die ontvang van toegangsvisas, verblyf- en werkspermitte;
- swak infrastruktuur;
- beleid vir buitelandse owerheidsaankope;
- afstand na die doelmark.

Al die handelshindernisse wat uitgewys is, kan merendeels deur die Suid-Afrikaanse owerheid aangespreek word deur die opleiding asook markverwante inligting te voorsien, en deur handelsonderhandelinge aan te knoop..

Sleutelwoorde: dienste, handel, ander besigheidsdienste, BEPEC, interne handelshindernisse, eksterne handelshindernisse, bevryding van dienste, GATS

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Chapter 1

Introduction

1.1 Background and motivation

Global trade entails the buying and selling of products and services between different countries (CDO, 2011). Therefore global trade is strongly correlated with global economic growth (Rangasamy & Visser, 2009). One of the sectors that contribute significantly to global trade is the service¹ sector (Mattoo & Stern 2008). No less than 60% of the world's GDP comprise the service sector (Dee, 2001; van Welsum, 2003). It contributes to one fifth of global trade, provides one third of the world with employment and has been growing with an annual rate of 10% since 2000 (UN, 2002; UP, 2008; Breinlich & Criscuolo, 2011). The World Development Report lists 132 countries of which 119 have a service sector that contributes more to GDP than its industry operations (Dee, 2001).

The service sector is one of the fastest growing sectors in South Africa, and Mr Trevor Manuel (2007) emphasised that increased service sector exports will contribute to South Africa's economic growth. In 2010 the service sector contributed 59% to South Africa's GDP gross domestic product (GDP) (New Zealand trade and enterprise, 2011). Not only is the service sector prominent in South Africa, but growth in trade in services in South Africa has also increased with 56% between 2002 and 2006 (UP, 2008).

It is important to classify the categories that comprise the service sector in order to comprehend more fully the make-up of the service sector and in particular identify the service that is the focus of this study. According to the GATS' (General Agreement on Trade in Services) services sectorial classification list, the service sector can be classified into 12 major categories. These categories consist of business services, communication services, construction and related engineering services, distribution services, educational services, environmental services, as well as financial services, health-related and social services, tourism and travel-related services, recreational, cultural, and also sporting services, transport services and other services not included elsewhere (UN, 2002; WTO, 2005; Rustomjee, 2006). These sectors can further be divided into 160 sub-sectors according to the various service industries. For example, the sector business services mentioned above is further divided into, professional services, computer and

¹ Service: The provision of an intangible homogeneous product by a producer of services for a consumer of the service (UN, 2002).

related services, research and development services, real estate services, rental/leasing services with operators and other business services (WTO, 1991).

Stiglitz (2003) is of the opinion that developing countries can only reap the benefit of increased service exports fully if they can deliver the goods or services to markets that have removed their trade barriers. Whilst trade barriers might not be removed in the near future, this study could indicate which trade barriers are experienced by South African exporters. Once these are identified, it could be possible to address the issues behind these barriers in order for these barriers to be alleviated.

Trade barriers internationally imply that there are obstacles preventing the free flow of goods or services to countries. Service export barriers are far more complex and regulated than the barriers encountered when exporting tangible goods, therefore, clear distinction needs to be made between the export of services and the export of goods (Hoekman & Messerlin, 1999; Mattoo, 2000; Grünfeld & Moxnes, 2003). Barriers that could be encountered when exporting goods may include the following: quotas, tariffs, anti-dumping duties, countervailing duties, subsidies, voluntary export restraints and lack of competition as a result of monopolistic practices (De Paiva Abreu, 1996; Grünfeld & Moxnes, 2003).

Service export barriers may be classified as:

- the prohibition of the migration of people to a foreign country in order to perform a service for a period of time;
- government regulations in the form of qualifications requirements, discriminatory standards, and licensing requirements (Fieleke, 1995; Hoekman, 1996; KostECKI, 1999; Mattoo, 2000; Panagiotis, 2007);
- the difficulty experienced to prove a company's credibility in providing the service required by other markets. The reason is that there is no tangible product that can serve as proof of an expected quality service that will be delivered (Riddle, 2001).

Both exporters of tangible goods, as well as services encounter trade barriers. These barriers may incorporate corruption by customs officials and quotas on the amount of goods or services that may be provided (Mattoo, 2000; Stiglitz, 2003).

The above mentioned are some of the barriers that may be experienced by professionals who wish to export or are currently exporting services, as well as exporters who desire to expand their operations into new markets. Some of these professional firms that perform specific services are registered with the Built Environmental Professional Export Council (BEPEC) of South Africa. BEPEC is a non-profit organisation that operates together with the Department of

Trade and Industry (DTI). Both these organisations promote and support companies that feel the need to expand the built environmental services² to foreign markets (BEPEC, 2010). BEPEC is made up of the following bodies:

- Consulting Engineers South Africa (CESA);
- the South African Institute of Architects (SAIA);
- the Association of South African Quantity Surveyors (ASAQS);
- the Association of Construction Project Managers (ACPM).

According to Cassim (2005), every one of the major services categories is unique. Therefore data should be provided and analysed focussing on individual categories. This is one of the reasons why the researcher for this study chose BEPEC, which constitutes 'other business' services (UN, 2002). Another reason for the focus of this study is that, even though South Africa's service exports have the potential to continue to grow, South Africa mostly has a comparative advantage in transport services (Hodge, 1997; Seyoum, 2007; Fourie, 2008; Fourie, 2011). This means that South Africa can deliver transport services at a lower cost than other countries. The barriers to the trade of South African 'other business' services therefore need to be identified in order to increase the competitiveness of this sector internationally as well.

The need to identify trade barriers in the 'other business' services category, was affirmed by members of the BEPEC. The identification of trade barriers in the built services category also provide valuable information for the DTI, who is keen on increasing South African service exports (DTI, 2009). The DTI supports the built services exports of South Africa by means of its public private partnership with the BEPEC (Business News, 2008). Increased services exports have the potential to contribute significantly to South Africa's growth and development (Hodge 1997; Cassim, 2005). Information obtained from the BEPEC companies can help export operations in 'other business' services to be more successful. The proposed recommendations can show how to avoid the barriers that have been identified, or how to address these barriers correctly. When trade barriers are known, it could also increase the competitiveness of South Africa's 'other business' services category, seeing that the trade barriers are known and can therefore effectively be avoided or addressed.

For the purpose of this study, the focus is on the category representing 'other business' services that make-up the services found within the BEPEC³. These services include consulting engineering, architectural, quantity surveying, and construction project managing services. The

² Built environment services: The services that lay a foundation for human creations. These services include the consultations made by engineers, architects, quantity surveyors and project managers (Bartuska & Young, 1994).

³ For the duration of this study, the Built Environment Professional services exports are referred to as 'other business' services.

BEPEC companies, when endeavouring to export their services, encounter certain trade barriers. Some of these barriers are identified and recommendations are made to the BEPEC and the DTI.

1.2 Problem statement

Numerous trade barriers exist that can potentially demotivate 'other business' service exports from South Africa, if these barriers are not identified and understood prior to service exports endeavours. There is limited information available that can shed light on the trade barriers that may be experienced when exporting 'other business' services.

1.3 Research objectives

The primary objective is to identify the trade barriers to 'other business' service exports experienced by companies in the BEPEC, and in such a manner identify the service export trade barriers in the category, 'other business' services.

The secondary objectives are to:

- provide an overview of trade theories and indicate how they support the trade of services;
- provide a description and overview of services in general;
- provide a description and overview of the trade in services globally;
- provide a description and overview of the trade in services within South Africa;
- provide an overview of the GATS agreement and the role that GATS plays in removing service trade barriers;
- provide an overview of the service trade barriers as given by literature;
- provide a description and an overview of the 'other business' services sector;
- provide an overview of the top ten countries' and South Africa's trade in 'other business' services;
- provide an overview of the trade barriers the BEPEC come across when exporting 'other business' services from South Africa;
- make recommendations with regards to the export barriers encountered in the BEPEC.

1.4 Research method

The study consists of both a literature review and an empirical analysis. The literature study motivates the importance of services trade by focussing on the gains from services trade and

indicating which international trade theories support services trade and the benefit thereof. The literature review furthermore gives an overview of the service sector, GATS and the barriers experienced within the service sector. Attention is specifically paid to the possible barriers within the 'other business' services sector.

The literature review is compiled from sources, such as books, journals or the internet. Statistics are obtained from Trade Map (explained below). The statistics are used in order to determine the amount of services South Africa exported to the world over a period of time. Trade Map is also used to determine the amount of 'other business' services that South Africa exported over a period of time.

Trade Map is a market analysis, research and international business development service provided by the International Trade Centre (ITC). As such Trade Map entails an online database of global trade flows and barriers to market access for international business development and trade promotion. In this sense the Trade Map or the Comtrade database provides detailed profiles about export and import of goods and services internationally.

An empirical analysis is conducted by gathering trade barrier information from some of the registered BEPEC companies. This is done through questionnaires that BEPEC members completed. The information gathered from these companies on the trade barriers that impede service exports is categorised according to the barriers specified in the literature review. The BEPEC information on trade barriers affecting 'other business' services, therefore, has a supporting function. This information sheds light on and affirms the known trade barriers to 'other business' service exports, which are discussed in the literature.

Recommendations are made to the South African government on how to address the export barriers found among companies in the BEPEC.

1.5 Delimitation

Chapter 1: Introduction. This section provides information on the following basic aspects: the background of the study, the motivation for this study, the problem statement addressed in this study and the methodology that is applied in this study.

Chapter 2: Gains from trade and international trade theory. This section firstly mentions the gains from the trade of services for the global community, as well as individual countries and companies. Secondly, the various prevailing trade theories are discussed and lastly, this chapter focusses on the theories applicable to the trade of services.

Chapter 3: The role of the service sector and GATS. This section firstly provides a description on the meaning of services. Secondly, the role of the GATS agreements in services trade is discussed. Lastly, this section provides a trade overview of services exported internationally, as well as by South Africa.

Chapter 4: Barriers to services trade with specific focus on 'other business' services. This chapter firstly provides an overview of the possible internal and external barriers to the trade of services. Secondly, existing empirical studies relevant to services are mentioned that have been conducted internationally, as well as by South African authors. Thirdly, a description of 'other business' services is provided, followed by an overview of the trade of 'other business' services internationally, as well as by South Africa. This section lastly mentions some of the common trade barriers that 'other business' services have encountered as other studies have identified them.

Chapter 5: Empirical research. This section firstly explains the method used to obtain data. Secondly, the data discussed and the trade barriers to 'other business' services are identified from the information obtained from the BEPEC companies.

Chapter 6: Conclusions and recommendations. This section firstly provides a conclusion of this study and secondly makes certain recommendations based on the internal company barriers, as well as the external trade barriers identified in this study. The limitations of this study and recommendations for future research are given lastly.

Chapter 2

Gains from trade and international trade theory

2.1 Introduction

Trade can benefit the global community as a whole. This includes countries and businesses, as well as consumers. This chapter initially starts in section 2.2.1 by briefly describing the benefits that trade offers a country. These benefits include the expansion of markets and increased production, which leads to economic growth. The consumers within a country also benefit when additional products can be offered to them at competitive prices. Trade not only benefits the consumers but also the country's labourer force, since increased revenue leads to higher wages. This situation furthermore reduces poverty and adds to the welfare of the country concerned.

Trade also benefits the companies within a country, seeing that trade provide various possibilities that accompany an extend market share into many other countries (see section 2.2.2). This increases the production, sales and revenue for a company. Trade also allows for knowledge spillovers to improve business operations and thereby benefitting companies. In order to expand more on the benefits of trade, it is necessary to understand trade from a theoretical perspective.

The focus of this chapter is to provide insight into trade theories that support the trade of goods and services (see section 2.3). This chapter highlights how the trade in services is important for economic growth globally, as well as for countries individually. Trade in services support the trade of goods. Without supporting services the trade of goods would not be possible. Services trade can therefore be seen as complementary to the trade of goods.

Many of the afore-mentioned trade theories refer to the trade of goods. The last section, section 2.4 of this chapter, points out which of the trade theories that are discussed can apply to the trade of services. The aim of this chapter is to emphasise the importance of trade, focussing in particular on the trade of services. Section 2.5 summarises and concludes this chapter.

2.2 Gains from trade for the global community

As mentioned previously, global economic growth is strongly correlated with increased global trade (Rangasamy & Visser, 2009). As trade increases, the global output of goods and services increase as well and thereby lead to an improved global economy. Trade can potentially benefit both a country and the companies who trade within that country (Copeland & Mattoo, 2008; Krugman & Obstfeld, 2009). The following section focuses on the possible gains for a country that engages in trade with other countries.

2.2.1 Gains from trade for a country

According to Krugman (1987), trade has benefitted countries for more than 170 years. Fosu and Mold (2008) emphasise this statement further, by pointing out that developed countries have been more open to trade. Therefore these countries show greater growth and reduction of poverty, in contrast to countries that have been less open to trade. Trade opens up the possibilities of an extended market for goods and services. In a domestic country a market may be saturated, but once trade opportunities emerge and are pursued, these opportunities provide a larger scope for increased production, sales and revenue (Grimwade, 2001; Krugman, 2009).

Furthermore, trade allows for a wider variety of products to choose from, thus benefitting a country's consumers (Miltiades, 1978; Samuelson & Nordhaus, 1998; Copeland & Mattoo, 2008). The consumers within such a country may benefit even further; since competition will result in consumers obtaining better products at lower costs than what might have been the case if they had only been supplied by domestic producers (Miltiades, 1978; Samuelson & Nordhaus, 1998; Hodge, 2002; Krugman & Obstfeld, 2009).

Trade also increases job opportunities and makes provision for higher wage rates. When countries export the goods and services in which they have a comparative advantage, it leads to increased revenue and as a result higher wages can be offered. Higher wages and the availability of additional jobs also reduce poverty in a country (Copeland & Mattoo, 2008). Trade therefore induces economic growth and thereby increases the welfare of a country (Frank, 1968; Fosu & Mold, 2008). Another benefit from trade is that it improves the welfare of a country in terms of the gains in know-how. Knowledge spillovers, as well as technology transfers can occur when companies enter into joint ventures and other joint business operations internationally (Hodge, 2002; Fosu & Mold, 2008).

The following section focuses on the gains that can be obtained by a company that engages in trade with other countries.

2.2.2 Gains from trade for a company

Trade lead to global competition amongst companies. This competition increases the efficiency by which goods are produced and services rendered within a company. Increased production will result in advanced technology often spilt over from the foreign market that is incorporated into a company. Such input will further maximise production output, resulting in quality products being delivered to the home and foreign market (Curtis & Ciuriak, 2002; Hodge, 2002; Zhou, 2007). Increased production and sales further can prompt the producers of the goods and services to focus on the production and specialisation of products and services in which they have a comparative advantage in order to be most efficient in their field. Increased production of products in which a country has a comparative advantage will result in a phenomenon where increased production takes place with minimum inputs, also known as 'economies of scale' (Curtis & Ciuriak, 2002; Copeland & Mattoo, 2008; Krugman & Obstfeld, 2009). According to Hodge (2002), economies of scale will result in reduced costs, which will benefit the exporting company further.

Once a company can be more efficient than its rivals, it obtains greater revenue and as a result can expand its operations (Grimwade, 2001). The expansion of operations will result in higher wages and an increase in employment provided by the company. This will naturally improve the welfare of the company itself and the surrounding community (Curtis & Ciuriak, 2002; Zhou, 2007).

The next section focuses on the trade theories that exist in order to support the view that trade is important and beneficial for the global community, as well as for a country and company. The trade theories are also discussed to emphasise the role of services in trade.

2.3 Trade theories

Trade is known as a custom that holds a mutual benefit for the importing, as well as the exporting country. Various existing theories explain why trade through time was, and still is, a beneficial custom. Trade theories are, and have been formulated in order to indicate how trade might benefit the importing country, as well as the exporting country optimally. These theories also indicate the manner in which trade should be conducted between two countries for both countries to reap the most benefits. For example, a country with a comparative advantage in product A should export product A, and a country that does not have a comparative advantage in product A should import product A (Appleyard & Field, 1995; Krugman & Obstfeld, 2009).

Trade theories may either compliment or contradict each other. They do, however, provide insight and they emphasise the importance that trade hold for countries (Appleyard & Field, 1995; Krugman & Obstfeld, 2009). There are numerous trade theories that are discussed individually in the following section. The first trade theory that is examined is known as the mercantilist theory.

2.3.1 Mercantilist trade theory

Mercantilists were of the opinion that trade benefitted only one country at the expense of the other countries it traded with. This view was known as the 'zero sum game'. Mercantilists were in favour of strict government control over economic activities. An example of this policy was that governments regulated labour in order to produce high quality products that could provide them with greater wealth, but simultaneously kept wages low (Appleyard & Field, 1995; Du Plessis, Smit & McCarthy, 2000; ITRISA, 2007; Zhang, 2008).

Mercantilists found that it was important to acquire as many precious metals as possible in order for a country to gain wealth and, therefore, governments prohibited the export of precious metals. During this period, exports of goods were subsidised and import tariffs were imposed on products of high value. However, no tariffs existed on low value raw material imports. These measures were followed based on the mercantilist's theory that a country should always have a positive balance of payment account (Appleyard & Field, 1995; Smit & McCarthy, 2000; ITRISA, 2007; Zhang, 2008).

The mercantilist trade theory was opposed by Adam Smith who laid the basis for the neo-classical theory and approach to trade. The following section provides insight into Adam Smith's trade theory build on the notion of absolute advantage.

2.3.2 Absolute advantage trade theory

Adam Smith's trade theory based on absolute advantage contradicted the mercantilist trade theory by stating that the acquisition of precious metals was not the ideal method for a country to acquire wealth. Smith believed that instead of gathering precious metals, countries rather had to focus on being productive in the production of final goods and services (Appleyard & Field, 1995; ITRISA, 2007; Zhang, 2008).

This trade theory insisted that free economic activity without government regulations would result in the productive delivery of final goods and services. He believed that specialisation would take place since people would be free to produce those products which they deliver most

effectively or provide the services in which they are most effective (Copeland, 2002). The only role of Government was to ensure that trade took place in an unconstrained manner through the removal of barriers (Miltiades, 1978; Appleyard & Field, 1995; Zhang, 2008; Krugman & Obstfeld, 2009).

Adam Smith's theory based on absolute advantage in particular emphasised the need for countries to specialise in the goods or services in which they had a production and supply advantage. Adam Smith based his theory on two nations and two goods or services. This theory stated that countries should specialise and export products or services in which they have an absolute advantage, and import products or services in which they do not have such an advantage. In this manner the world output of products will increase. This theory further opposed the mercantilist theories since it indicated that both the importing and exporting countries could benefit from trade. This view was also referred to as the 'positive sum game' (Miltiades, 1978; Appleyard & Field, 1995; Du Plessis *et al.*, 2000; Copeland, 2002; Zhang, 2008).

Adam Smith's trade theory is, however, contradicted by David Ricardo's trade theory based on the notion of comparative advantage. This theory opposed trade based entirely on absolute advantage (Brakman, Garretsen & van Merrewijk 2001). The comparative advantage trade theory is also referred to as the neo-classical trade theory and will be discussed in the following section.

2.3.3 Comparative advantage trade theory

David Ricardo perceived that trade could not be based on the theory of absolute advantage since some countries had an advantage in the production of both products and/or services. Such an advantage would, according to Adam Smith's theory, prevent countries from trading with each other. The country that has an absolute advantage in both goods would produce both products and, therefore, no need for trade would exist in that country (Miltiades, 1978; Appleyard & Field, 1995; Du Plessis *et al.*, 2000; Zhang, 2008).

David Ricardo's theory of comparative advantage trade was also based on the concept of two nations, two goods or services, but production costs were accounted for in labour hours. David Ricardo discovered that even though a country had an absolute advantage in the production of goods or services, countries could still benefit from trade. The reason is that often there is a difference in the opportunity cost of producing the product or supplying the service (Krugman, 1987; Fourie, 2011). Country A could have an absolute advantage in producing goods or services, but have a larger opportunity cost in producing one product or delivering one service

in comparison with country B. Country B would then export the product or service in which it has lesser opportunity cost and then import from country A the product or service in which it has a larger opportunity cost, and *vice versa* (Bhagwati, 1963; Miltiades, 1978; Feenstra & Taylor, 2008; Zhang, 2008).

David Ricardo referred to this form of trade, based on opportunity cost, as a comparative advantage in the product which a country produced most efficiently. The fact that one country was more efficient than another country regarding production was ascribed to the technological differences that exist between countries (Miltiades, 1978; Appleyard & Field, 1995; Zhang, 2008; Krugman & Obstfeld, 2009).

Another manner of describing David Ricardo's comparative advantage theory is therefore based on efficiency. The country which has an absolute advantage in both products should specialise and trade the product in which it is most efficient, whilst the other country should specialise and trade the product in which it is less inefficient. As already pointed out, this difference in efficiency was due to differences in technological advancements (Krugman, 1987; Brakman, *et al.*, 2001). A country would, therefore, by trading be able to obtain larger amounts of a product in which it is less efficient; than would have been the case should that country have produced the same product itself (Samuelson & Nordhaus, 1998; Copeland, 2002; Feenstra & Taylor, 2008; Zhang, 2008).

The Ricardian model is beneficial but has a flaw, since such extreme forms of specialisation does not exist in real life. Countries export goods and services in which they specialise. However, they do not specialise in exporting goods and simultaneously importing goods that they do not specialise in (Krugman & Obstfeld, 2009). The Ricardian trade theory is insufficient, since it only refers to one factor of production – labour. In the following section, the examination of the Heckscher-Ohlin trade theory will add to this neo-classical theory by accounting for more than one factor of production (Carbaugh, 1985; Appleyard & Field, 1995; Feenstra & Taylor, 2008; Zhang, 2008).

2.3.4 Heckscher-Ohlin trade theory

Krugman and Obstfeld (2000) noted that comparative advantage is not the primary reason for trade. According to them the differences in factor endowments or in the price of production factors between two countries would more likely prompt trade (Krugman, 1987). Ohlin based his theory on the assumption that there are two countries, two factors of production (such as capital and labour) and two types of goods are produced. This theory determined that a country that has, for example, an abundance of labour will have a comparative advantage in the production

of labour intensive goods. Such a country will, therefore, export labour-intensive goods and import capital-intensive goods. Similarly, a country that is richly endowed with capital will have a comparative advantage in the production of capital-intensive goods. That country will, therefore, export its capital-intensive goods and import labour-intensive goods (Carbaugh, 1985; Feenstra & Taylor, 2008). Markusen (2005) supported the Heckscher-Ohlin trade theory by adding that two types of goods can also be categorised under four production activities, namely unskilled-labour-intensive, skilled-labour-intensive and high-tech manufacturing, as well as services.

Krugman and Obstfeld, (2009) point out that the Heckscher-Ohlin trade theory makes the assumption that technology are similar in all countries. This theory, however, does not translate to reality, since countries often do vary in their technological advancements. These different technological advancements may cause a country that is capital-intensive to export labour intensive products, even though it has a smaller labour force than other countries. This is true, since technological advancements may help make a country's labour more efficient, even though the labour force are less in number than that of a labour-intensive country (Carbaugh, 1985; Krugman and Obstfeld, 2009).

2.3.5 Leontief paradox

Leontief directly opposed Heckscher Ohlin's trade theory when he discovered that the USA was a capital intensive country, but still imported capital products from other countries. Similarly, he also found that the USA was not a country that was richly endowed with labourers, but nevertheless, the USA exported labour-intensive products. This discovery was contrary to Heckscher-Ohlin's theory that based trade on differences in factor endowments (Wassily, 1953; Appleyard & Field, 1995).

Staffan Linder (1961) built on the Leontief paradox and introduced new ideas to trade, known as the Linder spillover theory. This theory is discussed next.

2.3.6 The Linder spillover theory

The Linder spillover theory also contradicted the Heckscher-Olin trade theory. This trade theory posed that difference in factor endowments were not the reason for trade to take place. According to Linder (1961), goods are exported due to new products that develop in a country's national market which then spills over to other, international, markets. These new product developments can be ascribed to technological advances in countries (Krugman, 1987). From this basis, the Linder spillover theory makes three assumptions.

The first assumption is based on the observation that a country that has a significant domestic market for a product will most likely export that product. Such countries have achieved economies of scale and can therefore export these products more successfully (Du Plessis *et al.*, 2000).

The second assumption relies on the preference similarity hypothesis, which states that countries with the same preferences and incomes will acquire goods from each other. These countries often have similar consumers' tastes. Such tastes are also strongly correlated with consumers' level of income. If a country's consumers receive high wages, they will most likely demand products and services of high value. Similarly, a country that is less developed, with consumers who mostly receive a low income, will most likely import low value necessity goods and services (Linder, 1961; Appleyard & Field, 1995).

Linder's final assumption is: countries that import will also export. Exports will flow from the imported goods that were used in the production of other goods, unless the imported goods were absorbed into the domestic market. The goods that are manufactured from the imported raw material will then be exported. These assumptions hold true and are applicable especially to trade between developed countries such as Japan, Western Europe and Northern America (Linder, 1961; Du Plessis *et al.*, 2000).

However, Linder's spillover theory falls short, since countries also trade due to differences in production costs. The assumption based on the dynamics of large domestic markets applies to developed countries, but not to newly industrialised ones. These countries' exports are based on the trade in international markets and do not feature in any significant national market. Furthermore, the Linder spillover theory does not take services into account but only focuses on manufactured goods (Du Plessis *et al.*, 2000).

The above mentioned trade theories all do not take economies of scale into account. These theories are based on constant returns to scale. As a corrective, the new trade theory was posed, which takes into account economies of scale, as well as terms of trade benefits or losses. This theory is discussed in the following section (Feenstra & Taylor, 2008; Krugman & Obstfeld, 2009).

2.3.7 New trade theory

Krugman (1987) developed the new trade theory, which explains that a comparative advantage or difference in factor endowments may not always be the motivation for the exports of goods or services. Economies of scale may substitute the notion of comparative advantage, since it

implies that the greater the output of a form of goods or service in a country, the lower the production cost of that good or service becomes. Such goods or services therefore become cheaper in the country concerned, due to economies of scale. Trade will then be beneficial for the importing countries that cannot produce the product or service at the lower price, as well as the exporting country that has increased its exports of the product or service (Carbaugh, 1985; Brakman *et al.*, 2001; Krugman & Obstfeld, 2009).

Two types of economies of scale may apply to a country that allows for increased production at reduced costs. The first type is known as an internal economy of scale. This implies that economies of scale are present due to the size of an individual company. Internal economies of scale therefore do not refer to an industry, but rather to the individual company size. The second type refers to external economies of scale that is obtained by a cluster of companies, known as an industry that operates together. The size of the industry determines the economies of scale for a particular type of goods or service in a specific country (Helpman, 1984; Krugman & Obstfeld, 2009). Companies from the same industry that are in close proximity to each other can thereby gain a comparative advantage over their rival countries (Krugman, 1980; Brakman *et al.*, 2001).

Specialised suppliers, labour market pooling, as well as knowledge spillovers are viewed as the main factors for the development of external economies within a cluster of companies. The economies of scale within a country's industry increase the said country's international trade. Specialised suppliers refer to a combination of companies that are able to provide a pool of expertise in order to answer the demand of other countries' special requirements more effectively and efficiently. This pool (also referred to as an industry) of specialised suppliers may therefore give a country a comparative advantage above other countries (Krugman & Obstfeld, 2009).

Labour market pooling can also result in an industry experiencing economies of scale in its production of goods or services. Labour market pooling refers to a situation where skilled labourers are accessible to companies who require such skills and where companies are also found in close proximity to each other. This deals with the problem of an insufficient labour force to perform a job that requires skilled labourers. Without the necessary amount of skilled labourers, companies will not be able to provide the goods or services required by other countries, thus putting a damper on trade. As a result of labour market pooling, knowledge spillovers usually take place (Krugman & Obstfeld, 2009). Knowledge is often shared and obtained more easily and effectively when companies function in close proximity to each other. This acquisition and sharing of knowledge from other companies is known as knowledge spillovers. Knowledge spills over from one company to another company in an industry. The aim

is to maintain the industry's competitiveness and provide it with a competitive edge within the international arena (Krugman & Obstfeld, 2009).

Krugman (1980), as well as Brakman *et al.* (2001) also explain that the gains from trade are especially obtained when consumers have a variety of products to choose from. A large domestic demand will induce an increased production of such a wide range of products. This significant domestic demand will furthermore result in a larger variety of goods to be exported internationally. Increased trade based on a larger variety of consumer products demanded and produced, is known as the love-of-variety-effect and constitutes the basis for this trade theory (Krugman, 1980; Brakman *et al.*, 2001).

External economies of scale can also be applied to regions. This is the point of departure of the new economic geography trade theory (NEG), which supplements the new trade theory. According to the NEG, such regions will be more inclined to trade internationally and with other regions within the same country. This theory is explained next.

2.3.8 New economic geography trade theory (NEG)

The development of external economies is one of the reasons for efficient and increased trade taking place internationally (Carbaugh, 1985). This can, however, also be applicable to regions within the same country (Krugman, 1980). Industries in specific regions within a country could experience external economies of scale. These external economies of scale experienced by such industries in a certain location may be attributed to the fact that an area may be richly endowed with natural resources, or that an agglomeration of companies may lead to a reduction of production costs. Reduced production costs may also be the result of lower transportation costs in the area where many companies are in close proximity (Krugman, 1998; Brakman *et al.*, 2001; Krugell & Matthee, 2009). Furthermore, such an area will be inclined to provide higher wages, causing many labourers to be situated in that area. A huge amount of labourers will most likely create a larger domestic demand. Companies will more likely export the variety of products for which they already have a large domestic demand. This phenomenon is known as the 'home-market' effect (Krugman, 1980; Krugman, 1998; Overman, Redding & Venables, 2003; Brakman *et al.*, 2005; Krugell & Matthee, 2009).

Regions in a country that do not possess certain resources to produce products or deliver services will most likely trade with regions in the same country that do have the required resources. Furthermore, since these areas are able to produce products or deliver services that other regions require more cheaply, this induces trade within the same region (Armstrong & Taylor, 2000; Brakman *et al.*, 2005).

Another trade theory that emphasises the importance proximity has for trade is the gravity trade theory. The new trade theory only focuses on proximity of companies from the same industry. The gravity trade theory, however, adds to this theory by explaining that proximity is also an important factor for trade between countries (Krugman 1979; Krugman 2009). The gravity trade theory is, therefore, be discussed next.

2.3.9 The gravity trade theory

The gravity trade theory states that countries who reflect similar GDP sizes and are in close proximity, are inclined to trade with each other. This theory emphasises an important fact. Countries may have comparative advantages in the production of products or services, and other countries may have a need for those similar products and services. Nevertheless, these countries will be less inclined to trade if their GDP's differ significantly and they are not geographically close to each other (Brakman *et al.*, 2001; Ivis & Strong, 2007; Krugman & Obstfeld, 2009).

One of the main reasons why countries who are not geographically close will less likely trade is the cost of transportation. Transportation costs increase the cost of trade, and will, therefore, reduce the benefits of trade between such countries. The gravity trade theory further stresses the fact that countries in close proximity can maintain business relationships more successfully. Business relationships are of vital importance to the trade in services between countries, because a mutual trust is required by both the service provider, as well as the service receiver (Krugman 1979; Krugman & Obstfeld, 2009).

Most trade theories are relevant to the trade of goods, but some of these trade theories have been applied particularly to the trade of services. The next section discusses which of the above mentioned trade theories can be and has been applied to the trade of services.

2.4 Trade theories applicable to services

According to Copeland (2002), the trade of goods can also be seen as the trade of factor services. Factor services refer to services that provide inputs into the production of goods. Therefore, without services, goods will not be traded and trade theories will be insignificant (Copeland, 2002). In addition Grimwade (2001) and Markusen (2005) both confirm that trade of goods and trade services can be viewed as similar economic activities. They state that trade theories based on the trade of goods are applicable to those based on services, since services trade can be seen as complementary to goods trade. If goods trade increase, services trade will

follow. Both these statements indicate that most of the trade theories that have been discussed do apply to the trade of services and not only the trade of goods.

Stern (2002) conducted a study in order to identify the main determinants of trade in eight different service sectors and then applied them to predict the South African trade in each of these sectors. He implemented the Heckscher-Ohlin model to test various factors applicable to the trade of goods. He determined whether or not these factors will also be determinants of the trade of services and whether they will support his view that comparative advantage does apply to trade in services. The explanatory variables used were: human capital, physical capital, natural resources, technology, economic development and also size, export orientation, protection, geography and language. Stern (2002) found that the theory of comparative advantage is significant and can be applied to the trade of services. Since the Heckscher-Ohlin trade model is applied to trade in services in this study, it is evident that such an application is relevant.

Grimwade (2001) affirms that the theory of comparative advantage can be applied to services trade. He mentions that countries will trade in services in which they have an advantage in factor endowments. A country that is endowed with a large amount of physical capital will most likely export services, such as transportation services; whilst a country that is richly endowed with human capital will export, for example, insurance and other private services. Grimwade (2001) also indicates that the NEG trade theory applies to the trade of services, since a pool of financial service providers, for example, in close proximity of each other, will be more competitive than rival regions within the country. This will also induce inter-regional trade. Such a country will also export its financial services to other countries that do not have the advantage to provide financial services more competitively.

Copeland (2002) also links the application of the comparative advantage theory to the trade of services. He sets out to determine whether trade theories provide a framework for services and whether gains from trade liberalisation can be argued and founded on the basis of literature on trade theory. He poses that consumers may have a demand for either goods or services. The theory of comparative advantage focuses on the need for a more competitive supply of products or services than a rival company. According to Copeland (2002), this supply may either take the form of goods or a service, depending on the demand of the consumer. He furthermore emphasises the fact that the comparative advantage trade theory applies to services trade by indicating that inputs are used in the production process. These inputs may be either goods or services that afford a comparative advantage and allow trade between countries.

Copeland (2002) further applies economies of scale, referred to in the new trade theory, to the trade of services. He does this by pointing out that countries may obtain a niche in a certain industry. This niche may be applicable to goods or services trade. He adds the NEG trade theory to his application of trade in services, by referring to the agglomeration of companies who either trade in services or goods. Alternatively, companies may also incorporate services as part of the production of goods demanded internationally.

The Heckscher-Ohlin trade theory is based on the assumption that there is a difference in factor endowments in countries, which will lead to trade. According to Anderson (2005), countries with a rich factor endowment such as labour, will not only provide labour intensive goods, but also services. Markusen (2005) also incorporates the Heckscher-Ohlin trade theory in his study on white collar services and the application of trade theories. He notes that the variation in factor endowments between countries can also be perceived as due to the prevalence of skilled labour-intensive countries as opposed to skilled labour-scarce countries.

An alternative view offered by Markusen (2005), is that a country can have an abundance of skilled labourers and another country an abundance of unskilled ones. These countries will trade in the respective services that require either skilled or unskilled labourers.

Dee (2001) conducted a study that focuses on the importance of the trade of services. She explains the nature of services, trade in services and services trade barriers. In this study she mentions that increasing returns to scale is a common phenomenon not only for goods production and trade, but also for services production and trade. Dee (2001) furthermore incorporates the new economic geography trade theory (NEG) when she argues that economies of scale experienced in services are regional.

The above mentioned studies indicate that the comparative advantage-, Heckscher-Olin-, new trade theory, new economic geography and the gravity trade theory can also be applied to the trade of services.

2.5 Summary and conclusion

This chapter started by introducing the benefits of trade, such as more efficient production and a wider variety of products for consumers to choose from. These topics were discussed briefly.

This chapter focused on various trade theories that exist and the significant roles they play when applied to the trade of services. The first trade theory was the mercantilist trade theory based on trade strictly regulated by the government. This was followed by Adam Smith's trade theory based on free trade without government interventions, as well as trade based on absolute advantage. The next trade theory was that of David Ricardo who believed that absolute advantage needed to be replaced by trade based on comparative advantage. Heckscher-Ohlin's trade theory added to Ricardo's trade theory by focusing on differences in factor endowment and prices of production factors in countries as the main reason for trade to take place. This theory, however, did not take differences in technological advancement into consideration. The Leontief paradox trade theory strongly opposed the Heckscher-Ohlin trade theory by observing that countries abundantly endowed with capital intensive products could still be inclined to import capital products from other countries due to differences in technological advancements.

Leontief's paradox was supported and additional observations were added in the following theory known as the Linder spillover theory. This theory states that goods are not exported due to differences in factor endowments within countries. This rather applies to the case of new products that develop in a country's national market which then spills over to other international markets. This theory is furthermore based on three assumptions:

- countries that have a significant domestic market for a product will most likely export that product;
- countries with similar incomes and preferences will be more inclined to engage in trade;
- countries that import will also export.

The new trade theory also found that trade based on differences in factor endowments and prices of production factors are not the only reasons for trade taking place. According to the new trade theory trade will more likely take place due to internal economies of scale – economies of scale within a company. The new trade theory was, however, built on this assumption, by also referring to external economies of scale – because it focuses on a cluster of companies, known as an industry. These similar companies are found in close proximity, which further promotes trade.

The NEG trade theory agreed with the new trade theory's concept that proximity increases trade. This trade theory stated that trade will more likely take place within certain regions in a country because of factors such as agglomeration, reduced production costs, or an abundant endowment of natural resources. These regions would also enter into trade with other regions in the same country because of the aforementioned benefits. The last trade theory that was examined, the gravity trade theory, added to the new trade theory by indicating that not only proximity of companies, but also proximity of countries, will prompt trade between those countries.

Most of the theories that were described can be applied to the trade of services. Various economists affirmed this fact by specifically referring to some of the above mentioned trade theories in their studies. The trade theories in question are Ricardo's, Heckscher-Ohlin's, all other trade theories that included economies of scale, as well as the NEG and gravity trade theory. Since services are perceived as inputs into the production of manufactured goods, it was furthermore emphasised how relevant these trade theories are to services trade.

In order to stress the need further for a study such as this, the following chapter focuses on the trade of services internationally, as well as in South Africa. The most prominent services are identified that hold economic growth potential for South Africa.

Chapter 3

The role of the services sector and GATS

3.1 Introduction

The previous chapter focused on various trade theories. Their application to the trade of services was also mentioned. It is evident that there are significant benefits to trade. This chapter focuses on the trade of services and further elaborates on the benefits of services trade and the obstacles that can be experienced when attempting to export services.

This chapter starts by providing an in depth description and discussion of services in section 3.2, and explains the differences between goods and services. Trade of services is discussed in the section 3.3. This section indicates how services trade exceeds the trade of manufactured goods. The reasons for the growth experienced by the service sector are also elaborated on. This section further focuses on how services are traded. According to the GATS, services trade can take place through four modes of supply of services. These modes are identified and discussed.

This chapter continues in section 3.4, by further elaborating on the functions of the GATS. The manner is explained in which services are traded according to the GATS, followed by a detailed discussion of the GATS and prescribed ways according to which services trade should take place between countries. Specific mention is made as to why the GATS exist and the principles that they endeavour to enforce in countries wanting to trade in services. The five principles of the GATS are highlighted, as well as the measures stipulated by GATS to which member countries should adhere. GATS have also classified services into twelve major service sectors, which are mentioned in this section.

The following section builds on the classification of the twelve major service sectors by focusing on the amount of trade in services that took place between 2006 and 2010 in each of these major service categories. Data is provided in section 3.5 that indicate the amount of services that were exported and imported internationally between 2006 and 2010. This is continued in section 3.6 by focussing on the export and import values of services traded by South Africa in the same period. Section 3.7 summarises and concludes this chapter.

3.2 Describing the services sector

The provision of a service entails the meeting of both a consumer and a supplier of a service (Hodge, 1997; Copeland, 2002; Fink & Jansen, 2007). This action often constitutes knowledge delivered in return for revenue. Services are, therefore, often perceived as knowledge based on human capital as a necessity (Stern, 2002a).

Services are more difficult to define than goods, because of their intangible nature. However, services can be distinguished as an economic activity that differs from other economic activities, such as manufacturing, agriculture, or mining (McLachlan, Clark & Monday, 2002; Marchetti, 2004). Even though services differ from other economic activities, it often serves as the supporting foundation for such economic activities. For example, manufacturing is supported by transportation, storage and marketing services; international trade can be supported by financial services, and technological advancements are unlikely without education and research services (Nordas, 2001; Grünfeld & Moxnes, 2003).

Mayer (2005) agrees that services provide a support structure for the production of goods and rendering of other services. Mayer (2005), however, not only emphasises the supporting role that services play, but also indicates that services may be provided either privately or publically.

- Privately provided services refer to such services as tourism, financial services, and construction services that are less government controlled and mostly owned by private entities.
- Public services, on the other hand, refer to services that are mainly provided by the government, such as education.

According to Copeland (2002), a service can be defined as a transaction that takes place when a service provider agrees to fulfil certain tasks. Services can also be defined by the characteristics that can be applied particularly to services, and these characteristics can be used to distinguish services from goods. The distinguishing features of services are their intangible nature, non-storability, and the direct interaction that is required between the consumer and producer of a service (Kostecki, 1999; Kang, 2000, McLachlan *et al.*, 2002). The direct interaction required between the consumer and producer can be delivered at either the consumer's premises, the producer's premises, or another location that is stipulated (Seyoum, 2007). With the development of technology and infrastructure, the delivery of a service can nowadays, however, also take place without requiring direct interaction between the consumer and producer. Examples of this type of delivery are: by means of the Internet through internet banking or long distance education (McLachlan *et al.*, 2002; Grünfeld & Moxnes, 2003).

The delivery of services can be separated into two distinct groups:

- The first group refers to services delivered directly to the end user, thus, for example, referring to the recreational services received by consumers
- The second group refers to services delivered to producers who use these services as part of their production process of goods or other services, with business services as an example (Findlay & Warren, 2000; McLachlan *et al.*, 2002).

Services can also be differentiated in terms of old services, new services or complementary services. Old services are those that have been present for centuries and have not required industrialisation to be rendered. These services include domestic services and laundrettes. New services are those that are present and have evolved because of industrialisation. These services may include recreational and entertainment services, as well as services in the medical and research fields. Complementary services are those that have helped the process of industrialisation along by serving as a means of support. Those services seen as complementary may constitute banking, transportation, as well as wholesale and retail services (McLachlan *et al.*, 2002).

These old, new and complementary services can be also be grouped in accordance with their economic characteristics. In their groups they are classified as consumer, producer and community/social services (Hodge, 1997; McLachlan *et al.*, 2002):

- *Consumer services*: All services demanded by the end user can be classified as consumer services. Consumer services are labour intensive and account for the provision of many low-skilled jobs. These services may include tourism and travel-related services, as well as recreational, cultural, and sporting services.
- *Producer services*: All those services that are used as inputs into the production and trade of products. Services in this category require high-skilled labourers and capital intensive production. This category also constitutes, in most cases, the fastest growing sector of any economy. Producer services may, for example, be rendered in the financial, distribution, communication and business fields.
- *Community/social services*: Community/social services are services provided for the public. Such services is often offered by a government but may be provided privately. These types of services often require high skilled labourers, as well as a substantial amount of capital for production purposes. Community/social services may consist of educational, environmental, health-related and social services.

Services have also been categorised based on the industry it contributes to, such as economic, financial and social infrastructure, as well as support to businesses. Economic infrastructure refers to services such as communication, transport, distribution and construction services. Financial infrastructure includes services performed by banks, insurance institutions and financial markets. Social infrastructure involves education, health and social services. Professional services, as well as those in marketing and advertising are examples of services that provide support to businesses (Marchetti, 2004; Panagiotis, 2007). These services that support economic, financial and social infrastructure, as well as businesses often bring about a change in four different areas (McLachlan *et al.*, 2002):

- *Change in the environment:* The first area affected by services refers to the change in the environment as a result of, for example, the cleaning of a street, park, or of pollution management.
- *Change in people:* the second change is evident in people, for example, somebody receiving a haircut, a person's attainment of an education level or of general well-being, all as a result of transportation being available.
- *Changes in manufactured goods:* these changes are resulting from the contribution of a service, for example, in the building, transportation and wholesale or retail industry.
- *Changes that allow people to acquire knowledge:* the fourth change refers to services providing mediums that allow people to acquire knowledge, for example, those services in the field of knowledge, entertainment and communication, such as broadcasting and telecommunications.

Services bring about a change in the above mentioned areas, but there are also driving forces effecting change and growth in various service sectors. Such changes may be experienced more significantly in one service sector than another, depending on their application. These driving forces are distinguished as follows (Preissl, 2000):

- technological change – mainly the distribution of information technology in services;
- the internationalisation of service activities;
- new patterns of co-operation between manufacturing and service industries;
- the deregulation and re-regulation of service markets.

Even though there is no clear definition for services, the above mentioned criteria do assist with distinguishing services from goods, as well as services from each other. In order to further distinguish services from each other, the WTO has compiled a service sector classification list to

categorise services. These service categories are discussed in more detail in chapter 3, section 3.3.1.

3.3 The role of services in trade

Services play a vital role in world trade, especially since services often provide inputs into the production of goods and other services that are exported. An example is the telecommunication or transportation services that are vital in the production and export of goods or services (Panagiotis, 2007; Francois & Hoekman, 2010). Services are known as the factor that sustains long term business and client relationships (Daniels, 2000). Without services, it will be impossible to export many products and other services (Panagiotis, 2007; Francois & Hoekman, 2010). Services also provide part-time, as well as full-time employment opportunities to both low skilled and high skilled labourers (McLachlan *et al.*, 2002). It is therefore evident that services assist overall productivity, economic growth and development globally (Arnold, Javorcik & Mattoo 2007; Panagiotis, 2007; Mattoo & Stern, 2008). This economic growth and development is especially evident in industrialised and developed nations. These nations, unlike least developed and developing countries, have moved from the export of mostly primary commodities to the export of manufactured goods and services (Krueger, 1997). Trade in services has however increased with a significant percentage in recent years for all nations collectively (Fieleke, 1995) and least developed and developing countries are starting to see the benefit of the export of services (Riddle, 2001).

Trade in services has been growing at a greater rate than trade in manufactured goods, and contributes significantly to most countries' GDPs (Gabriele, 2004). According to Francois and Hoekman (2010), the contribution of services has grown from 55% to 70% of the world GDP since 1977 to 2007. Services trade constitutes 20% of global trade or 50% if the services used to complete and export manufactured goods are included in this estimate (Francois & Hoekman, 2010). This growth of the service sector can be linked to the development of information and telecommunication technology allowing for more services to be traded internationally (Daniels, 2000; Mattoo & Stern, 2008; Francois & Hoekman, 2010).

The growth of services trade can be attributed to seven factors (cf. McLachlan *et al.*, 2002):

- *Growth in goods trade:* as the production and trade of goods has accelerated, the demand for services that can support the increased production and trade of goods has also increased. These services include marketing, transportation and financing.
- *Technological advances:* as technology has advanced over the centuries, so has the demand for services which were previously non-tradeable. Long distance education,

financial services and certain business services in particular build on technological advances.

- *Rising per capita incomes:* per capita incomes have increased over the years. This has changed people's life style and introduced a need for an improved way of life. This has resulted in a demand for the trade of services such as long distance education and tourism.
- *Micro-economic reforms:* liberalisation of both goods and services industries has resulted in an increased amount of trade. This is particularly true for services, since increased direct foreign investment has been allowed with the liberalisation of strict service trade policies.
- *Increased consumer demand:* this has been the result of increased income levels together with demographic and lifestyle changes.
- *Increased business demand:* innovation has resulted in new products that are continually being produced. These products often require specialist services to support and maintain them.
- *Technological change:* this type of change has demanded increased service inputs into numerous production processes to help increase productivity.

Limited data is available to provide a clear indication as to the exact values of each service category that has been traded internationally. This is partly due to the intangible nature of services. It is also caused by the fact that there can be no definite customs control documentation available of services that have been traded in a certain period (Fieleke, 1995; Hoekman, 1996; McLachlan *et al.*, 2002).

The WTO composed a new trade agreement in 1994. This is known as the General Agreement on Trade in Services (GATS) (WTO, 1995; Nordas, 2001). The GATS acknowledges the four modes of supply and has been put in place ultimately to overcome barriers to the trade of services (Dee, 2001). GATS and the classification of services in accordance to GATS' services categories are discussed next.

3.3.1 The role of the GATS agreement in services trade

GATS was incorporated to make provision for services in the multilateral trading system. Members of the WTO are automatically included as signatories in the GATS agreement and have to adhere to the agreements that are set out. These GATS agreements are focused on two primary goals: the liberalisation of services trade barriers and transparency of rules and regulations regarding services (Hoekman, 1996; WTO, 2005).

GATS is also in particular tasked with implementing regulations that will prompt countries to open their markets and allow for non-discriminatory trade of services, reciprocity, market access, fair competition and transparency (Kostecki, 1999). These regulations form part of the general principles of the GATS, known as: national treatment, most favoured country treatment, transparency and progressive liberalisation (Panagiotis, 2007).

Member countries of the WTO that participated in the Uruguay round have indicated how and over how long a period they will implement these principles in order to liberalise their service trade. Each of these principles is described in order to understand more clearly what they involve (Hoekman, 1996; Panagiotis, 2007).

National treatment implies that a country treats foreign suppliers of a service in the same manner that it would treat its national suppliers of a certain service (Fieleke, 1995; Hoekman, 1996). The most favoured country (MFN) treatment as stipulated by the GATS, involves providing unregulated market access to foreign suppliers of services, and this provision should be the same to all foreign suppliers of services (Fieleke, 1995; Hoekman, 1996; Cleary & Thomas, 2003; Panagiotis, 2007). This principle particularly refers to six restrictions that are imposed (Hoekman, 1996):

- limitations in the number of foreign services suppliers allowed;
- the value of transactions or assets based on the amount of services conducted;
- the number of employees;
- the type of legal entities that service providers are permitted to perform their services through;
- the amount of foreign capital owned.

The next principle, transparency, implies that governments are obliged to publish the policies they hold on services (Fieleke, 1995; Panagiotis, 2007). Progressive liberalisation indicates that countries who have participated in the negotiations on service liberalisation will continue with these negotiations and strive to rid their service sector completely of trade barriers (Fieleke, 1995; Panagiotis, 2007).

There are five categories of measures stipulated by GATS that member countries should adhere to. If they do, it will ensure that trade of services is conducted in an efficient manner. These categories are as follows (Panagiotis, 2007):

- *Qualification requirements:* Member countries are obligated to ensure that the services they want to trade meet the desired qualification standards. The requirements concern a level of education, practical training, experience, as well as registration requirements.
- *Qualification procedures:* Member countries have to adhere to the procedures that they must follow to reach the qualification requirements, which will allow them to deliver a service. These procedures entail administrative procedures such as documentation to be filed, fees payable, where to register for certain educational programmes or the organising of qualifying examination. It is important for member countries to be transparent in setting their qualification requirements and procedures. This ensures that foreigners get easier access to the market when they are aware of the requirements they have to meet and the procedures they have to follow.
- *Licensing requirements:* Member countries have to comply with the requirements that provide them with the authorisation to deliver a service. This authorisation is attained by acquiring a license that permits someone to perform a service. Paying the necessary fees and meeting registration requirements form part of the licensing requirements.
- *Licensing procedures:* Member countries have to adhere to the administrative rules and regulations on how to submit and process applications that request authorisation for delivering services. Licensing requirements and procedures might become a significant barrier for foreign services suppliers, since it may demand that a service provider prequalifies in order to meet the requirements of the host-state.
- *Technical standards:* This measure implies that a service delivered has to comply with a certain standard in order to provide a quality service. This standard may also refer to the standard of the service provider itself. Technical standards are determined by each country individually and, therefore, technical standard may vary from one country to another.

A new round of GATS negotiations commenced in 2003 (WTO, 2009). These negotiations affect the liberalising of a greater scope of services. This includes continued liberalisation of services already agreed upon, as well as other services that have not undergone some form of reform

(McLachlan *et al.*, 2002). In 2003 at another Doha round held in Genoa, the participants agreed to provide preferential treatment in services to least-developed countries (WTO, 2009).

Unfortunately there is still a major scope for service liberalisation, since commitments towards the liberalisation of the service sector only amounts to 47% of the categories found in the service sector of industrialised countries and 16% of developing countries' services categories (Panagiotis, 2007). For example, EFTA and SACU have preferential trade agreements in goods. There are, however, no preferential trade agreements in services (WTO, 2010). According to Roy, Marchetti and Lim (2006) the number of preferential service trade agreements have, however, increased steadily since 1995. There are currently 85 preferential trade agreements. Currently 53 countries have preferential services trade agreements. However, since 2009 half of these agreements have been made only between developing countries (Roy, 2011).

The greatest barrier to the liberalisation of services was found to be domestic regulations. Governments often protect the service industry, excusing their protectionism under the infant industry argument. In other words, it is their duty/mandate to protect their own developing or fledgling industries. Governments also often do not have adequate information about the service sector and are unaware of the benefits of liberalising service sectors that are constrained by barriers, and therefore do not want to make commitments under the GATS (Hoekman, 1999).

International trade in services implies that a transaction takes place between a resident party from one country and a non-resident party from another country (UN, 2002; Sichei, Harmse & Kanfer, 2007). Unlike trade in goods, trade in services most of the times require physical interaction between the buyer and seller of the service provided (Copeland, 2002). In order for services to be traded internationally, modes of supply are required to facilitate this process (Hodge 1997; Altman, van der Heijden, Mayer & Lewis 2005; WTO, 2005; Mattoo, 2005; Sichei, *et al.*, 2007; Fourie, 2011). According to the WTO (2005), trade in services can be facilitated by four modes of supply:

Mode 1: cross border trade;

Mode 2: consumption abroad;

Mode 3: commercial presence in a foreign country;

Mode 4: temporary movement of natural persons.

The first mode mentioned are about services that take place through physical goods such as telephones used by call centres or the internet used to provide long distance education (Hodge

1997; Daniels, 2000; McLachlan *et al.*, 2002; Altman *et al.*, 2005; WTO, 2005; Mattoo, 2005; Sichei, *et al.*, 2007; Fourie, 2011). The mode of supply, 'consumption abroad', demands that the producer, through a resident foreign associate, subsidiary or representative office, should provide a service to the consumer in his/her country, or the consumer could travel to the producer's country to obtain, for example, education, tourism or health services. This is known as the mode that involves consumption abroad (Hoekman, 1996; Hodge 1997; Daniels, 2000; McLachlan *et al.*, 2002; Altman *et al.*, 2005; WTO, 2005; Mattoo, 2005; Sichei *et al.*, 2007; Fourie, 2011).

The third mode of services trade could involve either the producer travelling to the consumer's location, or vice versa and is classified by the WTO as the mode that involves commercial presence in a foreign country. Foreign direct investment, such as opening an office in a foreign country is also categorised under this mode and often this is how a commercial presence is established (Hodge 1997; Daniels, 2000; McLachlan *et al.*, 2002; Altman *et al.*, 2005; WTO, 2005; Mattoo, 2005; Sichei, *et al.*, 2007; Fourie, 2011).

The fourth mode of services trade more specifically deals with professional persons, such as engineers, architects, quantity surveyors and project managers, temporarily moving to a foreign country to conduct a service required, for example, establishing and running a construction project (Hodge 1997; Daniels, 2000; McLachlan *et al.*, 2002; Altman *et al.*, 2005; WTO, 2005; Mattoo, 2005; Sichei, *et al.*, 2007; Fourie, 2011).

The mode that is regulated more strictly is mode four, the temporary movement of natural persons. Developing countries are most reliant on this mode of transportation in order to deliver services in which these companies enjoy a comparative advantage. Developing countries are richly endowed with labourers and this mode, if liberated, will allow for services, such as consulting engineers to perform a service in a foreign country for a period of time (Marchetti, 2004; Francois & Hoekman, 2010).

Developing countries often find it most difficult to liberalise their service trade policies. They do not have a credible track record of keeping with proposed reform policies in the past and are, therefore, faced with scepticism by their own domestic consumers and companies, as well as from potential investors. The potential gains of implementing reform policies in the service sector will only fully be realised if potential investors can be convinced that these policies will be permanent, consistent, fair and predictable. Potential investors also need to be assured that investments they make will not be confiscated/nationalised by the foreign government in question (Marchetti, 2004).

In order to assist members of the GATS to structure and achieve their commitments and obligations effectively; the numerous services have been classified into twelve major services categories by the WTO (UN, 2002; Cleary & Thomas, 2003; WTO, 2005; Fourie, 2011). These services are classified as follows:

- Business services⁴ (including professional and computer services)
- Communication services
- Construction and related engineering services;
- Distribution services
- Educational services
- Environmental services
- Financial services (insurance and banking services)
- Health-related and social services
- Tourism and travel-related services
- Recreational, cultural, and sporting services
- Transport services
- Other services not included elsewhere.

Signatories to the GATS agreements may decide how they wish to adhere to the agreements on services. These signatories have a given time in which they should implement the commitments they have made. These commitments can, however, be renegotiated and, therefore, the implementation of commitments to trade in services can take time (WTO, 2005).

There are, however, general obligations that must be kept by each GATS member. One of these obligations is the most favoured nation (MFN) treatment. The MFN treatment in services refers to the best access conditions made by country A for country B and these conditions should be extended to all other countries that trade with country A (WTO, 2005).

The following section of this chapter provides a description and overview of the trade in services internationally, as well as by South Africa. This gives an indication of the growth in services trade internationally and in South Africa. It also reveals the vast potential that services trade hold internationally, as well as for South Africa. Table 3.1 indicates the service categories and the number of services that were traded internationally between 2002 and 2008.

⁴ This study's main focus is on business services and therefore business services need to further be distinguished from the other service categories.

3.3.2 Trade in services internationally

One fifth of global trade consists of services trade. Services traded therefore contributed 20% to global trade in 2007. Approximately 15% of this amount was contributed by developing nations and 23% of service exports were delivered by developed nations (Fink & Jansen, 2007; Jansen, 2008).

The most prominent developing and developed nations that significantly contribute to the international trade in services are those that have advanced in technological development. Such technological advancements have reduced transportation and communication costs. Both transportation and communication is essential to the trade of services, and reduced costs therefore ensure better provision of services internationally (Fieleke, 1995; Hodge, 1997).

The most prominent services in the world (as seen in Table 3.1) are other business, travel and transportation services (Hodge, 1997; Mattoo, 2005). According to McLachlan *et al.* (2002), business service is a category that is expected to continue delivering a higher output and growth. Mayer (2005) also emphasises the significant growth potential that the business services sector hold.

The developing nations that have traded the greatest amount are those that have expanded their operations in business, travel, telecommunication and transport services (Hodge, 1997). These nations did also make use of the comparative advantage they have in low labour costs, as well as in appropriate skills, technology and infrastructure to increase the growth of trade in services (Fieleke, 1995; Seyoum, 2007).

Table 3.1: Global services exports between 2006 and 2010

Services	Exported value in 2006 (in USD thousands)	Exported value in 2007 (in USD thousands)	Exported value in 2008 (in USD thousands)	Exported value in 2009 (in USD thousands)	Exported value in 2010 (in USD thousands)
Total services	3,213,028,209	3,857,826,213	4,341,345,017	3,850,592,048	3,795,472,785
Travel	753,900,032	868,000,000	953,500,032	866,000,000	938,400,000
'other business' services	687,400,000	839,200,000	947,299,968	866,499,968	937,400,000
Transportation	636,600,000	767,100,032	889,800,000	683,900,032	785,400,000
Financial services	223,400,000	296,400,000	295,700,000	249,600,000	266,000,000
Royalties and license fees	163,300,000	193,900,000	223,900,000	221,700,000	245,100,000
Computer and information services	130,800,000	160,900,000	201,400,000	190,300,000	215,200,000
Government services, n.i.e.	95,359,569	103,110,181	103,462,009	95,423,056	102,972,785
Construction services	66,300,000	83,200,000	105,900,000	95,100,000	94,500,000
Insurance services	61,900,000	76,200,000	87,200,000	84,100,000	84,100,000
Communications services	70,800,000	82,300,000	96,200,000	90,500,000	83,400,000
Personal, cultural and recreational services	36,500,000	41,100,000	41,600,000	38,300,000	43,000,000
Personal remittances ⁵	286,768,608	346,416,000	395,383,008	369,168,992	

Source: ITC, 2012

From table 3.1 it can be seen that total services exports contributed US \$3.213 trillion to the global economy in 2006 and grew to a significant US \$4.341 trillion in 2008. The total service exports of the global economy, however, also decreased to US \$3.795 trillion in 2010. The largest contributors to these values were travel, 'other business', and transportation services. Together they accounted for US \$2.077 trillion exported in 2006 and US \$2.661 billion of services exported in 2010.

The services that are indicated in red are those that constitute the lack of information from one or more country, which did not report the services it traded in that period. This is one of the main reasons why the globally exported services value does not reflect the globally imported services value as indicated in table 3.2.

⁵ No export value is available for the service category 'personal remittances' for 2010.

Table 3.2: Global services imports between 2006 and 2010

Services	Imported value in 2006 (in USD thousands)	Imported value in 2007 (in USD thousands)	Imported value in 2008 (in USD thousands)	Imported value in 2009 (in USD thousands)	Imported value in 2010 (in USD thousands)
Total services	3,154,601,828	3,729,623,603	4,227,017,147	3,764,086,212	6,201,124,660
'other business' services	910,778,419	1,111,065,481	1,245,675,618	1,167,413,587	2,283,705,732
Transportation	755,299,968	896,200,000	1,044,200,000	816,000,000	960,200,000
Travel	692,200,000	799,500,032	866,600,000	789,000,000	847,600,000
Royalties and license fees	230,955,217	265,187,105	340,294,148	340,857,120	591,609,140
Personal, cultural and recreational services	50,592,945	55,097,138	62,334,722	56,570,337	301,661,838
Computer and information services	107,147,466	131,120,393	155,820,721	147,477,695	296,105,690
Communications services	99,598,954	115,449,291	132,057,860	125,875,517	214,801,511
Insurance services	150,195,421	175,347,094	199,802,324	176,566,407	202,708,197
Construction services	78,352,553	104,348,125	122,039,539	107,736,642	169,383,604
Financial services	157,887,131	192,015,877	201,081,136	171,038,425	169,230,015
Government services, n.i.e.	135,917,050	146,990,059	163,463,079	158,298,482	164,118,933
Personal remittances ⁶	-214,323,296	-262,696,992	-306,352,000	-292,748,000	

Source: ITC, 2012

From table 3.2 it is evident that the total services imported contributed US \$3.154 trillion to the global economy in 2006 and grew to a significant US \$6.201 trillion in 2010. The largest contributors to these values were also 'other business', transportation, and travel services. Together these sectors accounted for US \$2.358 trillion imported in 2006 and US \$4.091 trillion services imported in 2010. These service categories combined also contributed 65% to the global services imports in 2010. These three services categories also grew significantly during the period 2006 to 2010.

The following section provides an indication of the amount of trade in services that has taken place in South Africa.

⁶ No import value is available for the service category 'personal remittances' for 2010.

3.3.3 Trade in services in South Africa

Service exports are of vital importance for the growth of developing countries, and this is no different for South Africa (Gabriele, 2004; Mattoo & Stern, 2008). The South African service sector contributes almost up to two thirds to South Africa's GDP and this sector has been growing continually (UP, 2008; Bizzcommunity, 2009). Mayer (2005) states that future employment opportunities are found within the service sector, and therefore the expansion of job opportunities by means of services trade is essential.

According to Mattoo (2005), South Africa's service sector comprises three categories. The first category refers to telecommunication, transport and other government owned and regulated services. These services often provide the inputs into the production and distribution of manufactured goods and are referred to as 'backbone infrastructure' services. The second service category entails the delivery of a service, such as education or health facilities and is often provided by the government. These first two categories combined contributed to 57% of South Africa's services output in 2005. The last service category is distinguished by private owned ventures that provide services to the public. These services may include financial or tourism activities. The government is limited in its service regulation practices within this private sector. This sector contributed 43% of South Africa's service output in 2005.

South Africa is a labour-intensive country which has boosted its growth in travel services. South Africa has, however, experienced less than the desired growth in the exports of business services because of various trade barriers (Hodge, 1997). According to Trade Map, South Africa was the 42nd worldwide exporter of business services between 2006 and 2010, which indicates that there is scope for an increase in South Africa's exports of business services (ITC, 2012). According to Mayer (2005), business services as a whole can be seen as a high growth service sector that holds significant economic benefit for South Africa.

Tables 3.3 and 3.4 below indicate the amount of services exported and imported by South Africa between 2006 and 2010. Tables 3.5 and 3.6 provide estimated values of South Africa's services export and import trade between 2006 and 2010. These estimated values are based on the GATS' classifications of services categories.

Table 3.3: South Africa's services export values from 2006 to 2010

Importers	Exported Value in 2006 (in USD thousands)	Exported Value in 2007 (in USD thousands)	Exported Value in 2008 (in USD thousands)	Exported Value in 2009 (in USD thousands)	Exported Value in 2010 (in USD thousands)
World	12,213,700	13,818,400	12,805,300	12,020,400	14,003,500

Source: ITC, 2012

South Africa's services exports have increased significantly between 2006 and 2010. In 2006 South Africa exported US \$12.213 billion worth of services and in 2010 this amount has increased to US \$14.003 billion worth of services. There however was a decrease in the South African exports of services in 2008 and 2009, which could be attributed to the global financial crisis.

Table 3.4: South Africa's services import values from 2006 to 2010

Exporters	Imported value in 2006 (in USD thousands)	Imported value in 2007 (in USD thousands)	Imported value in 2008 (in USD thousands)	Imported value in 2009 (in USD thousands)	Imported value in 2010 (in USD thousands)
World	14,242,100	16,481,500	16,975,600	14,807,500	18,456,400

Source: ITC, 2012

South Africa's imports of services have increased significantly between 2006 and 2010. In 2006 South Africa imported US \$14.242 billion worth of services and in 2010 this amount has increased to US \$18.456 billion worth of services. South Africa's import of services declined in 2009, which could also be attributed to the global financial crisis. The above tables show that South Africa's import of services exceeded its export of services for the period 2006 to 2010. South Africa is therefore a net importer of services.

The following table below provides an overview of the services South Africa exported by category from 2006 to 2010.

Table 3.5: South Africa's exports of services according to sector between 2006 and 2010

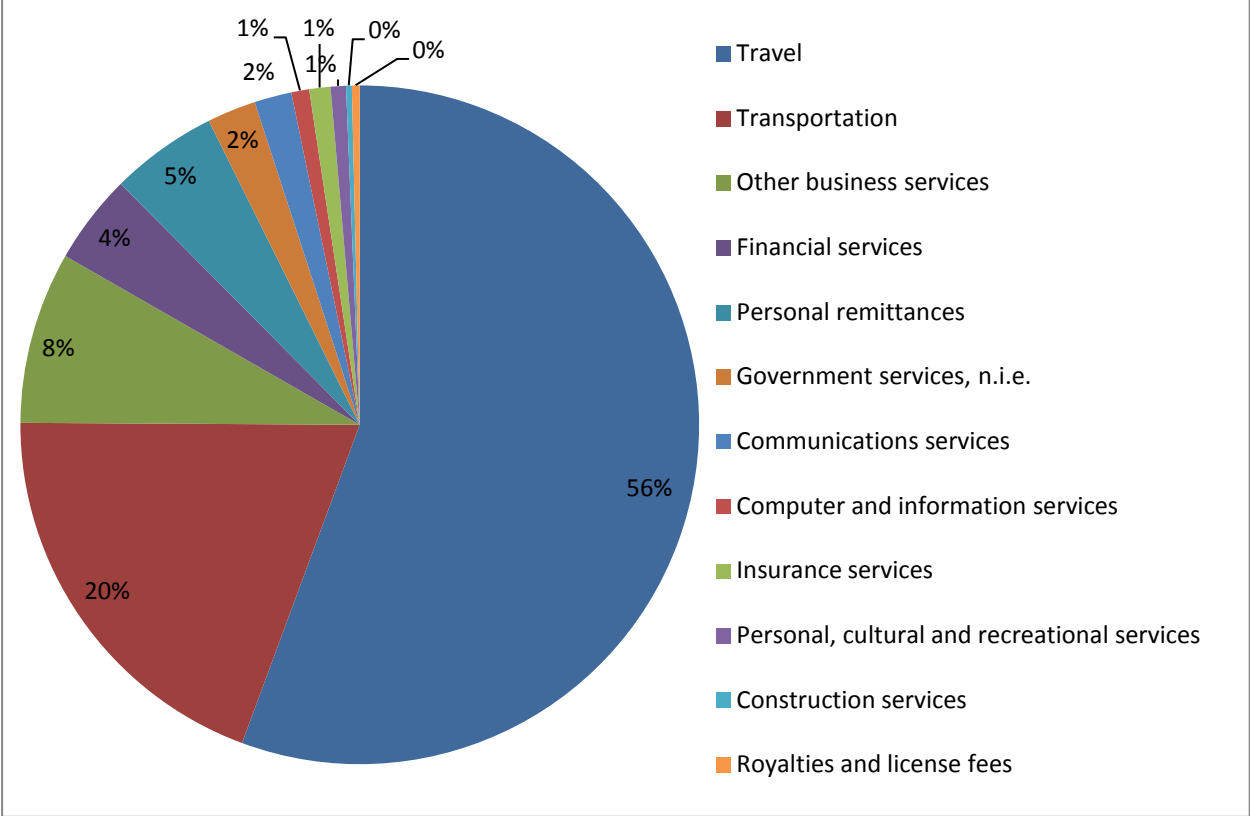
Service categories	Exported Value in 2006 (in USD thousands)	Exported Value in 2007 (in USD thousands)	Exported Value in 2008 (in USD thousands)	Exported Value in 2009 (in USD thousands)	Exported Value in 2010 (in USD thousands)
Total services	12,213,700	13,818,400	12,805,300	12,020,400	14,003,500
Travel	8,119,830	8,778,780	7,956,170	7,624,450	9,085,040
Transportation	1,487,680	1,801,240	1,557,230	1,378,120	1,615,190
'Other business' services	868,260	1,175,430	1,200,620	1,083,610	1,115,380
Financial services	705,600	875,720	804,890	715,090	827,260
Government services, n.i.e.	302,010	319,880	411,300	364,380	386,970
Computer and information services	128,760	222,820	203,160	245,240	290,020
Insurance services	152,080	214,050	251,060	223,230	273,050
Communications services	260,340	232,980	210,150	219,210	221,750
Personal, cultural and recreational services	103,350	90,270	99,000	72,800	66,830
Construction services	39,980	54,360	57,950	46,540	62,820
Royalties and license fees	45,780	52,910	53,740	47,730	59,190

Source: ITC, 2012

The three largest contributors to South Africa's total services exports between 2006 and 2010 were travel, transportation and 'other business' services. The total of these three sectors accounted for US \$11.815 billion of South Africa's exported services in 2010. The service category 'other business' services, was 3rd out of the twelve services categories. 'Other business' services have grown with US \$247,120 million between 2006 and 2010 and this category has the potential to continue to grow significantly (McLachlan *et al.*, 2002; Mayer, 2005; Breinlich & Criscuolo, 2011).

Figure 3.1 below gives a visual indication of the twelve service categories that contributed to South Africa's total exports of services in 2010 and emphasises the large contribution that was made by travel, transportation and other business services. The service industries that contributed the least to the South African economy were personal, cultural and recreational services, construction services and royalties and license fees.

Figure 3.1: South Africa's exports of services according to sector in 2010



Compiled by the author from ITC data, 2012

The following table provides an overview of the services that South Africa has imported according to category between 2006 and 2010.

Table 3.6: South Africa's imports of services according to sector between 2006 and 2010

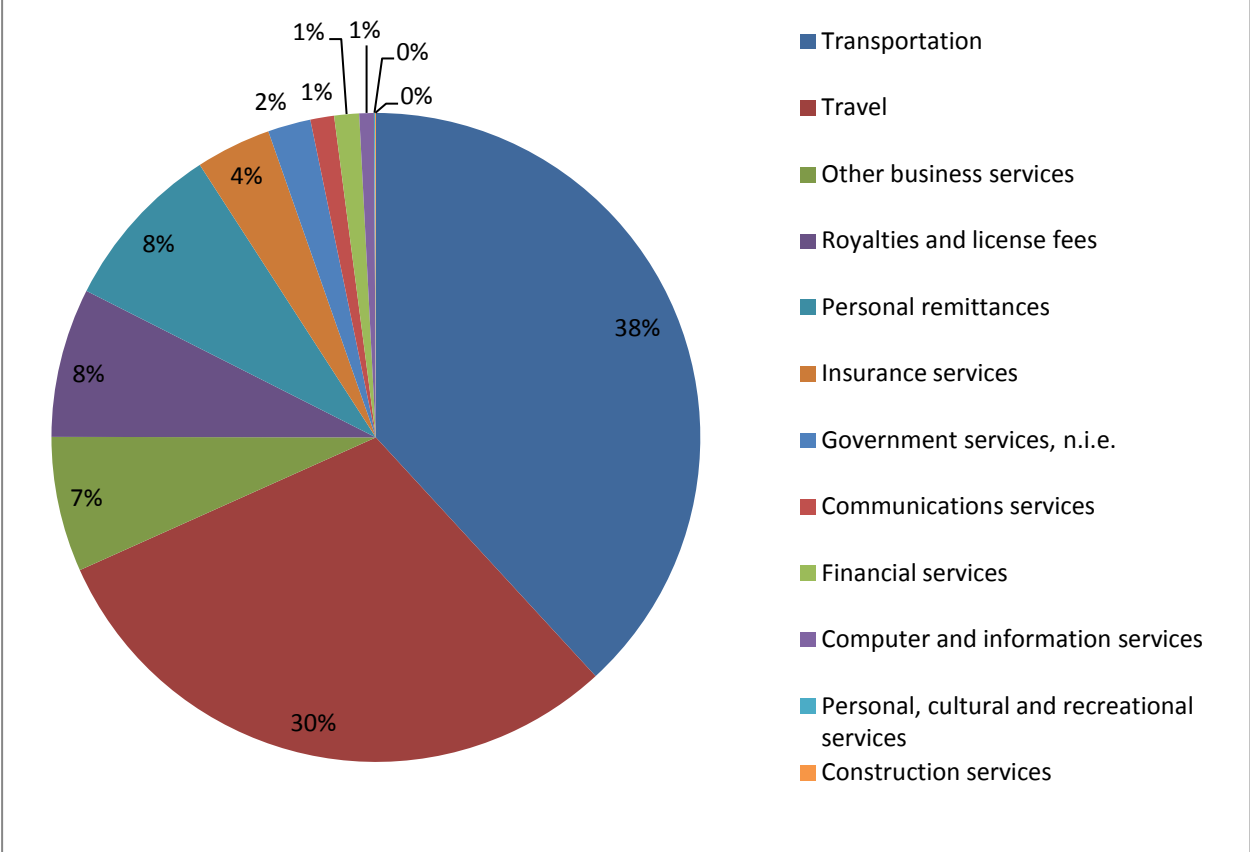
Services categories	Imported Value in 2006 (in USD thousands)	Imported Value in 2007 (in USD thousands)	Imported Value in 2008 (in USD thousands)	Imported Value in 2009 (in USD thousands)	Imported Value in 2010 (in USD thousands)
Total services	14,242,100	16,481,500	16,975,600	14,807,500	18,456,400
Transportation	6,628,280	7,539,610	7,594,060	5,911,230	7,088,340
Travel	3,384,200	3,926,990	4,404,350	4,151,360	5,594,900
'other business' services	1,502,620	1,821,760	1,670,520	1,555,840	2,133,110
Royalties and license fees	1,282,030	1,596,250	1,675,900	1,658,020	1,941,240
Insurance services	587,450	629,370	584,010	417,140	527,470
Government services, n.i.e.	341,650	354,210	460,170	417,290	433,070
Communications services	197,170	230,380	248,170	372,630	396,930
Computer and information services	126,670	170,990	194,430	183,640	186,450
Financial services	177,470	195,690	126,810	123,440	133,400
Personal, cultural and recreational services	8,880	9,680	10,360	10,010	13,680
Construction services	5,640	6,540	6,830	6,920	7,780

Source: ITC, 2012

The three largest contributors to South Africa's total services imports between 2006 and 2010 were transportation, travel and other business services. These three services together accounted for US \$14.8 billion of South Africa's imported services in 2010. The service category 'other business' services also came third out of the twelve services categories. Imports of 'other business' services have increased with US \$630 million between 2006 and 2010.

Figure 3.2 below gives a visual indication of the twelve service categories that contributed to South Africa's total imports of services in 2010 and emphasises the large contribution that was made by travel, transportation and other business services. The three service categories in which South Africa imported the least were computer and information, personal, cultural and recreational, and construction services.

Figure 3.2: South Africa's imports of services according to sector in 2010



Compiled by the author from ITC data, 2012

3.4 Summary and conclusion

This chapter focused on the trade of services internationally and in South Africa and identified barriers that may be experienced when importing or exporting services.

The chapter started by describing services and continued by elaborating what trade of services entails. The growth potential that the trade of services hold was credited to seven factors namely, growth in goods trade, technological advances, rising per capita incomes, as well as micro-economic reforms, increased consumer demand, increased business demand and technological change. This section further described the manner in which services trade can take place – known as the four modes of supply. The four modes of supply are originally defined by the WTO's GATS body. The GATS was therefore described more fully in the next section. Specific mention was made as to why the GATS exist and the principles examined that they endeavour to enforce in countries who want to trade in services. The five principles of the GATS were more fully described, as well as the measures stipulated by GATS, to which member countries should adhere. Furthermore, the GATS classification of services was provided according to twelve categories.

The chapter continued by focusing on providing trade data in accordance with the twelve service categories as laid out by the GATS. The globally exported and imported values were given and it was discovered that transportation, travel, and 'other business' services both were the most imported and exported categories internationally. Overall trade in services internationally increased between 2006 and 2010, except in 2009 when there was a global economic crisis.

In the last section data was provided on South Africa's services export values and import values between 2006 and 2010. From this data it was evident that services imports, as well as exports increased in this period in South Africa. Services trade data was also used in accordance with the twelve service categories of the GATS in order to determine which service categories traded in South Africa were the most significant. It became evident that the three largest contributors to South Africa's total services exports and imports between 2006 and 2010 were travel, transportation and 'other business' services. The three services sectors that contributed the least to South Africa's export of services between 2006 and 2010 were personal, cultural and recreational services, construction services, as well as royalties and license fees. The three services sectors that South Africa imported the least, in this same period, were computer and information, personal, cultural and recreational and construction services.

Even though it becomes clear that 'other business' services possess significant growth potential, barriers to the trade of services do exist. The following chapter discusses various internal and external barriers to the trade of services in general. Support is provided for the study that focuses on 'other business' services. An in depth discussion is also provided on 'other business' services. Trade data for this sector is discussed, and some of the known barriers are identified that impact on the trade of 'other business' services from South Africa.

Chapter 4

Barriers to services trade with specific focus on 'other business' services

4.1 Introduction

Chapter 3 provided a detailed description of services and trade in services. The trade in services was elaborated on, by defining the GATS and its role in ensuring efficient trade of services. Trade of services was further defined in chapter 3 by providing and analysing data on international, as well as South African services trade.

The data from chapter 3 identifies the 'other business' services category as a service sector that holds significant economic growth potential, internationally and also for South Africa. Barriers to the trade of services often occur that stem the free flow of services from the supplier in the resident country to the consumer in a foreign country. Chapter 4 therefore commences (in section 4.2) by discussing the various barriers to the trade of services. These impediments to trade are either internal or external service trade barriers. Some of the common trade barriers are also mentioned that is specific to a certain country.

This study focuses on barriers companies experience when they export 'other business' services. It is, therefore, important to determine if a similar study to this study has been conducted. Section 4.3 makes mention of various empirical studies on services that were compiled internationally, as well as in South Africa. It becomes evident that a need exists to identify trade barriers to 'other business' services.

This chapter, therefore, continues (in section 4.4) by giving a description of 'other business' services. It is explained that the 'other business' services on which this study focuses refer to services conducted by the members of the BEPEC. These services include consultations rendered by engineers, architects, quantity surveyors and construction project managers.

Section 4.5 provides data that identifies the top ten 'other business' services that are imported, and top ten 'other business' services that are exported by countries internationally. Import and export values are also provided for the 'other business' services traded by South Africa between 2006 and 2010. In order to expound this sector fully, some of the known restrictions to the trade of 'other business' services are mentioned in section 4.6. Section 4.7 provides a summary and a conclusion to round off chapter 4.

4.2 Barriers to the trade of services

Trade barriers are restrictions that impede the free flow of goods or services to other countries (Hodge, 2002; Panagiotis, 2007; Feenstra & Taylor, 2008). These barriers can be either experienced within a company, or result from external factors. To lift or slacken these barriers can improve economic growth, help alleviate poverty and increase the welfare of a country by providing sustainable development by means of services (WTO, 2003; Fourie, 2011).

Companies experiencing service trade barriers from within can address those barriers and thereby help expand their operations into foreign markets. External factors, also known as exogenous factors, are factors over which a company has no control. Such factors may keep a company from exporting its services (Okpara & Koumbiadis, 2008).

The next section describes the barriers experienced internally within companies who want to export services to foreign markets.

4.2.1 Internal services trade barriers

Internal service trade barriers are obstacles within a company that prevents such a company from exporting its services to other countries. Internal service trade barriers therefore impede a company's growth and slow down the expansion of the company's business operations into foreign markets. Small and medium sized enterprises in particular experience these internal barriers to service trade (SMEs) (Okpara & Koumbiadis, 2008; Gunaratne, 2009).

According to Okpara and Koumbiadis (2008) internal trade barriers can be grouped into three different categories:

1. *Resource barriers*: Internal resources refer to the resources needed for export purposes. Resource barriers that are identified:
 - a scarcity of internal financial resources for export purposes and promotion of export;
 - lack of government assistance to export successfully;
 - lack of knowledge on acquiring external funding for export purposes;
 - difficulty in obtaining bank loans.

2. *Knowledge barriers*: refer to the lack of information that companies have about export practices. Knowledge identified that are barriers:
 - a lack of information about foreign markets;
 - a lack of information on how to enter these foreign markets and how to export to them;

- difficulty to identify opportunities within foreign markets.
3. *Procedure barriers*: refer to procedures such as documentation and market access requirements. Procedure barriers identified are:
- a lack of personnel who can dedicate time to export activities;
 - a lack of personnel who are experienced in export activities;
 - limited managerial time to deal with exports;
 - difficulty experienced in handling requirements for export documentation;
 - language differences (verbal /nonverbal).

Most of the internal barriers identified by Okpara and Koumbiadis (2008) have also been affirmed by Gunaratne (2009) as internal barriers to the exports of SME's services internationally.

The following section focuses on external barriers that companies may experience when exporting services to foreign markets.

4.2.2 External services trade barriers

The barriers to external service trade prevent investment into a country's service sector (Bosworth, Findlay, Trewin & Warren, 2000). These barriers impede the growth of the service sector internationally, as well as in South Africa (Matto & Stern, 2008). The liberalisation of barriers to service trade do imply free interaction between the service provider and consumer through any of the four modes of supply, unhindered by regulations (Bosworth *et al.*, 2000). The rapid growth in service trade in some countries can be attributed to the liberalisation or slackening of their strict service trade policies (Panagiotis, 2007; Seyoum, 2007). The relaxing of these strict service trade policies has also proved countries the results of long term beneficial growth (Marchetti, 2004; Panagiotis, 2007; WTO, 2009).

Hodge (2002), as well as Mattoo and Stern (2008) furthermore agree that liberalisation of services trade far exceeds the benefits experienced when such a removal of trade barriers takes place in the trade of manufactured goods. A study conducted by Hoekman (1996) confirms this growth benefit. The research shows that high income countries sign on for more of the GATS service commitments and are therefore freer in the trade of services than middle and low income countries. Mattoo (2000) and the WTO (2009) emphasises that the world as a whole will benefit when countries worldwide remove their service barriers and allow developing countries to provide them with services as well.

Panagiotis (2007) points out an estimation by the World Bank that revealed the following: if the service sector was to be liberalised completely by 2015, developing countries would be able to generate US \$900 billion and the world US \$2.8 trillion. This was estimated to eradicate poverty for 320 million people globally. Unfortunately, a limited amount of information exists about the scope of service trade barriers and the impact that these barriers have on trade in services (Findlay & Warren, 2000).

Unfortunately numerous countries still have protectionist policies that regulate the trade of services (Curtis & Ciuriak, 2002; McLachlan *et al.*, 2002; Mattoo & Stern, 2008). These policies often imply additional costs for service providers who aim to enter a market. These costs are, for example, incurred to obtain exclusive market information or adhering to foreign restrictions (Benjamin & Diao, 2000). These strict policies are introduced and maintained in order to protect domestic service providers from international ones, and are often also justified as health and safety measures (Fieleke, 1995; Panagiotis, 2007; Seyoum, 2007). Even though governments defend these trade barriers, such barriers prevent countries from taking part in increased competition that in turn encourages quality services to be delivered to consumers. The delivery of a service by a foreign company also holds the benefit of transfers regarding technology, capital and intellectual know-how. These benefits are forfeited where strict service trade barriers exist (McLachlan *et al.*, 2002; Marchetti, 2004; Mattoo & Stern, 2008).

According to Marchetti (2004), trade barriers on services used as inputs into the production of manufactured goods, may have destructive and costly consequences. These trade barriers on services used as inputs are policed especially strictly in developing countries that want to protect their domestic companies.

When referring to a service trade barrier, this mostly denotes an impediment different to a tariff barrier (Findlay & Warren, 2000). The trade of services relies heavily on factor mobility, such as the movement of people to perform a service in another country. Therefore, most trade barriers are experienced in the services sector when factor mobility is impeded. The most effective barriers to the trade of services impact on the two most important factors of production, capital and people (Panagiotis, 2007).

According to Panagiotis (2007), the regulation of services trade can, be grouped into three categories:

- *Economic regulations*: These regulations imply barriers that people encounter when they have to make market decisions, such as those concerning pricing, market entry or market exit.

- *Social regulations:* These regulations aim to protect the domestic consumers of the services rendered, such as health, safety, or the environment.
- *Process regulations:* Governments impose these regulations to help regulate the provision of services, such as the gathering of information or intervention in individual economic decisions.

Most countries have some form of service trade barrier to protect their own industries. The following are some general trade barriers that have been identified as impeding the export of services to other countries.

- *Restrictions on qualifications:* Some countries refuse to recognise foreign qualifications. This lack of recognition of qualifications prevents foreign companies from conducting services in those countries (OECD, 1989; Hoekman, 1996; Stern, 2002b; Tecson, Stoler, Abrenica, Albuero, Arcenas, De Dios, Mendoza, Anas, Aswicahyono, Redden & Brogan, 2007).
- *Restrictions on foreign direct investment (FDI):* Some countries do not permit foreigners have ownership of domestic companies. Together with this restriction, countries often also do not allow partnerships between domestic and foreign companies (OECD, 1989; Stern, 2000; McLachlan *et al.*, 2002; Marchetti, 2004). Certain countries do allow foreign ownership of companies or partnerships. However, only a certain amount of this FDI from foreign countries who wish to conduct services is permitted by the resident country. Restrictions on FDI is therefore a barrier to the trade of services, with the most emphasis placed on regulations on management and control, as well on as the amount of inputs and operations permitted in the production of services (Fieleke, 1995; Hoekman, 1996; Stern, 2000).
- *Licensing restrictions:* Licenses are often needed to perform services in other countries. These licenses can be refused, which means that the trade of services cannot take place (OECD, 1989; Fieleke, 1995; Stern, 2000; McLachlan *et al.*, 2002; Tecson *et al.*, 2007).
- *Restriction on the use of a company's name:* Prohibiting the use of a company's name in a foreign country could be a serious barrier to trade, since this prevents the company from distinguishing itself from its domestic competitors (OECD, 1989; Tecson *et al.*, 2007).
- *Immigration provisions:* Countries may delay the process by which foreigners obtain entry visas and residency or work permits. They may even prohibit these immigration provisions altogether (OECD, 1989; Stern 2000; Panagiotis, 2007; Tecson *et al.*, 2007).

- *Monetary and fiscal conditions:* Countries may refuse or delay the process of sending profits, and royalties that was obtained in their country back to a foreign country. This strict regulation on exchange control can prevent a foreign company from conducting a domestic service (OECD, 1989; Rustomjee, 2006; Seyoum, 2007). This includes discriminatory taxation of foreign companies on the one hand, but on the other hand subsidies provided to domestic companies to help them obtain contracts that they bid for. These also are barriers that reduce a foreign company's profits or completely exclude such companies from the opportunities to conduct services domestically (OECD, 1989; Marchetti, 2004).
- *Restriction to the access of information and telecommunication systems:* In some countries foreigners come across barriers when they seek accessibility to computer facilities or want to transfer data across the border. Some of these barriers include limitations on bandwidth availability, high costs of communication access and usage, weak network security and border tariff on online sales (OECD, 1989; Panagiotis, 2007; Tecson *et al.*, 2007). This is especially true for individuals that want to perform a service in another country (Mattoo & Stern, 2008).
- *Quantitative restrictions:* Quotas may become a barrier to suppliers of services when they are only permitted to render a limited in the number of services in that country (Panagiotis, 2007).
- *Restrictions on the amount of service suppliers permitted:* A limited number of temporary foreign services providers, such as consulting engineers, are permitted to render a service abroad (Fieleke, 1995; McLachlan *et al.*, 2002; Stern, 2002b; Marchetti, 2004).
- *Price-based instruments:* Tariffs may be imposed on goods that have services as inputs into its production process and this reduces the monetary gains by foreign services providers. Governments may also impose price controls on some services, such as financial- and telecommunication services, or governments can subsidise their domestic service providers, such as the construction- and health services (Stern, 2002b; Panagiotis, 2007).
- *Transparency restrictions:* Other trade barriers may be experienced regarding to countries' unwillingness to be transparent about their service industry and services trade. This may provide interested countries with a distorted image of the opportunities for trade in services (Hoekman, 1996; Tecson *et al.*, 2007).
- *Credibility in the marketplace:* Before any service will be traded the service providing company has to prove its credibility. Countries are more inclined to incorporate services from domestic service providers, as opposed to foreign services providers who might prove to be unreliable. This is often especially a barrier for service

providers from developing countries who wish to conduct a service in another country (Riddle, 2001).

- *Distance*: A country's proximity to other countries may either serve as a benefit if it is close to the market to which it aims to export services, or it can act as a barrier if the country is further away from a market than its competitors. For example, South Africa is closer to the other African countries and can, therefore, provide a cheaper service rate than its European competitors. South Africa, however, experiences distance as a barrier when it competes against other European countries to render services in the United Kingdom (Hodge, 1998).
- *Exchange rate risk and the risk of non-payment*: The fluctuating exchange rate and the risk of not receiving payment for services rendered abroad often are both risks that prevent companies from exporting their services (Okpara & Koumbiadis, 2008).
- *Lack of banks with experience in foreign financial transactions*: According to Van Tonder (2011), one of the most significant barriers service providing companies experience in some developing countries, is few banks with the experience to conduct international transactions. This inexperience may lead to a situation where money is not transferred correctly to the service providing company's bank account (Okpara & Koumbiadis, 2008).

The above mentioned impediments are general trade barriers that companies may experience when they aim to export services to foreign markets. The following section focuses closer on trade barriers that are especially true for many of the African countries. The following barriers to the trade of services are often experienced on the African continent, but can also be encountered in other countries over the world as well:

- *Corruption*: Corruption is often found to be a hurdle in African countries when foreign companies want to conduct a service (Teljeur & Stern, 2002).
- *Poor infrastructure*: Poor infrastructure has proven to be an obstacle for companies when they want to access services or provide them to certain parts of Africa (Marchetti, 2004).
- *Language and cultural barriers*: The differences in languages and cultures can obstruct effective communication and thereby impede the exports of business services to Africa (McLachlan *et al.*, 2002).

More specific service trade barriers have been identified by the GATS. These barriers are classified in accordance with the GATS regulations as follows (Bosworth *et al.*, 2000):

Measures affecting market access

- limitations on the number of providers;

- limitations on the total value of service transactions or assets;
- limitations on the total number of service operations;
- limitations on the total number of personnel that may be employed in a sector;
- measures which restrict or require specific types of legal entity or joint venture;
- limitations on the involvement of foreign capital;
- other measures affecting market access.

Measures affecting national treatment

- discriminatory taxes;
- discriminatory incentives/subsidies;
- governmental procurement policies;
- local content requirements;
- nationality, citizenship or residence requirements;
- other measures affecting national treatment.

Measures affecting MFN treatment

- integration agreements, as stated in Article V of GATS;
- reciprocity requirements;
- bilateral agreements;
- other measures affecting MFN treatment.

Non-discriminatory measures, as stated in Article VI of GATS

- licensing procedures;
- technical standards;
- recognition of qualifications;
- other measures related to Article VI of GATS.

The following trade barriers were found to be some of the common ones that are specific to certain countries (Teljeur & Stern, 2002):

- European Union - export requires extensive knowledge about specific member countries' complex local regulations and standards.
- Malaysia - investment entails significant red-tape and the fulfilling of local equity requirements.
- The former Soviet Union, India and China - licensing requirements are extremely difficult.
- Middle East - foreign companies are required to use local agents known as 'sponsors', which are commonly seen as an institutionalised form of bribery.

- US - companies must be registered and licensed in each individual state and face severe liability implications on issues such as equipment failure.
- EU - South African companies are only eligible to participate in EU funded projects for the African, Caribbean and Pacific group of states (ACP countries), however, not in the EU.

The following section focuses on empirical studies that have been conducted on various services. Empirical studies will be discussed that was done internationally, as well as studies that are relevant to South Africa.

4.3 Existing empirical studies relevant to services

This section summarises some of the existing research on services. International and South African studies on this topic are briefly mentioned in order to reach a conclusion of the scope of the study, and the need for this study to be conducted.

4.3.1 International empirical studies relevant to services

4.3.1.1 Barriers to foreign direct investment (FDI) in the service sector

Holmes and Hardin (2000) conducted a study on the impact that barriers to FDI have on trade in services. The barriers that were identified and used in this study were: foreign equity limits on all companies, foreign equity limits on existing companies, screening and approval of foreign investors, control and management restrictions and input and operational restrictions. These FDI barriers were given a score in order to compile an index. These scores were used to determine the impact of these barriers on fifteen different Asia Pacific Cooperation (APEC) economies.

It was found that the service sectors that were least affected by FDI barriers were business, distribution, environmental and recreational services. The sectors that were most heavily restricted were found to be the communication and financial services.

4.3.1.2 Restrictions on the investment and trade of telecommunication services

Telecommunication services have helped to establish a global economy for the world as a whole. These services have, however, also been found to be regulated heavily internationally. Limitations are placed on foreign network providers. These limitations entail a prescribed amount of commercial presence permitted, as well as regulations that require locals to be

employed. Other barriers that affect a new entrant to the market as a telecommunication service provider, is difficult access to existing network connections and technical standards that may differ (Warren, 2000).

Warren (2000) compiled policy indices of the impediments to the trade of telecommunication services. The first policy index focused on trade and its intent was to take into account policies that discriminate against all potential entrants seeking to supply cross-border telecommunication services. For this index a score of 1 was given when no restrictions were present and a score of 0 was appointed to any reported restriction to provide telecommunication services. The second policy index focused on investment in fixed operations. Its aim was to include policies that discriminate against all potential entrants who want to supply fixed network services through investments in the country concerned. Three questions were asked to establish the weighted average of scores to help compile the policy index:

- Does the competition operate in the market for fixed services?
- Does the policy allow for competition in the market for fixed services?
- Is the incumbent privatised?

The last policy index that was compiled focused on investment in mobiles. This policy accounted for policies that discriminate against all potential entrants seeking to supply cellular mobile services through investments in the country of interest. Three questions were asked to establish the weighted average of scores for the policy index:

- Does the competition operate in the market for mobile services?
- Does the policy allow for competition in the market for mobile services?
- Is the incumbent privatised?

The results indicated that the top ten countries with most liberalised trade were: Finland, United Kingdom, Netherlands, Denmark, New Zealand, USA, Australia, Japan, Germany and Chile. The top ten least free trade countries were found to be: Burkina Faso, Costa Rica, Ethiopia, Malta, Syrian Arab Republic, Tunisia, Angola, Jordan, Mali and Mozambique. It is clear from the above that the top ten countries with most liberalised trade are developed countries, whilst the top ten least free trade countries are developing countries. This phenomenon might be due to the fact that the developed countries privatised their telecommunication systems long ago, whilst developing countries' telecommunication services are mostly still operated by state owned companies.

4.3.1.3 Restrictions experienced when trading maritime services

McGuire, Schuele and Smith (2000) conducted a study to determine which barriers affect the trade of maritime services internationally. Numerous barriers were discovered that hampers the provision of maritime services in foreign countries. The most common barriers identified are:

- *Right to fly the national flag*: This right may be a requirement to register ships or have a license to provide maritime services on domestic and international routes. To obtain such a license, it may be required that companies maintain a commercial presence in the country of interest, and also be owned or built in that country and have to comply with domestic safety and seaworthiness rules.
- *Cabotage*: Only domestic owned, built, operated and crewed ships may be permitted to perform a service between domestic ports.
- *Cargo sharing*: On certain routes, cargo may be allocated to parties that form part of multilateral or bilateral trade agreements.
- *Bilateral agreements*: Bilateral agreements between parties may restrict other parties from the use of port facilities, as well as the supply of shipping services.
- *UN Liner Code*: According to a 40:40:20 principle between partners, 40% of tonnage may be carried by domestic service providers and 40% of tonnage by their partners. The remaining 20% can be allocated to foreign suppliers.
- *Port services*: This restriction forces foreign shipping lines to use port services such as, pilotage, towing, tug assistance, navigation aids, berthing, waste disposal, anchorage and aid with casting off.

McGuire *et al.* (2000) used these restrictions and compiled an index to estimate the various degrees of restrictions and to determine which countries impose the most restrictions on maritime services. Weights were assigned to each restriction in accordance with the effect it has on the country's economy when it has strict policies. In the Asia Pacific economies it was found that India, Korea, the Philippines and Thailand have the most restricted markets in this region. In the American economies Brazil, Chile and the United States were found to be the most heavily restricted nations when it comes to maritime services. In the European economies, Germany, Italy, Spain and Sweden were pointed out as having the most restricted economies with regard to maritime services. Other nations in these areas showed moderate scores and are, therefore, classified as maritime services economies that are regulated less.

4.3.1.4 Barriers to the trade in education services

Kemp (2000) conducted a survey to identify the trade barriers companies experienced in the education industry when they want to trade in education services. It became clear in his study

that in order to trade in education services, most often a person had to move physically from one country to another. This was found to be the most restricted manner of conducting an educational service in another country. On the other hand, students who were travelling abroad were found to be the least restricted manner of trading in educational services.

An index was compiled to show the countries that impose the most restrictions to the trade in education. The index was based on the amount of commitments made by countries to the GATS' regulations on trade in services. The top ten countries with the most restrictions in the trade of education were found to be: Australia, Bulgaria, Congo, Costa Rica, Czech Republic, European Union, Gambia, Ghana, Haiti and Hungary.

4.3.2 South African empirical studies relevant to services

4.3.2.1. Travel services exports

A study compiled by Fourie (2008) determined that South Africa has a comparative advantage in travel service exports. South Africa's advantage in travel service exports was compared to that of other countries. United Nations Conference on Trade and Development (UNCTAD) data was used in order to construct an index that indicated the comparative advantage that South Africa enjoys in this sector. In addition the Ricardian, as well as the Heckscher-Ohlin trade theory was applied to emphasise South Africa's comparative advantage. This was done by focusing on the low cost of opportunity in delivering travel services in South Africa and in the abundant labour the country possesses to deliver travel services. It was found that South Africa has grown above the world average in travel service exports. South Africa's advantage in exporting travel services can most likely be attributed to South Africa's climate, diverse culture, natural environment as well as decent accommodation and entertainment.

In 2011 Fourie published another article on travel services exports. He used data obtained from UNCTAD and compared the export values of the twelve service sectors' in the year 2005, as well as the rates of growth globally for each sector during that period. The top ten service sectors were chosen and a list of 147 countries was compiled to determine which countries have a comparative advantage and in which services that advantage lay. South Africa's performance was also evaluated. It was found that the service sector, in which South Africa has the greatest comparative advantage, was travel services (as was indicated previously). Fourie (2011) elaborated on South Africa's historical, empirical and theoretical background on travel services to support the findings that South Africa indeed has a comparative advantage in travel services.

4.3.2.2. Financial services and the informal economy

Ardington and Leibrandt (2004) used data obtained from the October 2000 Income and Expenditure Survey, as well as the September 2000 Labour Force Survey. This data was processed to determine how many people have access to financial services. It was discovered that various people do not have access to such services. This is particularly true of people who are self-employed and function in the informal sector. In contrast, people who are employed in the formal sector and possess some form of status in a job position, were found to utilise financial services, which include funeral insurance in particular. Although this study is reasonably old, there has been no new or more recent version of the study on the same sector in South Africa.

4.3.2.3 Trade barriers in the export of medical services

Cleary and Thomas (2003) investigated the commitments that South Africa has following the GATS towards the liberalisation of medical services. It was found that government regulations for the health care services are especially favourable towards cross-border supply of medical equipment and medicines, as well as consumption abroad by South African citizens. On the other hand, regulations are less favourable towards health practitioners that want to provide medical services in South Africa.

The liberalisation of trade in health services was weighed to determine whether it is beneficial or detrimental to the provision of health services in the public sector. As the public sector has grown and the provision of private hospital healthcare has increased, inefficiency to provide medical services has increased simultaneously. This increasing inefficiency stands in stark contrast to the stimulation of growth within the private sector health care services by liberalising regulations for medical services (Cleary & Thomas, 2003).

4.3.2.4 IT and producer services and its impact on the South African economy

Nordas (2001) focused on the effect that the development of information and communication technologies may have on producer services, and the impact that producer services in turn could have on the productivity within the South African economy. The producer services referred to in this study are seen as transportation, communication, financial and business services.

Nordas (2001) discovered that the development of information and communication technologies led to growth within the producer services sector. It was also found that the South African

economy as a whole would benefit from growth within this sector. Nordas (2001), however, observed that the services indicated above have not contributed as successfully to the South African economy than what would have been the case if these services were outsourced to foreign countries. South Africa was found to be internationally competitive as an exporter of producer services, but barriers to trade and investment in all South African sectors, as well as skills upgrading and organisational modernisation, especially in the manufacturing sector has to be addressed.

4.3.2.5 Barriers experienced in the South African 'other business' services sector: a GATS approach

A study conducted by Teljeur and Stern (2002) identified certain sectors with economic growth potential for South Africa. These sectors are the construction, architectural and consulting engineering industry, collectively included in the sub-sector termed 'other business' services'. The aim of this is to find out why there is a lack of interest among foreign countries to allow South Africa conducting 'other business' services abroad. Firstly, contract values exceeding R200 000 that were allocated to major companies in each profession in South Africa are used to determine what the market structure and market share of these companies in South Africa look like.

This study continues by discussing the trends in the output of 'other business' services in South Africa's local market, as well as the value added to South Africa's GDP. Some trade barriers to these services are identified (see section 4.6) and financial institutions are discussed that may support these sectors. The commitments made to GATS by potential South African target markets are taken into account to determine which barriers are encountered when South Africa wants to export these services.

Even though this study focuses on 'other business' services, no company data was acquired to determine which barriers apply to the export of 'other business' services from South Africa. The discussion rather centres around South Africa's GATS commitments and schedule to establish how open the South African market is to the import of 'other business' services. The Southern African Development Community (SADC) schedule, that applies to 'other business' services, is discussed. This is followed by gauging the accessibility to the market or other commitments regarding the aforementioned sectors in SADC, Africa, other least developed countries (LDC), Middle East, and industrialised nations.

According to the WTO (2004) and Fourie (2011), the business services sector has expanded and holds growth potential on an international, as well as national level. From the data provided

in chapter 3 it becomes clear that 'other business' services contribute significantly to South Africa's economy. Teljeur and Stern (2002) affirm that the 'other business' services sector hold growth potential for South Africa and significant export earnings can be derived through this sector. According to Statistics SA (2006), the 'other business' services sector provided employment to 447 142 employees and 245 829 sub-contracted labourers. Part of the DTI's Industrial Policy Action Plan (IPAP) is to increase employment levels in South Africa. High-level services/business process services (BPS) is perceived as a means to create additional employment opportunities. 'Other business' services are included in these services. The DTI has introduced a BPS incentive that became effective from January 2011 until March 2014. Companies can apply and obtain funds, with the objective to increase job opportunities and increase foreign investments in South Africa (DTI, 2011b). The DTI is furthermore also focused on 'improved investment and infrastructure development in Africa'. 'Other business' services form the core of this objective. The DTI's strategy to develop infrastructure entails investments in infrastructure projects conducted by South African companies. This is known as public private partnerships (Singh & Spies, 2010).

The reasons mentioned above justify the motivation for this study to focus on 'other business' services. The following section focuses on providing a more detailed description and analysis of 'other business' services.

4.4 Description of 'other business' services

The IMF (1993) defines 'other business' services by as the provision of operational leasing services, and miscellaneous business, professional and technical services. The OECD (1989) describes 'other business' services as services that can be both liberal and professional.

- liberal services refer to those provided by agents such as accountants or lawyers;
- professional services refer to services offered by agents such as consultancy engineers or architects.

The service categories as classified by the WTO are subdivided into 160 sub-sectors to give a more specific indication of which services are rendered by each category. The first category is business services, which is further broken down into sub-sectors such as (WTO, 1991):

- Professional services;
- Computer and related services;
- Research and developmental services;
- Rental/leasing services with operators;
- 'Other business' services.

Each of these sub-sectors has also sub-divided the services relevant to a specific category. For example; the services found under the sub-sector professional services are (WTO, 1991):

- Legal services;
- Taxation services;
- Architectural services;
- Engineering services;
- Integrated engineering services;
- Urban planning and landscaping architectural services;
- Medical and dental services;
- Veterinary services;
- Services provided by midwives, nurses, physiotherapists and paramedical personnel;
- Other services.

This study focuses on the 'other business' services provided by companies listed under BEPEC (Built Environment Export Professional Council). These 'other business' services include the consultations by engineers, architects, quantity surveyors and construction project managers, and are found under the sub-sector professional services and 'other business' services (WTO, 1991; Bartuska & Young, 1994). These services constitute an economic sector also referred to as the 'built environment'. The built environment refers to services provided for both construction and building activities. Construction entails development of infrastructure, such as the building of dams, roads, railways, ports and bridges. Building refers to both residential and non-residential structures (Teljeur & Stern, 2002). These services are, therefore, inputs in the production of structures (Panagiotis, 2007).

The following section of this chapter gives a description and an overview of the trade in 'other business' services. Trade data is provided that shows the amount of 'other business' services that was traded by the top ten importing and exporting countries between 2006 and 2010.

4.5 Trade in 'other business' services

South Africa has a comparative advantage in providing 'other business' services to Africa. For example, South Africa's comprehensive knowledge with regard to mining and mineral exploitation is of great need to countries in Africa. Furthermore, South Africa has an extensive knowledge of how to provide basic infrastructure. South Africa also is able to deliver these services cheaper than competitors, because it is geographically adjacent to African countries and can provide these services at a lower cost (Hodge, 1997; Teljeur & Stern, 2002). South Africa, compared to other African countries, also has a considerable number of skilled labourers (Hodge, 1997). According to Rustomjee (2006), infrastructure projects in Africa are often

financed by foreign donor governments. South Africa's 'other business' services companies have a competitive advantage over other African countries, since they are 'larger, better organised and less fragmented'. Therefore, these South African companies often get the contracts over their African competitors. Rustomjee (2006) also notes that South Africa's engineering service sector is very well developed and is therefore very competitive internationally.

'Other business' services are, however, exported to other countries too, apart from Africa. In 2002, R10 billion or 40-50% of South Africa's construction management's turnover was gained abroad. Businesses who wish to enter industrialised markets must, however, be prepared to do intensive research on the local regulations in such foreign markets (Teljeur & Stern, 2002).

'Other business' services can be traded in various manners (for the different modes of service trade, see chapter 3, p. 30-31). One such manner would be the temporary movement of someone to conduct a business service in a foreign country (mode four). A foreign consumer could also come to South Africa, for example, to obtain a business service, such as the consultation of an engineering company. Another manner of a business service trade is through FDI, which could imply that a South African company, for example, would open an office in another country. International joint ventures that, for example, specialise in providing architectural consultancy services may be another form of the trade of business services (OECD, 1989). Therefore it becomes clear that the supply of a business service most often takes place through mode one and mode four (Winters, 2008; Dihel, Eschenbach & Sheperd 2008). Architectural and consulting engineering services are nevertheless often exported by means of mode four (Teljeur & Stern, 2002).

There is a potential gain that can be retrieved when exporting 'other business' services. Therefore this study focuses in particular on 'other business' services and the barriers that South African business service exporters experience. The table below provides trade data of the top ten countries that exported business services between 2002 and 2010.

Table 4.2: Top 10 countries that exported ‘other business’ services between 2006 and 2010

Exporters	Exported value in 2006 (in USD thousands)	Exported value in 2007 (in USD thousands)	Exported value in 2008 (in USD thousands)	Exported value in 2009 (in USD thousands)	Exported value in 2010 (in USD thousands)
Hungary	3,591,293	4,711,735	5,662,420	4,996,818	1,479,111,680
United States of America	65,140,000	80,290,000	89,830,000	90,670,000	98,450,000
United Kingdom	67,545,320	82,301,496	82,223,832	65,339,960	75,200,000
Germany	62,720,000	74,284,000	86,610,000	75,791,000	74,560,000
China	28,972,508	40,407,668	46,349,048	45,623,328	61,241,600
Singapore	24,732,376	31,580,514	36,106,868	38,697,392	43,851,300
Japan	30,694,160	32,903,340	41,080,120	42,465,488	42,472,136
Switzerland	17,658,900	21,270,700	28,102,600	31,535,900	38,879,600
Netherlands	34,337,588	38,545,216	41,699,492	37,342,168	32,715,200
France	29,519,244	31,041,364	39,083,020	33,437,848	32,603,356

Source: ITC, 2012

According to this table, the top ten countries that exported business services in this period were Hungary, the USA, the UK, Germany, China, Singapore, Japan, Switzerland, the Netherlands, and France. The exports of ‘other business’ services from these countries, with the exception of the Netherlands (whose exports of ‘other business’ services declined in 2010), exports continued to grow during this period.

The table below provides trade data of the top ten countries that imported ‘other business’ services between 2006 and 2010.

Table 4.3: Top 10 countries that imported ‘other business’ services between 2006 and 2010

Importers	Imported value in 2006 (in USD thousands)	Imported value in 2007 (in USD thousands)	Imported value in 2008 (in USD thousands)	Imported value in 2009 (in USD thousands)	Imported value in 2010 (in USD thousands)
Hungary	3,621,564	4,736,373	5,727,594	5,416,187	1,492,976,128
United States of America	45,570,000	52,300,000	62,500,000	63,120,000	68,000,000
Germany	52,710,000	62,227,000	68,348,000	64,512,000	65,820,000
United Kingdom	35,734,044	45,462,688	46,359,568	42,994,528	46,970,000
Ireland	32,871,224	40,821,856	43,505,328	41,265,944	43,535,152
Japan	29,768,958	34,820,048	40,433,828	38,859,636	39,161,584
China	20,605,274	30,431,352	38,597,004	34,143,456	34,310,400
France	29,050,068	33,050,568	36,081,592	33,580,936	32,276,222
Republic of Korea	17,704,700	21,829,100	27,245,000	27,093,500	30,746,400
Spain	24,651,850	32,438,772	35,680,228	32,081,996	30,453,814

Source: ITC, 2012

According to the table the top ten countries that imported business services in this period were Hungary, the USA, Germany, the UK, Ireland, Japan, China, France, Republic of Korea and Spain. These countries’ imports of business services continued to grow in this period.

It is evident from table 4.2 and 4.3 that most of the world’s leading exporters of ‘other business’ services are also the leading importers of ‘other business’ services. These countries could be seen as the major role players in this service sector.

The aim is to determine whether trade values of ‘other business’ services have increased in South Africa as well. Therefore the following part of this section focuses on South Africa’s exported and imported values of ‘other business’ services from 2006 to 2010.

Table 4.4: South Africa's exported values of 'other business' services between 2006 and 2010

Service categories	Exported Value in 2006 (in USD thousands)	Exported Value in 2007 (in USD thousands)	Exported Value in 2008 (in USD thousands)	Exported Value in 2009 (in USD thousands)	Exported Value in 2010 (in USD thousands)
'other business' services	868,260	1,175,430	1,200,620	1,083,610	1,115,380

Source: ITC, 2012

From table 4.4 it becomes clear that exports of 'other business' services increased with US \$247 million between 2006 and 2010.

Table 4.5: South Africa's imported values of 'other business' services between 2006 and 2010

Services categories	Imported Value in 2006 (in USD thousands)	Imported Value in 2007 (in USD thousands)	Imported Value in 2008 (in USD thousands)	Imported Value in 2009 (in USD thousands)	Imported Value in 2010 (in USD thousands)
'other business' services	1,502,620	1,821,760	1,670,520	1,555,840	2,133,110

Source: ITC, 2012

From table 4.5 it can be seen that South Africa's imports of 'other business' services increased with US \$630 million during this period.

The data provided above indicates clearly that 'other business' services *exports* have increased between 2006 and 2010. However, 'other business' services *imports* did increase with approximately US \$383 million more than the exports of those services between 2006 and 2010. 'Other business' services imports therefore exceeded the exports in this period. This phenomenon can be ascribed to various trade barriers that companies experienced in their attempt to export 'other business' services (Hodge, 1998). Some of the commonly identified barriers to the trade of business services are mentioned in the next section.

4.6 Common trade barriers to 'other business' services

The most common barrier to the trade of 'other business' services, is the obstruction of the natural movement of people (Mattoo, 2000; Teljeur & Stern, 2002). According to the OECD (1989), the success of increased business services exports depends on the permission granted to labourers from South Africa to conduct another business service temporarily, such as consultation by a construction project manager in a foreign country. Often South Africa is further

away from potential markets than its rivals. This distance factor can also be perceived as a barrier to the export of 'other business' services from South Africa (Hodge, 1998).

Teljeur and Stern (2002) also found that, more specifically, the most obvious barrier to the trade of construction services seemed to be the lack of transparency with building regulations and the inconsistency of building standards in other countries. The greatest barrier to providing engineering services in foreign markets was found to be the lack of international standards for the acquisition of internationally recognised qualifications. Furthermore, building codes and building regulations are established by local government and may therefore vary not only between countries, but even from one city to another. This is a significant barrier to the provision of architectural services. Architects, who want to export their services, have to conduct comprehensive studies on the regions of interest to determine the various building requirements and regulations that apply to those regions. Teljeur and Stern (2002), as well as Panagiotis (2007) found that in particular providers of architectural and consulting engineering services in industrialised and developed countries experienced licensing restrictions as restrictive. Teljeur and Stern (2002) found this to be especially true for providers to the Middle East.

Despite these obstacles 'other business' services is the third largest service sector that contributes to the South African economy (ITC, 2012). This service sector also holds significant growth potential for the South African economy, because it serves as one of the main inputs into various production processes (Hodge, 1998). According to Hodge (1997), 'the big growth in world production of services and the hope for increasing tradability is business services'. The business services sector furthermore is expected to continue to be the fastest growing service sector internationally (Hodge, 1997).

Panagiotis (2007) states that business services, (which this study is focusing on) are less regulated than the other services found under the GATS' category, 'business services'. This increases the potential for higher exports of 'other business' services from South Africa.

4.7 Summary and conclusion

It was noted in chapter 3 that there is significant growth potential for South Africa and the global economy when trading in 'other business' services. This chapter started by expounding the various barriers to the trade of services. The explanation of what trade barriers entail focused on both internal and external trade barriers that companies may experience when exporting services. Three categories were mentioned in terms of which various internal trade barriers can be classified. These categories are: resource barriers, knowledge barriers and procedure barriers. One of the resource barriers is when there is a scarcity of internal financial resources for export purposes and for promoting export. A knowledge barrier could be a lack of information about foreign markets. A procedure barrier could be a shortage of personnel who can dedicate time to export activities.

The following section added to the above by focusing on the external trade barriers exporters in the service sector experienced. This section also investigated the growth potential of services in general if external services trade barriers could be eliminated completely. It was noted that service trade barriers can be grouped into three different categories, namely, economic, social, and process regulation. Various barriers to the trade of services were further described. Some of these trade barriers were: restrictions on qualifications, monetary and fiscal restrictions, or quantitative restrictions.

A number of international, as well as South African empirical studies based on services were taken into account. The aim was to determine which studies were conducted with regard to services, and to give an indication of the scope and need for this study to take place. Some of the international studies mentioned were: barriers to FDI in the service sector, restrictions to the investment and trade of telecommunication services, restrictions that companies may experience when trading in maritime services and barriers to the trade in education services. The South African studies discussed that are relevant to services were the following: travel service exports, financial services and the informal economy, trade barriers in the export of medical services, IT and producer services and the impact on the South African economy and barriers experienced in the South African business services sector: a GATS approach. The last study is similar to this one, but do not have access to company data on trade barriers that are encountered within the business services industry.

The barriers that were mentioned referred to the exports of services in general. This study's aim is, however, to determine which of these trade barriers do apply to 'other business' services.

For this reason chapter 4 focused on 'other business' services and provided a more detailed description of these services and the trade thereof. According to the WTO (2005), 'other business' services form a sub-sector of the business services sector. This chapter indicated that the 'other business' services focused on in this study constitutes the services that are found within the BEPEC. These are services provided for the 'built environment' and also refer to services provided to set up structures. In addition this chapter identified the most common manner of distribution or trade of 'other business' services internationally.

This chapter continued by providing trade data that indicated the top ten exporting, as well as importing countries of 'other business' services between 2006 and 2010. Trade data for South Africa's imports and exports of 'other business' services, was also provided for the period 2006 to 2010. This data indicated that growth in the import and export of 'other business' services increased significantly between 2006 and 2010. Even though significant growth in both exports and imports of 'other business' services was noted, trade barriers still pose a significant threat to the further growth of this sector.

Some of these barriers that impede the trade of 'other business' services were mentioned in this section. These barriers include the movement of people to foreign markets, distance from foreign markets, lack of transparency with building requirements, as well as inconsistency in standards and licensing requirements. Some of the service trade barriers mentioned in chapter 3, that have been identified by literature studies, also may be applied to 'other business' services. It is necessary to identify the relevant barriers to find ways of increasing 'other business' services exports from South Africa.

The next chapter identifies, by means of data obtained from BEPEC members, which of the above mentioned barriers do apply to the exports of 'other business' services from South Africa.

Chapter 5

Empirical Research

5.1 Introduction

The category termed 'other business' services hold significant growth potential globally, as well as for South Africa nationally. This became clear from the trade data processed in chapter 4. Barriers to the export of 'other business' services could be obstructing the increase of the exports of these services from South Africa. Sections 4.2.1, 4.2.2 and 4.6 identified some of the possible trade barriers that South African companies can experience when they aim to provide their 'other business' service in a foreign country. Some of these trade barriers include the movement of people to foreign markets, the distance from foreign markets, lack of transparency with building requirements, as well as inconsistency in standards and licensing requirements.

The aim was to determine whether the proposed barriers to the trade of 'other business' services (as discussed in section 4.2.1, 4.2.2 and 4.6), are experienced by companies in South Africa. To accomplish that, a questionnaire was compiled and distributed amongst the members of the BEPEC Council (see section 5.2 for more details). The purpose of this questionnaire is to determine which of the internal and external barriers to the trade of services, as discussed in the previous chapter, do apply and are often experienced by 'other business' services providers in South Africa.

Section 5.2 of this chapter, therefore, discusses the method that was used to compile and distribute the questionnaire to determine which barriers to the trade of 'other business' services could possibly affect the export of these services.

The second section, section 5.3, provides data derived from the questionnaires, followed by an in-depth discussion of this data. Section 5.4 focuses on a summary and draws a conclusion of the discussed results.

5.2 Method

The data discussed in this chapter is obtained from the results of a questionnaire that was compiled by the author in collaboration with the mentors⁷ of this study. This questionnaire was compiled to determine which of the discussed barriers to the export of services (see sections 4.2.1, 4.2.2 and 4.6) are experienced by companies in South Africa that export 'other business' services. Section 1 of the questionnaire (see appendix A), focuses on each company's speciality field. It also indicates the location where these companies are situated, as well as the areas in which they provide a service in South Africa. The size of the companies is also established to determine whether the researcher is dealing with small, medium or large companies. The size of a company might determine the type of barriers such a company may experience.

The second section focuses on the regions where these companies export to. This is followed by section 3 that concentrates on the types of barriers these companies experience. The barriers are divided into internal and external barriers. Internal barriers focus on impediments experienced within the company itself, whilst the external barriers focus on obstructions experienced in the foreign countries. In the questionnaire the companies could point out the countries in which they provide a service and also indicate in which of these countries they encounter the most trade barriers. The companies could point out additional barriers that were not mentioned in the questionnaire.

The questionnaire was reviewed by the mentors of this study, as well as the statistical department of the North West University in Potchefstroom. The questionnaire was then also evaluated (through pre-testing) by a practicing consulting engineer, as well as the CEO of the BEPEC Council. The recommended alterations were made to the questionnaire and could then be distributed to the participants of the study.

A list of the members of the BEPEC Council with the contact details of their directors/CEOs was obtained from the CEO of the BEPEC Council. These members are all exporting firms in the 'other business' services sector. In March 2011 the questionnaire was sent to 83 companies, together with a letter of approval for this study from the CEO of the BEPEC Council. A total of 32 of the 83 questionnaires, that were distributed to the companies in the 'other business' services sector, were returned in completed form. There were 10 companies that returned the questionnaire, but they advised in question 8 that they do not export the service they provide.

⁷ The mentors of this study are Dr. Sonja Grater and Prof. Marianne Matthee, lecturers at the North-West University at the Potchefstroom campus. The other mentor for this study was Mr. Roelof van Tonder, the CEO of the BEPEC Council.

These companies' data was not used, but their responses why they do not export the services they provide, are given in question 9.

The data obtained from the questionnaires were collected and analysed by implementing a statistical programme, SPSS 18. The following section provides the results and analyses of the data.

5.3 Data analysis and results

The results and analyses are presented in accordance to the sections of the questionnaire. The following section starts with the demographic information of the companies.

5.3.1 Section 1: Demographic information

Question 1 of the questionnaire aims to determine what specific 'other business' services sector each company focusses on (see section 4.4). The respondents had to select from the following four distinct categories: consulting engineers, architects, quantity surveyors or construction project managers. Table 5.1 depicts the four groups that conduct services in the 'other business' services sector. The results showed that the respondents were categorised as follows: 25 consulting engineering companies, four architectural companies, one quantity surveying company and two construction project management companies. The largest percentage of responses was, therefore, obtained from consulting engineering companies.

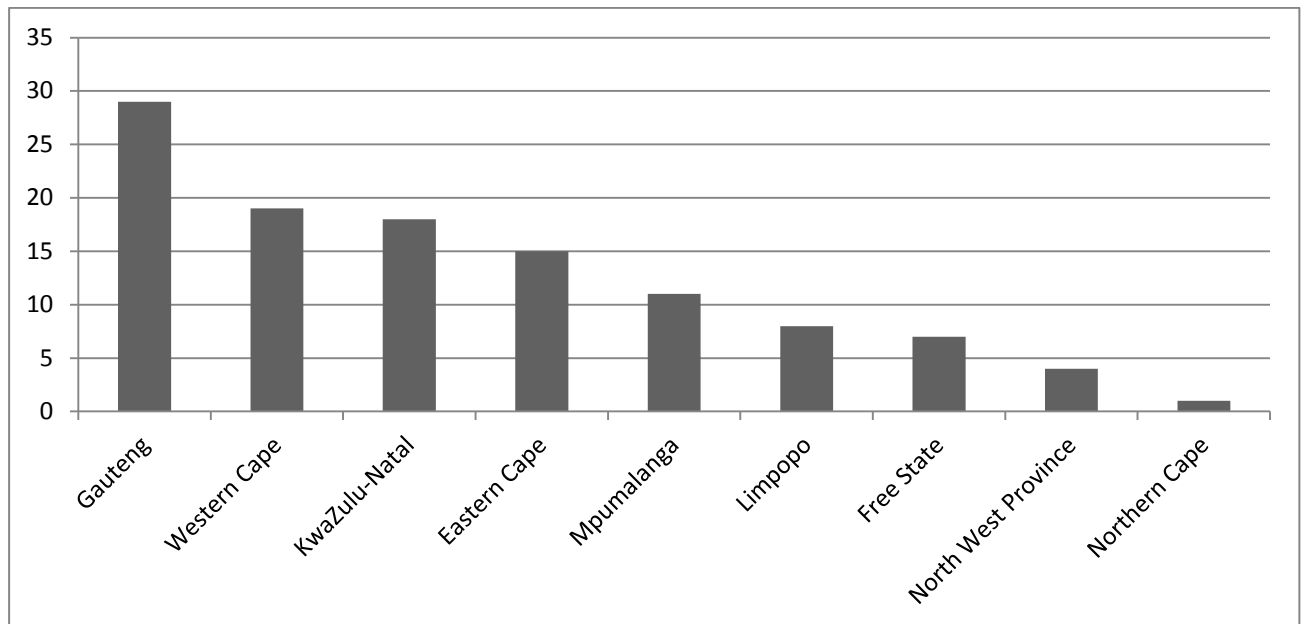
Table 5.1: Distribution of the type of business operations

	Frequency	Percentage	Valid Percentage	Cumulative Percentage
Valid Consulting engineers	25	78.1	78.1	78.1
Architects	4	12.5	12.5	90.6
Quantity surveyors	1	3.1	3.1	93.8
Construction project management	2	6.3	6.3	100.0
Total	32	100.0	100.0	

Source: Compiled by the author, 2011

Question 2 of the questionnaire is discussed next (see appendix A). This question was posed to determine in which provinces the respondent companies are based. Multiple companies chose more than one province, which indicates that they have operations in more than one province. Figure 5.1 below focuses on the provinces in which the companies are based.

Figure 5.1: Provinces in which the companies are based

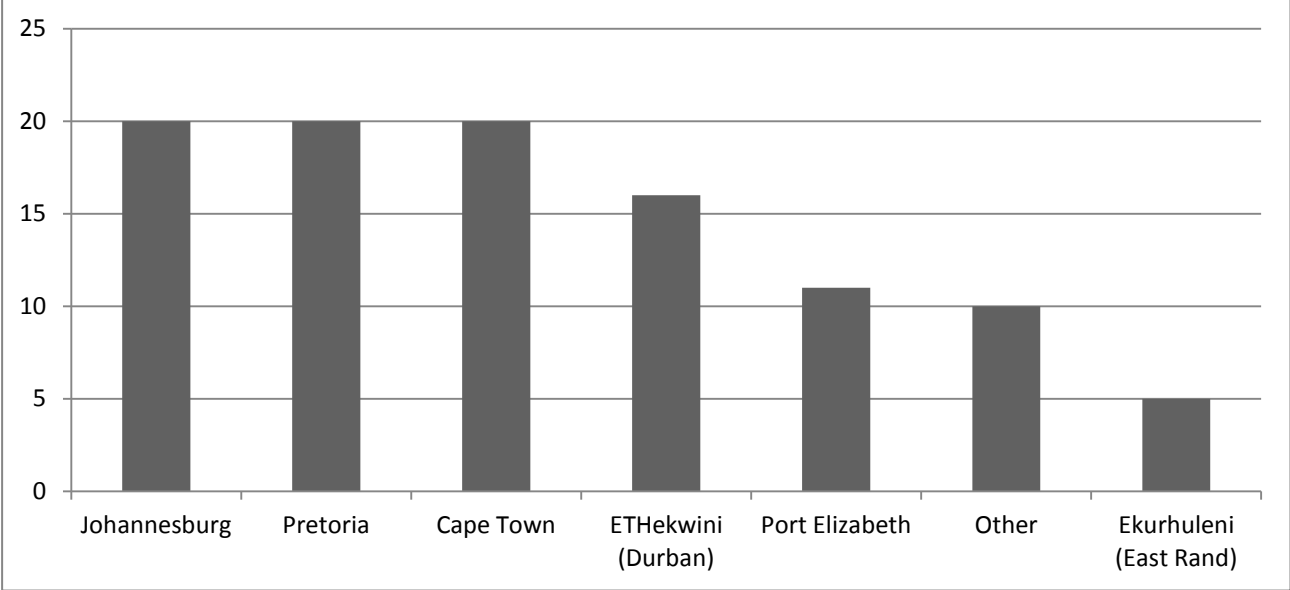


Source: Compiled by the author, 2011

From the data it is evident that the majority of companies are based in Gauteng. Furthermore, fifteen companies are based in the Eastern Cape and eighteen companies are stationed in KwaZulu-Natal. Only four of the respondents have an office in the North West province. The least amount of companies is based in the Northern Cape. Only one of the 32 companies confirmed that it has an office in the Northern Cape. Seven of the companies stated that they are based in the Free State and slightly more companies, eleven in all, are based in Mpumalanga. More than half of the respondents, nineteen, are based in the Western Cape and eight of the respondents are based in Limpopo.

Question 3 of the questionnaire focuses on determining in which metropolitan cities the companies operate. Most of the companies are based in Johannesburg, Pretoria and Cape Town and only five of the companies are based in Ekurhuleni (East Rand) and eleven in Port Elizabeth. Durban was evenly split between companies that are based and companies that are not based in that city. The option 'other' was provided and the following other cities were indicated: one company mentioned Pietermaritzburg; three companies mentioned Polokwane; five indicated East London as a city they are based; also two in Nelspruit, and two in Bloemfontein. Figure 5.2 illustrates the metropolitan cities in which the companies are based.

Figure 5.2: Metropolitan cities in which the companies are based

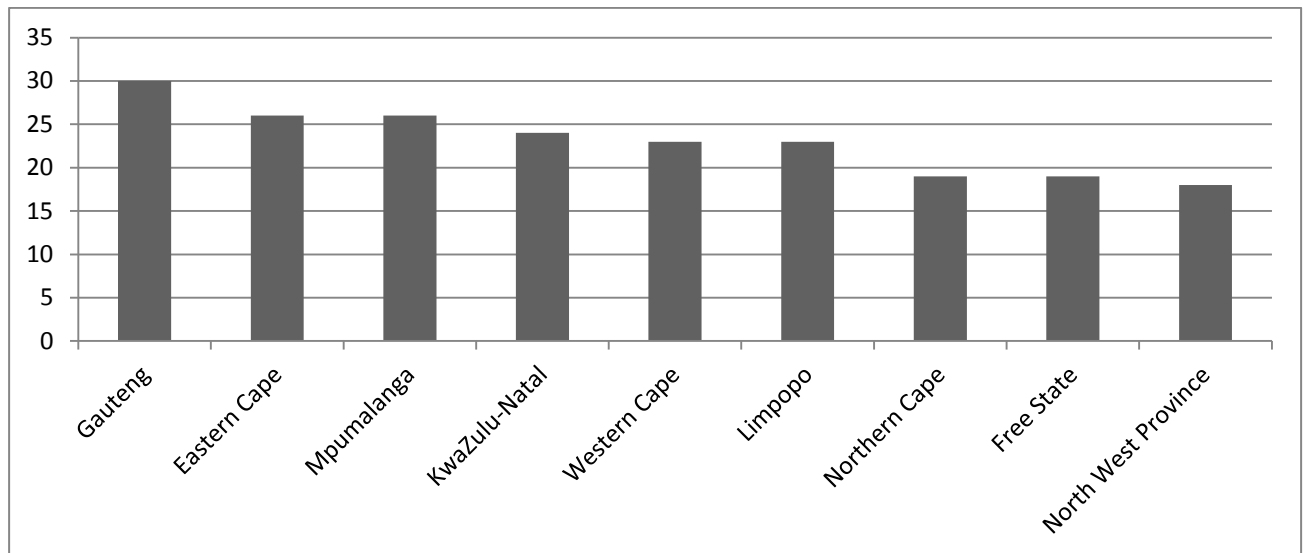


Source: Compiled by the author, 2011

Question 4 focuses on determining in which province or provinces these companies deliver/provide a service. Once it can be determined where the companies provide their services it can be compared to the area where the companies are based in South Africa. In this way it can be determined whether the companies perform services in other provinces or mostly in the provinces where they are based.

Most of the companies, 30 of the 32 companies, confirmed that they provide a service in Gauteng. As many as 26 of the companies gave note that they operate/provide a service in the Eastern Cape and in Mpumalanga. It was noted that 24 companies responded that they do operate/provide a service in KwaZulu-Natal, whilst 23 of the companies confirmed that they also operate/provide a service in the Western Cape and Limpopo. From the Northern Cape and Free State both there was nineteen companies with the response that they do operate/provide a service in these provinces. The least number of companies operate/provide a service in the North West Province. Figure 5.3 gives an indication of how many companies operate in which of the nine provinces. The companies were allowed to choose all the provinces if they did operate/provide a service in all the provinces.

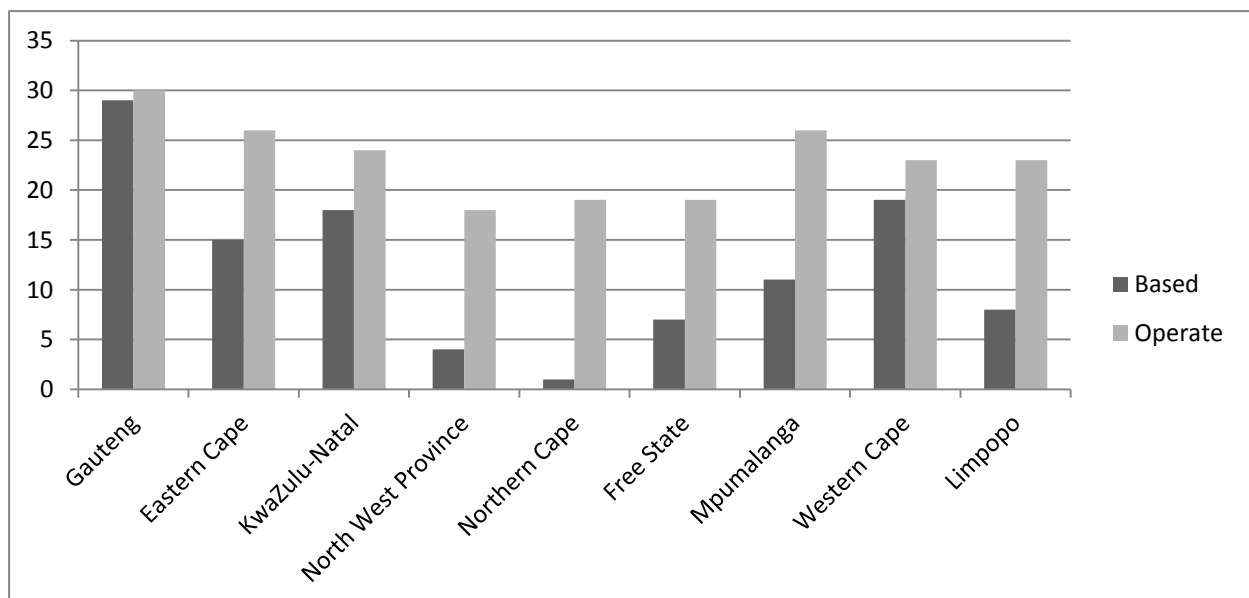
Figure 5.3: Provinces in which the companies operate/provide a service



Source: Compiled by the author, 2011

A comparison of the areas where the companies are based to the areas where they provide their services shows clearly that more than half of the companies provide a service in most of the provinces, even if they are not based in those provinces. Figure 5.4 below compares the number of companies that are based in each province to the number of companies that provide a service in each of these provinces.

Figure 5.4: Comparison between in which provinces companies are based and in which provinces they operate/provide a service

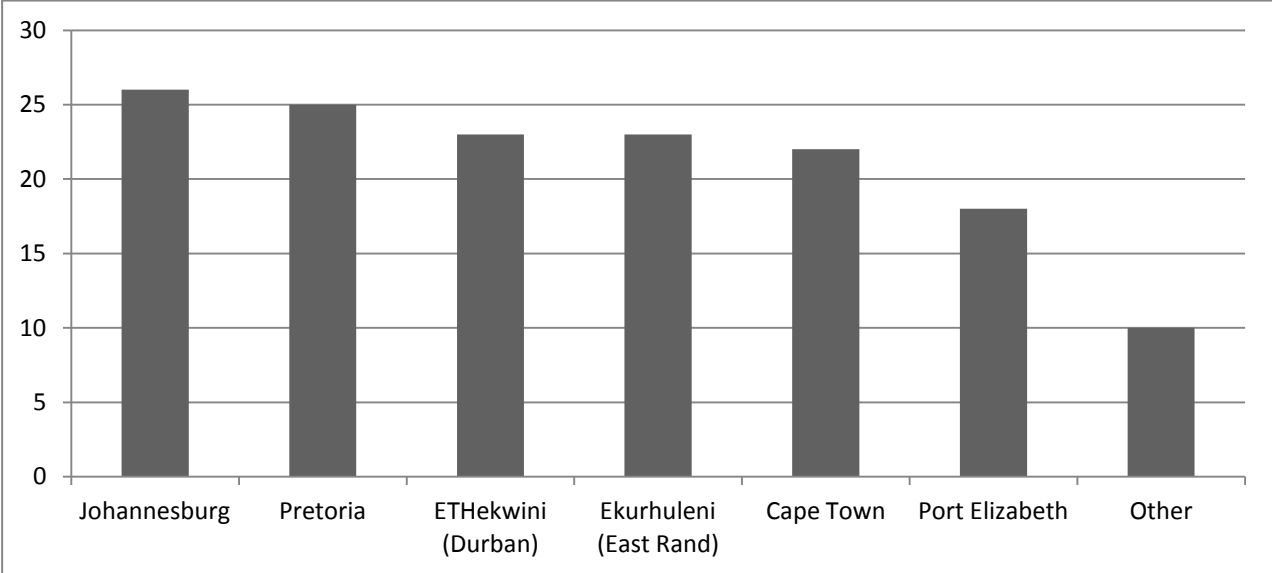


Source: Compiled by the author, 2011

Question 5 focuses on the South African metropolitan cities in which the companies operate/provide a service. The research shows the number of companies that indicated the metropolitan cities in which they are based. This data can be compared to the number of companies that indicated in which metropolitan cities they operate/provide a service to. In this way it can be determined whether the number of companies that are based in the metropolitan cities they prefer the most, also perform their services mostly in these metropolitan cities, and also render services in the metropolitan cities in which the smallest number of the companies are based.

Most of the companies confirmed that they operate/provide a service in Johannesburg, followed closely by a Pretoria. As many as 23 of the companies indicated that they provide a service in EThekwini (Durban) and in Ekurhuleni (East Rand). In addition, 22 of the companies operate/provide a service in Cape Town and eighteen of the companies operate/provide a service in Port Elizabeth. Ten of the companies also mentioned other cities in which they operate/provide a service. The cities that were indicated are: Richards Bay, Polokwane, East London, Pietermaritzburg, Nelspruit and Bloemfontein. Figure 5.5 below indicates in which of the metropolitan cities the companies operate/provide a service. The companies could choose as many of the cities in which they operate/provide a service.

Figure 5.5: Metropolitan cities in which the companies operate/provide a service

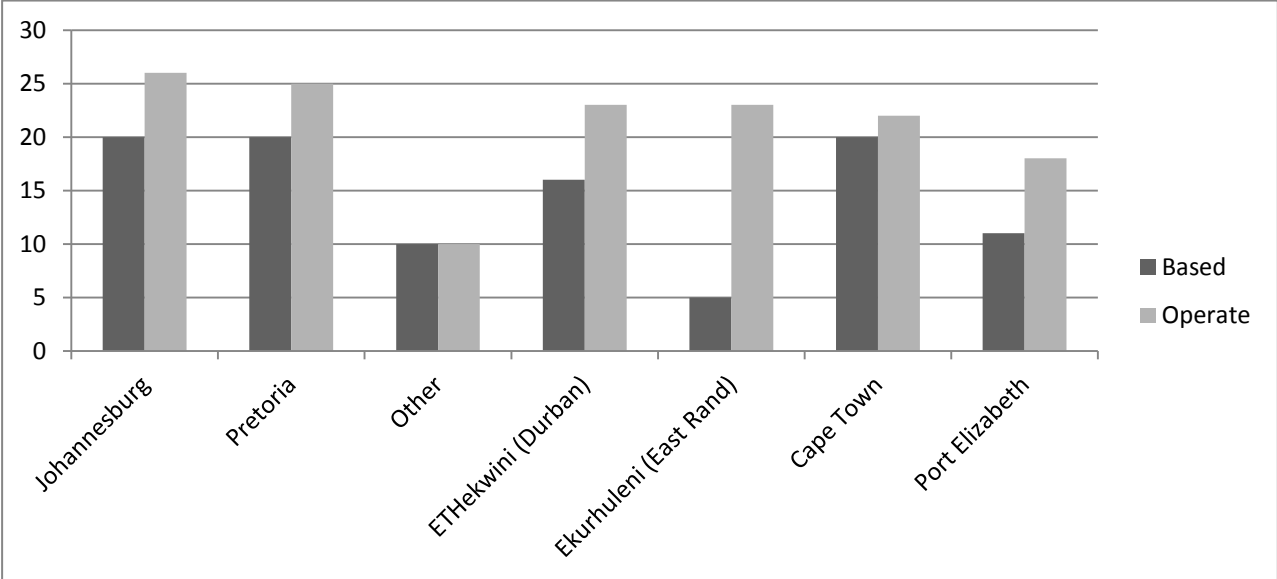


Source: Compiled by the author, 2011

When comparing the metropolitan cities in which the companies are based, to those metropolitan cities in which the companies operate/provide their services, a tendency becomes clear. More companies indicated that they operate/provide a service in a metropolitan city, than the number of companies that are based in any of the metropolitan cities that were mentioned.

The companies therefore perform services not only in the metropolitan cities in which they are based, but also in other metropolitan cities. Figure 5.6 next compares the number of companies that are based in each metropolitan city to the number of companies that operate/provide a service in each of these metropolitan cities.

Figure 5.6: Comparison between the metropolitan cities in which the companies are based and the metropolitan cities in which these companies operate/provide a service



Source: Compiled by the author, 2011

The sixth question of the questionnaire aims to determine the size of the respondent companies by classifying them according to the number of staff employed. The number of employees determines whether such a company can be classified as a micro, small, medium or large company. Sha (2006), however, argues that there is no uniform classification according to employees. In her study she advises that the Department of Trade and Industry in the UK classifies companies according to the number of employees as follows:

- micro-company: 0-9 employees;
- small company: 0-99 employees (includes micro);
- medium company: 50-249 employees (includes small);
- large company: over 250 employees.

The DTI (2008) in South Africa also affirms that there is no definite classification globally of company size according to employees. The DTI (2008) in South Africa has, however, set a threshold for the classification of micro, very small, small and medium companies. The classification is as follows:

- micro-company: 5 employees;
- very small company: 20 employees;

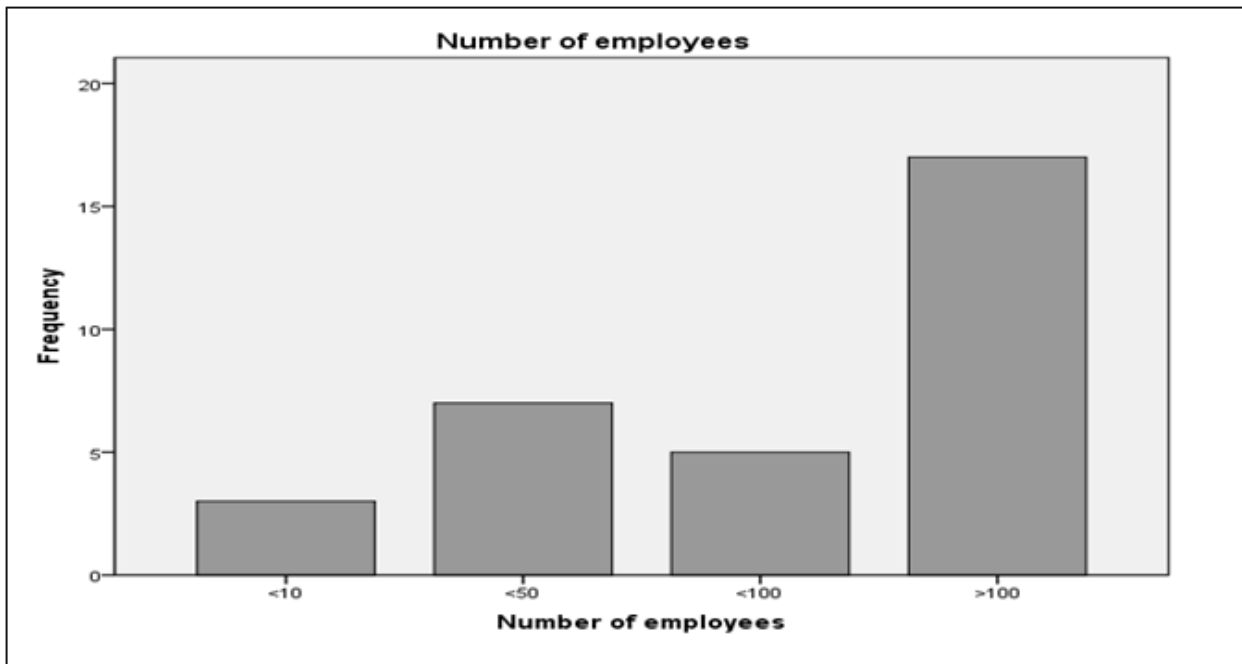
- small company: 50 employees;
- medium company: 200 employees.

For the purpose of this study and the classification of the companies into sizes by number of employees, the researcher decided on the following classification:

- micro companies: less than 10 employees;
- small companies less than 50 employees;
- medium companies: less than 100 employees;
- large companies: more than 100 employees

Figure 5.7 illustrates the number of staff that is employed by the company in order to determine whether such a company can be classified as micro, small, medium or large.

Figure 5.7: Amount of staff currently employed by the company



Source: Compiled by the author, 2011

From the data it is evident that the companies from which the questionnaires were received can mostly be classified as large companies. Only three of the 32 companies' responses indicated that they were micro companies with less than ten employees. Seven companies had less than 50 employees, and five companies had less than 100 employees. From this data the conclusion can be drawn that seventeen companies can be placed in the category large; five can be classified as medium, seven as small and three as micro companies. According to the DTI (2008), companies can also be classified in terms of micro, very small, small, and medium, based on their total annual turnover. The classification is as follows:

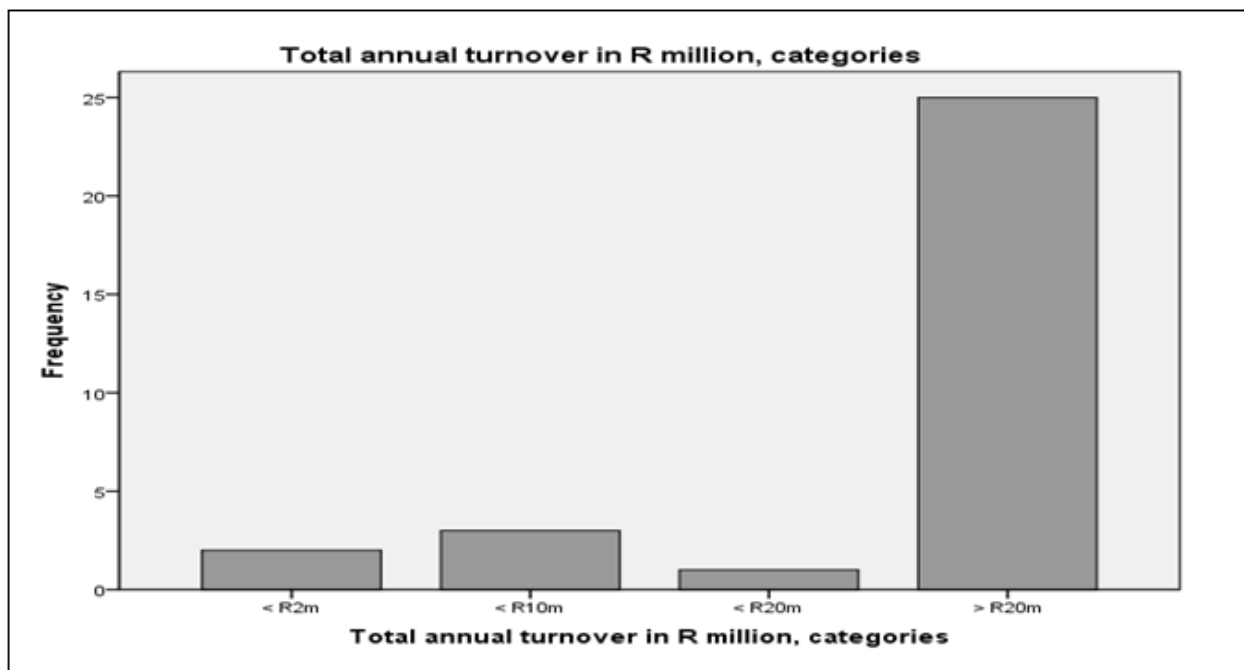
- micro-company: R2 000 000;
- very small company: R3 000 000;
- small company: R 13 000 000;
- medium company: R26 000 000.

For the purpose of this study and the classification of the companies into sizes by annual turnover, the researcher decided on the following classification:

- micro companies as < R2 000 000;
- small companies as < R10 000 000;
- medium companies as < R 20 000 000;
- large companies as > R 20 000 000.

Question 7 focuses on determining the size of the respondent companies based on their annual turnover. Figure 5.8 below provides the classification of these companies in terms of micro, small, medium and large by focusing on the annual turnover of each company.

Figure 5.8: Companies' total annual turnover (in R millions)



Source: Compiled by the author, 2011

One of the 32 respondent companies did not answer this question and therefore the data in figure 5.8 covers only 31 companies. Of these companies 25 indicated that they have an annual turnover in excess of than R20 million. This would imply that 25 of the 31 companies fall into the category, large company. Three indicated that they generate less than 10 million per annum, whilst two confirmed that they generate approximately less than R2 million turnover. Only one

company noted that their total annual turnover amounts to less than R20 million. When one sort these companies into categories there seems to be 25 large, one medium, three small and two micro companies under discussion.

The outcome of Figures 5.8 and 5.9 differ slightly when sorting the companies in terms of size categories. It is, however, evident from both the tables that most of the companies can be classified as large.

The first section of the questionnaire focussed on demographic information of the respondents. The second section aimed to determine the companies' current export activities. The results are discussed in section 5.3.2 that follows.

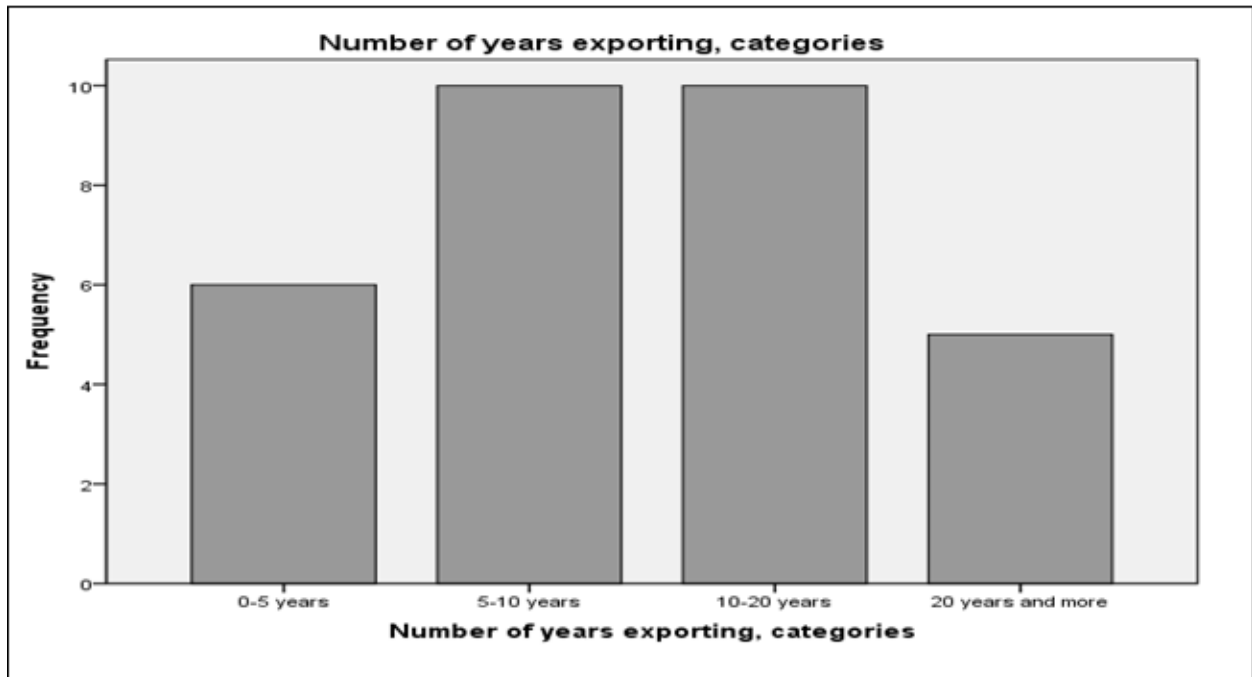
5.3.2 Section 2: The companies' exports

Section 2 of the questionnaire (see appendix A) focused on the exporting endeavours of the companies. Question 8 of the questionnaire gave companies the option to indicate whether or not they export the service they provide. No data is discussed in question 8, since only the companies who advised that they export the service they provide were used for this survey. There were 10 companies that however returned the questionnaire, but advised that they do not export the service they provide.

Question 9 gave companies that do not export the service they provide the option to state why they might not be exporting the service they provide. These companies' responses are as follows. Four of the companies responded that they were not interested in exporting their services and are satisfied to service the local market. Two companies are trying but have not been successful yet. One company indicated that it has tried, but the logistics has been prohibitive for it as a small company. One company gave an indication that no opportunities have surfaced and two companies indicated that they did not have relationships with foreign companies that could help navigate their business operations into other countries.

Question 10 was inserted to determine the number of years that the respondent companies have been exporting the services they provide. This question aims to establish whether companies that have less export experience, encountered different barriers than companies that have been exporting for a longer period of time. Figure 5.9 below provides an illustration of the responses.

Figure 5.9: Number of years that the respondents have been exporting

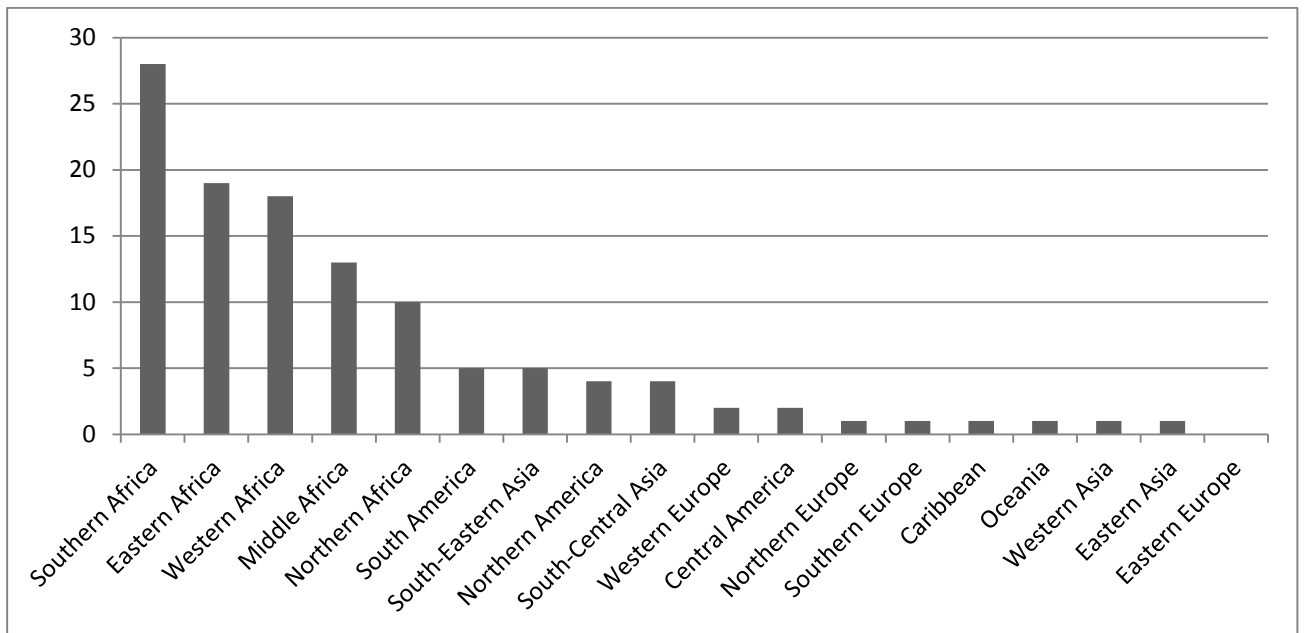


Source: Compiled by the author, 2011

One company did not answer question 10, and therefore the data accounts for only 31 companies. The above table indicates that six companies indicated that they are fairly new exporters and have been exporting between 0-5 years. Ten companies confirmed that they have been exporting between five and ten years, and another ten companies responded that they have been exporting between ten and 20 years. Five of the 31 companies have more than 20 years' experience as exporters of the services they provide.

In question 11 the companies were asked which regions they export to. The aim of this question is to find out to which regions the South African providers of 'other business' services do mostly export their service. Figure 5.10 gives an indication of where the firms export their services to. Each company were allowed to choose more than one region. The region that companies mostly export to is Southern Africa, followed by Eastern Africa, Western Africa, Middle Africa and Northern Africa. Some of the regions that were pointed out by at least five companies were South America and South-Eastern Asia. Northern America and South-Central Asia were selected by four companies. All other regions mentioned, except Eastern Europe, had at least one indication that a South African company do export to one of these regions. Exports to the African region, however, far surpass those to the other regions. The majority of respondents are engineering companies. According to Rustomjee (2006), 80% of the engineering services exports were performed in Africa and the other 20% were done mostly in the Middle East. The results from question 11 support this finding.

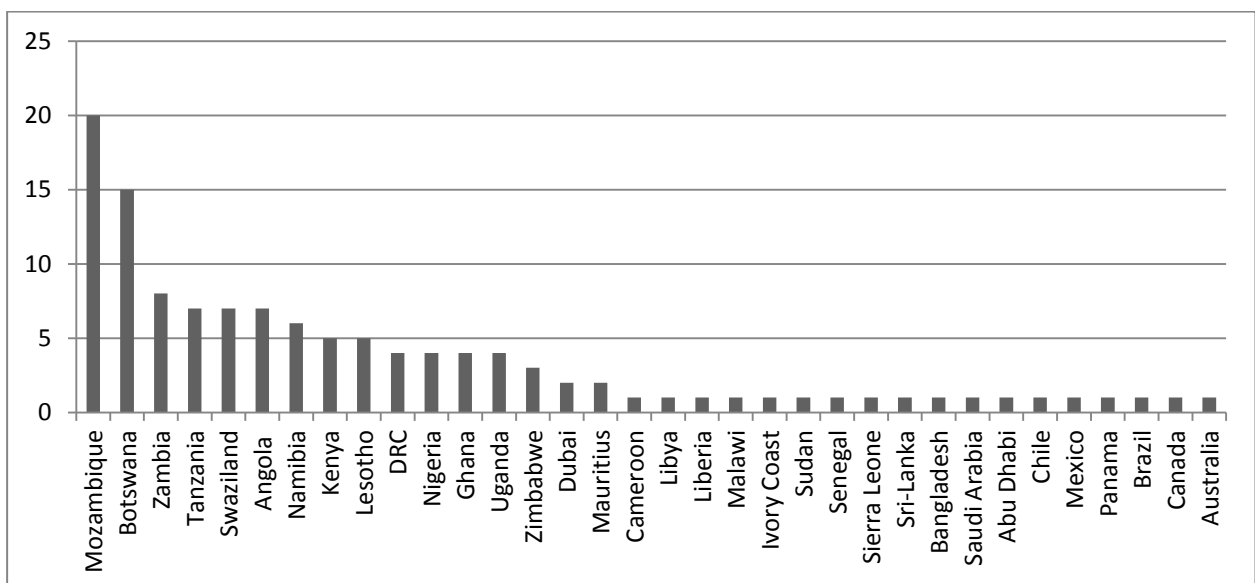
Figure 5.10: Regions to which the respondents export



Source: Compiled by the author, 2011

Question 12 was an open question in which the companies could name the countries that they export to the most. The aim of this question is to determine how many of the companies do export to similar countries and in general to which countries these companies export the most. The countries mentioned, and the number of companies that mentioned the various countries, are depicted in figure 5.11 below.

Figure 5.11: Countries the respondents export to mostly



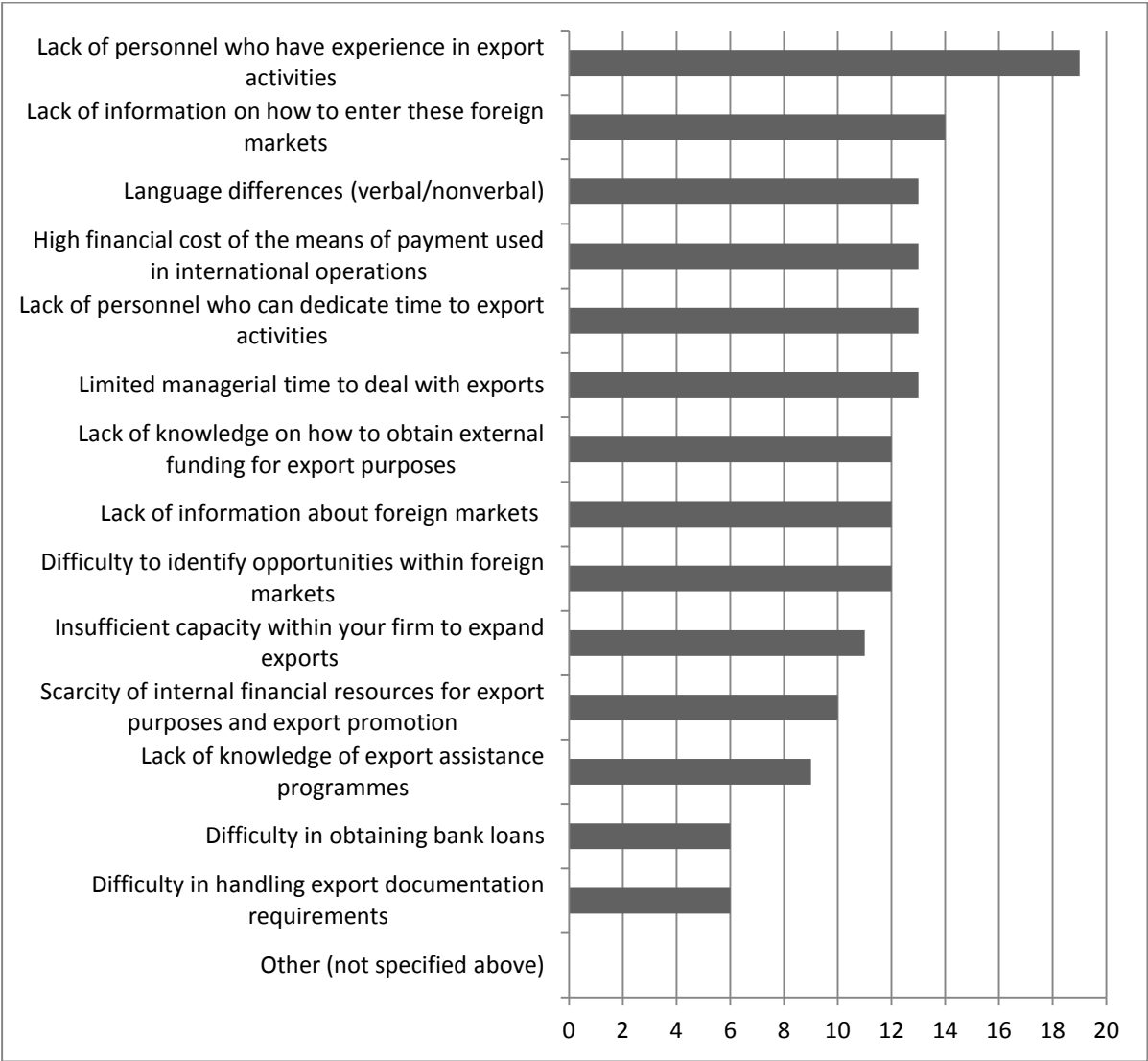
Source: Compiled by the author, 2011

The countries that the companies mostly export to are situated in Africa. The top nine countries that the companies had mentioned five times or more are: Mozambique, Botswana, Zambia, Tanzania, Swaziland, Angola, Namibia, Kenya and Lesotho. Mozambique was mentioned by 20 companies as the country that they export to the most. This is followed by fifteen companies stating that they export the most to Botswana. Zambia was confirmed as destination by eight companies, and Tanzania, Swaziland and Angola were cited by seven companies, followed by Namibia who had six confirmed responses. Both Kenya and Lesotho were indicated as countries to which at least five of the companies export the most.

5.3.3 Section 3: Trade barriers experienced

Section 3 of the questionnaire (see appendix A) concentrated on the trade barriers the companies encountered. This section firstly intends to determine which internal barriers and then which external barriers are the most significant when the companies export their services. Question 13 of section 3 commences by concentrating on the internal barriers as was discussed in the literature section in chapter 4, section 4.2.1. The aim of this question is to determine which of the internal barriers mentioned in section 4.2.1 the respondent companies experienced as significant barriers to trade. The companies could choose more than one internal barrier to the export of the service they provide. Two of the companies did not point out any internal barriers; one stated that the barriers do not apply to their company. Figure 5.12 shows which internal barriers the companies encountered when they attempted to export their services.

Figure 5.12: Internal barriers experienced by ‘other business’ services companies when exporting



Source: Compiled by the author, 2011

The most significant internal barrier experienced by nineteen of the companies that export their services is ‘the lack of personnel who are experienced in export activities’. This is followed by fourteen responses to the ‘lack of information on how to enter foreign markets’. Thirteen of the companies agreed that ‘high financial cost of the means of payment used in international operations’, ‘language differences (verbal/nonverbal)’, ‘limited managerial time to deal with exports’ and the ‘lack of personnel who can dedicate time to export activities’ are internal barriers to the export of their services. ‘Difficulty to identify opportunities within foreign markets’, ‘lack of information about foreign markets’, and ‘lack of knowledge on how to obtain external funding for export purposes’ were nominated by twelve companies as internal barriers to the export of their services. Eleven companies found that there is an ‘insufficient capacity within their company to expand exports’, and ten companies find ‘scarcity of internal financial resources for export purposes and export promotion’ a significant company barrier to export.

The three internal company barriers to export that were the least nominated were the 'lack of knowledge of export assistance programmes', 'difficulty in handling export documentation requirements' and 'difficulty in obtaining bank loans'. The option 'other' internal barriers not specified was not chosen by any of the companies.

Question 14 gave the option for the companies who selected 'other' in the previous question to specify the 'other' internal barriers they encountered. Even though no company chose the option 'other' in question 13, two companies did point out in the provided space some barriers that they did experience. The specific barriers mentioned by these two companies are, however, part of the external barriers that was listed in the following questions, and not internal barriers. These barriers will, therefore, be discussed later in the chapter under the section that deals with external barriers.

A cross tabulation⁸ was done between the size of the respondent companies (questions 6 & 7) and the internal barriers (question 13) that the various sized companies did experience (see appendix B for results). This was done to determine whether the size of the companies impact on the type of internal barriers that they experience.

Five companies indicated in figure 5.7 (see appendix A, question 6) and figure 5.8 (see appendix A, question 7) that they have 50 employees or less and that their total annual turnover amounts to less than R 10 million. These companies are classified as either micro- or small sized companies. The internal barriers that were chosen by at least two of the five companies are:

- scarcity of internal financial resources for export purposes and promotion of exports;
- lack of knowledge of programmes to assist in exports;
- lack of knowledge on how to obtain external funding for export purposes;
- difficulty in obtaining bank loans;
- lack of information about foreign markets;
- lack of information on how to enter these foreign markets;
- lack of personnel who are experienced in export activities;
- limited managerial time to deal with exports.

The internal barrier four of the five companies chose is, 'scarcity of internal financial resources for export purposes and export promotion'.

⁸ A cross tabulation is an analysis between two or more questions and how they may be interdependent on each other in order to draw conclusions (Dictionary of business terms, 2007).

There are five companies that furthermore indicated according to figure 5.7 (see appendix A, question 6) and figure 5.8 (see appendix A, question 7), that they have 50 employees or less, or that their total annual turnover amounts to either less than or more than R20 million. These can be seen as either medium or large companies. The internal barriers that were selected by at least two of the companies are the following:

- lack of information on how to enter foreign markets;
- limited managerial time to deal with exports;
- language differences (verbal/nonverbal);
- high financial cost of the means of payment used in international operations;
- insufficient capacity within the company to expand exports.

There are 22 companies that specified according to figure 5.7 (see appendix A, question 6) and figure 5.8 (see appendix A, question 7), that they either have less or more than 100 employees and all have an annual turnover that exceeds R20 million. One company indicated that it has less than 100 employees, but its annual turnover exceeds R20 million. This company could be either a medium sized enterprise based on the employee size, or a large company taken in terms of the annual turnover. The remaining respondents all represented large companies; the company with less than 100 employees also has been included in the data of the large companies due to its annual turnover. One of these companies did not complete the question on the internal barriers they experienced. The internal barriers experienced by six or more of these companies are:

- lack of knowledge of export assistance programmes;
- lack of knowledge of how to obtain external funding for export purposes;
- lack of information about foreign markets;
- lack of information on how to enter these foreign markets;
- lack of personnel who can dedicate time to export activities;
- lack of personnel who are experienced in export activities;
- language differences (verbal/nonverbal);
- high financial cost of the means of payment used in international operations.

The internal barrier large sized companies experienced the most is: 'lack of personnel who are experienced in export activities'.

A few conclusions can be drawn from the cross-tabulation analysis above. Firstly, 'scarcity of internal financial resources for export purposes and export promotion' is the barrier that micro/small companies experience the most. These companies also pointed out other internal barriers that apply to the lack of financial assistance. 'Lack of personnel who are experienced in

export activities' is the barrier experienced the most by medium or large sized companies. The barriers experienced by micro, small, medium and large sized firm are 'lack of information about foreign markets' and 'lack of information on how to enter these foreign markets'. The internal barrier that micro/small and medium/large companies have in common is 'limited managerial time to deal with exports'. The internal barriers that medium/large companies agree upon are 'language differences (verbal/nonverbal)', and 'high financial cost of the means of payment used in international operations'. One barrier that is only pointed out by the medium/large sized companies is 'insufficient capacity within the company to expand exports'.

The following cross-tabulation analysis was done to compare the companies' years of experience in exporting to the internal barriers these companies encountered (see appendix C). This analysis is done to establish whether a company with, for example, longer export experience, encounters different internal barriers than a company exporting its service for a short period of time.

The data found in figure 5.9 (see appendix A, question 10) reveals that companies' years of experience in exporting differ. The companies' years of export experience need to be compared with the internal barriers mentioned in order to determine whether the number of years of export experience influences the internal barriers experienced within the companies. A cross-tabulation analysis is done between the data from question 10 (see appendix A) and the data from question 13 (see appendix A).

The first category is 0-5 years of export experience. Six companies indicated that they are in this category. The internal barriers that at least three of the six companies mentioned are:

- lack of information about foreign markets;
- difficulty to identify opportunities within foreign markets;
- lack of personnel who can dedicate time to export activities;
- lack of personnel who are experienced in export activities.

The second category is 5-10 years of export experience. There are ten companies in this category, but only nine completed the question on the internal barriers. The internal barriers that at least 5 of the 10 companies nominated are:

- difficulty to identify opportunities within foreign markets;
- insufficient capacity within the firm to expand exports.

The third category is 10-20 years of export experience. There are ten companies in this category. The internal barriers that at least five of the ten companies mentioned are:

- lack of information on how to enter foreign markets;

- lack of personnel who are experienced in export activities;
- difficulty in handling export documentation requirements;
- language differences (verbal/nonverbal);
- high financial cost of the means of payment used in international operations.

The internal barrier that seven of the ten companies nominated are, 'language differences (verbal/nonverbal)'.

The final category is more than 20 years of export experience. There are five companies in this category, but only four completed the question on internal barriers. The internal barrier all four companies experienced is, 'lack of personnel who are experienced in export activities'.

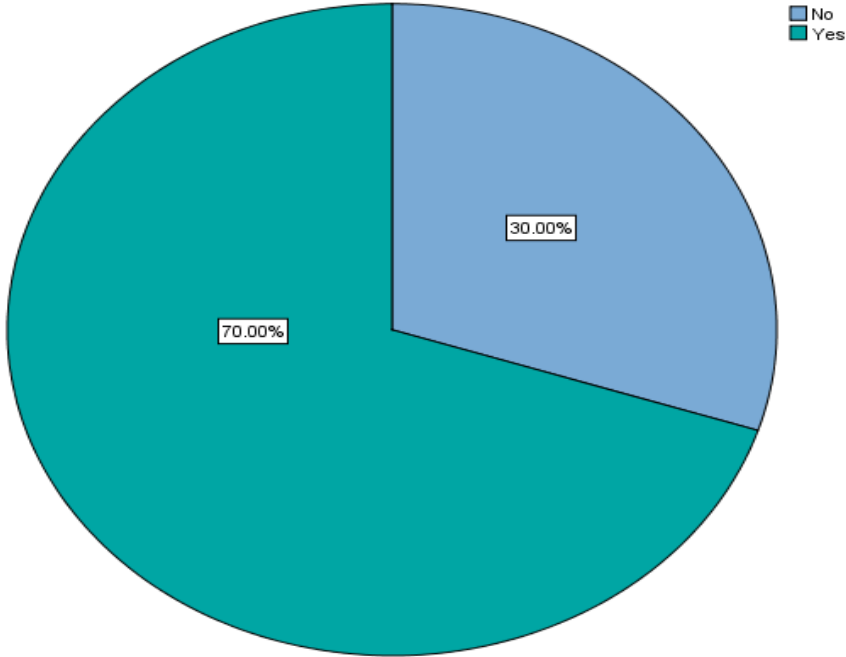
The internal barriers at least two of the four companies did experience are:

- lack of knowledge on how to obtain external funding for export purposes;
- difficulty in obtaining bank loans;
- lack of information on how to enter foreign markets;
- lack of personnel who can dedicate time to export activities;
- limited managerial time to deal with exports;
- high financial cost of means of payment used in international operations.

In conclusion to this cross-tabulation analysis comparing the years of export experience and the internal barriers companies encountered, the following tendencies becomes clear. Companies that have 0-5 years export experience find it difficult to obtain information and get opportunities in other markets. They also often do not have sufficient people who have export experience or who can dedicate their time to export activities. Furthermore, companies with 5-10 years of export experience also find it difficult to identify opportunities in possible markets. Both companies in the categories 10-20 years and 20 years and more export experience, find that 'lack of information on how to enter foreign markets', as well as 'high financial cost of means of payment used in international operations' to be an internal barrier when exporting their services. The internal barrier that is mentioned by companies under three of the four categories is, 'lack of personnel who are experienced in export activities'. This therefore shows that it a very significant internal barrier for any company regardless of export experience.

Question 15 followed next and was inserted in the questionnaire to ascertain whether an actual need exists for the South African government to assist in reducing some of the mentioned internal barriers. Figure 5.13 gives an indication of the number of companies who do and do not want the South African government to assist in reducing the mentioned internal barriers.

Figure 5.13: Government assistance needed for the alleviation of internal company barriers



Source: Compiled by the author, 2011

Two of the 32 companies did not answer this question. From the remaining 30 companies, 21 affirmed that they have the need for the South African government to assist in reducing internal barriers, whilst 9 companies disagreed.

Question 16 added to question 15 on whether the company requires the internal barriers to be reduced by the South African government. If a company selected 'yes' in question 15 the company also had to specify which internal barriers it needs assistance with. Two of the companies that answered, 'yes' in question 15, did not answer question 16. Three of the companies stated that they wanted the government to reduce the internal barriers as was mentioned in question 15. Some companies pointed out specific barriers that they require assistance with. Sixteen companies indicated that they want the South African government to assist with the barriers as mentioned below. Some of the barriers below were mentioned by more than one company, even though they are only typed once. The amount of companies that nominated the internal barrier is mentioned in brackets if the barrier was mentioned by more than one company.

- information on how to enter the foreign markets (5);
- identifying foreign opportunities and providing access to funding, by performance guarantees, etc. (4);
- taxation law and tax agreements with other countries (3);

- bilateral trade agreements to be put in place in order to reduce the administrative red tape surrounding withholding tax (2);
- project financial assistance (2);
- export incentives and assistance with getting fees repatriated;
- trade benefits and assistance with exporting engineering expertise;
- assistance with obtaining bank loans;
- initial funding until release of letters of credit;
- information on bilateral agreements with foreign markets;
- export assistance programmes;
- government to provide an easy to access website on recommendations, country information and links;
- assistance with business tender processes and the reduction of time lost when waiting for tenders to be awarded.

Question 17 focused on numerous possible external barriers to the trade of the services mentioned. This question wanted to ascertain which external barriers, as identified in the literature in section 4.2.2 and 4.6, the companies are experiencing. This question furthermore wanted to determine to what degree the companies experienced the barriers. In this way there could be distinguished between very significant barriers and those that are less significant. Next to each possible external barrier the options was provided: 'never', 'seldom', 'often' and 'always' (see the questionnaire in appendix A). The respondents had to select the applicable option next to each external barrier. Each external barrier is discussed and illustrated individually. One company did not complete this section and, therefore, the data discussed holds for the remaining 31 companies. The external barriers that are discussed below are those barriers that were discussed in section 4.2.2 of chapter 4.

Table 5.2 provides an indication of how companies perceive the external barrier 'economic regulations such as pricing regulations, discriminatory taxes and market entry/exit restrictions' (see section 4.2.2). About 41.9% of the valid percentage of the companies, as depicted in table 5.2, responded that they seldom experience this external barrier, whilst nine or 29% of the companies advised that they often experience this barrier. Six companies, or 19.4% of the companies, indicated that they never experience this trade barrier, and three or 9.7% of the companies confirmed that they always experience this trade barrier when exporting their service.

Table 5.2: Economic regulations

		Frequency	Percentage	Valid Percentage	Cumulative Percentage
Valid	Never	6	18.8	19.4	19.4
	Seldom	13	40.6	41.9	61.3
	Often	9	28.1	29.0	90.3
	Always	3	9.4	9.7	100.0
	Total	31	96.9	100.0	
Missing	System	1	3.1		
Total		32	100.0		

Source: Compiled by the author, 2011

Table 5.3 focuses on the social barriers such as health and safety restrictions (see section 4.2.2). Around 51.6% of the valid percentage of the companies, according to table 5.3, seldom experiences this trade barrier and eleven companies or 35.5% of the companies never experience this trade barrier. Four companies or 12.9% of the companies did, however, confirm that they often experience social barriers. No companies chose the option 'always' and therefore this option is not included in the table.

Table 5.3: Social barriers

		Frequency	Percentage	Valid Percentage	Cumulative Percentage
Valid	Never	11	34.4	35.5	35.5
	Seldom	16	50.0	51.6	87.1
	Often	4	12.5	12.9	100.0
	Total	31	96.9	100.0	
Missing	System	1	3.1		
Total		32	100.0		

Source: Compiled by the author, 2011

Restrictions on qualifications (foreign governments that do recognise South African qualifications; see section 4.2.2), was perceived by more than half of the companies as a barrier they never experience, as illustrated by table 5.4. The valid percentage according to table 5.4 indicates that 33.3% of the 31 companies gave an indication that they seldom experience restrictions on qualifications as a barrier. Two companies or 6.7% of the companies often experience this trade barrier. No company chose the option 'always', and therefore this option is not included in the table.

Table 5.4: Restrictions on qualifications

		Frequency	Percentage	Valid Percentage	Cumulative Percentage
Valid	Never	18	56.3	60.0	60.0
	Seldom	10	31.3	33.3	93.3
	Often	2	6.3	6.7	100.0
	Total	30	93.8	100.0	
Missing	System	2	6.3		
Total		32	100.0		

Source: Compiled by the author, 2011

The trade barrier, ‘restrictions on foreign direct investments that does not permit your company to enter into partnerships with foreign companies abroad’ (see section 4.2.2) is discussed next. Table 5.5 clearly shows that this barrier is not a real problem when these companies endeavour to export. Half of the companies never and half of the companies seldom experience this barrier as a restriction to trade. One company, however, confirmed that it often experiences this barrier and none companies chose the option ‘always’. The data therefore does not reflect the option ‘always’.

Table 5.5: Restrictions on foreign direct investments (FDI)

		Frequency	Percentage	Valid Percentage	Cumulative Percentage
Valid	Never	15	46.9	48.4	48.4
	Seldom	15	46.9	48.4	96.8
	Often	1	3.1	3.2	100.0
	Total	31	96.9	100.0	
Missing	System	1	3.1		
Total		32	100.0		

Source: Compiled by the author, 2011

Table 5.6 indicate that 67.7% of the companies never experience a restriction to use their name abroad. Eight or 25.8% of the companies seldom experience this external barrier, and two companies noted that they experience this trade barrier often. No company chose the option ‘always’, therefore, this option is not included in the table.

Table 5.6: Restrictions on the use of company name abroad

		Frequency	Percentage	Valid Percentage	Cumulative Percentage
Valid	Never	21	65.6	67.7	67.7
	Seldom	8	25.0	25.8	93.5
	Often	2	6.3	6.5	100.0
	Total	31	96.9	100.0	
Missing	System	1	3.1		
Total		32	100.0		

Source: Compiled by the author, 2011

It is evident from table 5.7 that most of the companies do experience restrictions on immigration provision. These include delays in obtaining entry visas, residency or work permits (see section 4.2.2). Half of the companies often experience this external trade barrier, whilst nine companies seldom and five companies never experience restrictions on immigration provisions. There was no selection of the option 'always' and therefore this option is not included in the table.

Table 5.7: Restrictive immigration provisions

		Frequency	Percentage	Valid Percentage	Cumulative Percentage
Valid	Never	5	15.6	16.7	16.7
	Seldom	9	28.1	30.0	46.7
	Often	16	50.0	53.3	100.0
	Total	30	93.8	100.0	
Missing	System	2	6.3		
Total		32	100.0		

Source: Compiled by the author, 2011

The following restriction that is discussed is, 'monetary restrictions such as foreign country refusing to send profits/royalties back to South Africa' (see section 4.2.2). Table 5.8 shows that the response to this external barrier was more evenly spread between the options 'never', 'seldom', and 'often'. 29% of the companies noted that they never, and 29% of the companies noted that they often experience monetary restrictions such as that a foreign country refuses to send profits/royalties back to South Africa. Twelve or 38.7% of the companies seldom experience this external trade barrier, whilst one company confirmed that it always has problems because of this external trade barrier.

Table 5.8: Monetary restrictions

		Frequency	Percentage	Valid Percentage	Cumulative Percentage
Valid	Never	9	28.1	29.0	29.0
	Seldom	12	37.5	38.7	67.7
	Often	9	28.1	29.0	96.8
	Always	1	3.1	3.2	100.0
	Total	31	96.9	100.0	
Missing	System	1	3.1		
Total		32	100.0		

Source: Compiled by the author, 2011

The external barrier, 'exchange rate risk and the risk of non-payment' (see section 4.2.2) is discussed next in table 5.9. Companies often experience the risk of exchange rate, as well as that of non-payment. This was affirmed by more than 50% of the companies. Eight or 25.8% of the valid percentage of the companies indicated that they always experience this restriction, whilst five companies responded that they seldom have a problem with this risk regarding exchange rate and non-payment. One company indicated that it never experiences this external barrier.

Table 5.9: Exchange rate risk and the risk of non-payment

		Frequency	Percentage	Valid Percentage	Cumulative Percentage
Valid	Never	1	3.1	3.2	3.2
	Seldom	5	15.6	16.1	19.4
	Often	17	53.1	54.8	74.2
	Always	8	25.0	25.8	100.0
	Total	31	96.9	100.0	
Missing	System	1	3.1		
Total		32	100.0		

Source: Compiled by the author, 2011

Table 5.10 shows that half of the companies seldom encounter a lack of experience when dealing with the banks in the foreign countries (see section 4.2.2), and 29% of the valid percentage of companies never find banks in the country to which they export as inexperienced with foreign transactions. Six of the companies, or 19.4% of the valid percentage of companies, however, indicated that they often experience this external barrier when exporting their service. None of the companies chose the option 'always' and therefore this option is not included in the table.

Table 5.10: Lack of banks in the export country with experience in foreign transactions

		Frequency	Percentage	Valid Percentage	Cumulative Percentage
Valid	Never	9	28.1	29.0	29.0
	Seldom	16	50.0	51.6	80.6
	Often	6	18.8	19.4	100.0
	Total	31	96.9	100.0	
Missing	System	1	3.1		
Total		32	100.0		

Source: Compiled by the author, 201

Table 5.11 shows that 51.6% of the valid percentage of companies seldom experience restrictions with regard to market information and telecommunication systems (see section 4.2.2). 29% of the valid percentage of the other companies, however, often experience that foreign markets impose restrictions on accessing market information and telecommunication systems. The option ‘never’ was chosen by 19.4% of the valid percentage of companies, and the option ‘always’ was not chosen and therefore, this option does not reflect in the table.

Table 5.11: Restrictions on market information and telecommunication systems

		Frequency	Percentage	Valid Percentage	Cumulative Percentage
Valid	Never	6	18.8	19.4	19.4
	Seldom	16	50.0	51.6	71.0
	Often	9	28.1	29.0	100.0
	Total	31	96.9	100.0	
Missing	System	1	3.1		
Total		32	100.0		

Source: Compiled by the author, 2011

Table 5.12 reflects that ‘quotas on the amount of services allowed’ (see section 4.2.2) does not pose a significant external barrier. Eighteen or 60% of the valid percentage of companies indicated that they never experience quotas on the amount of services they are permitted to perform. Eleven or 36.7% of the companies noted that they seldom experience this external barrier. However, one engineering company indicated that it often experiences quotas on the amount of services it is allowed to conduct. The option ‘always’ was not selected and therefore does not reflect in the table.

Table 5.12: Quotas on the amount of services allowed

		Frequency	Percentage	Valid Percentage	Cumulative Percentage
Valid	Never	18	56.3	60.0	60.0
	Seldom	11	34.4	36.7	96.7
	Often	1	3.1	3.3	100.0
	Total	30	93.8	100.0	
Missing	System	2	6.3		
Total		32	100.0		

Source: Compiled by the author, 2011

From table 5.13 it becomes clear that the majority of the companies do not seem to experience restrictions on the amount of service suppliers permitted in the market (see section 4.2.2). 58.1% of the valid percentage of companies never experiences this external barrier to hinder them when they export their services, and 35.5% of the valid percentage of companies seldom experience that there are restrictions on the amount of service suppliers permitted in the market. Two companies, however, gave note that they do experience this external trade barrier often. No companies nominated the option ‘always’ and this option is therefore not included in the table.

Table 5.13: Restrictions on the amount of service suppliers permitted in the market

		Frequency	Percentage	Valid Percentage	Cumulative Percentage
Valid	Never	18	56.3	58.1	58.1
	Seldom	11	34.4	35.5	93.5
	Often	2	6.3	6.5	100.0
	Total	31	96.9	100.0	
Missing	System	1	3.1		
Total		32	100.0		

Source: Compiled by the author, 2011

The next external barrier discussed is, ‘limitations on the total value of service transactions that may be performed in the foreign market’ (see section 4.2.2). Table 5.14 reveals that there is seemingly no limitation on the total value of service transactions that may be performed in the foreign market. 20 of the 32 companies, or 64.5% of the valid percentage of companies confirmed that they never experience any restrictions imposed on the total value of the service transactions that they perform in any foreign market. 32.3% of the valid percentage of the companies also indicated that they seldom experience this external trade barrier. One engineering firm finds that it often is restricted by limitations on the total value of service

transactions that it may perform in foreign markets. No company chose the option 'always' and therefore it is not included in the table.

Table 5.14: Limitations on the total value of service transactions

		Frequency	Percentage	Valid Percentage	Cumulative Percentage
Valid	Never	20	62.5	64.5	64.5
	Seldom	10	31.3	32.3	96.8
	Often	1	3.1	3.2	100.0
	Total	31	96.9	100.0	
Missing	System	1	3.1		
Total		32	100.0		

Source: Compiled by the author, 2011

Table 5.15 shows an almost even spread of opinion about the external trade barrier, 'subsidies provided to foreign services providers reduces the ability of the company to export at a competitive rate' (see section 4.2.2). Approximately 38.7% of the valid percentage of companies indicated that they never, and 32.3% of the companies indicated that they seldom experience any subsidies provided to foreign services providers that make them less competitive. Around 29% of the valid percentage of the 31 companies, however, found that they often have to face this barrier when exporting the service they provide. No company gave any indication that they always experience this external barrier. Therefore, this option is not included in the table.

Table 5.15: Subsidies provided to foreign services providers

		Frequency	Percentage	Valid Percentage	Cumulative Percentage
Valid	Never	12	37.5	38.7	38.7
	Seldom	10	31.3	32.3	71.0
	Often	9	28.1	29.0	100.0
	Total	31	96.9	100.0	
Missing	System	1	3.1		
Total		32	100.0		

Source: Compiled by the author, 2011

Table 5.16 reveals that 58.1% of the valid percentage of respondents seldom experience that bilateral trade agreements between countries impede their company's ability to export at a competitive rate (see section 4.2.2). Eight companies indicated that they never experience this external trade barrier, whilst five companies often experience this trade barrier when they export their services. The option 'always' was not chosen and therefore does not reflect in the table.

Table 5.16: Bilateral trade agreements impede competitiveness

		Frequency	Percentage	Valid Percentage	Cumulative Percentage
Valid	Never	8	25.0	25.8	25.8
	Seldom	18	56.3	58.1	83.9
	Often	5	15.6	16.1	100.0
	Total	31	96.9	100.0	
Missing	System	1	3.1		
Total		32	100.0		

Source: Compiled by the author, 2011

Table 5.17 reveals information on ‘difficulty to prove your credibility in a foreign market as a company from a developing country’ (see section 4.2.2). Half of the respondents seldom experience difficulty to prove their credibility in a foreign market as a company from a developing country. Six of the companies also indicated that they never experience this external barrier when they export their service. 25.8% of the valid percentage of companies, however, indicated that they often do find it difficult to prove their credibility in a foreign market as a company from a developing country. One engineering company always finds this external barrier to be present and restrictive. This restriction will most likely be experienced in developed countries found in for example Europe, whilst it will be less likely in African countries that are classified as developing countries.

Table 5.17: Difficulty to prove credibility in a foreign market

		Frequency	Percentage	Valid Percentage	Cumulative Percentage
Valid	Never	6	18.8	19.4	19.4
	Seldom	16	50.0	51.6	71.0
	Often	8	25.0	25.8	96.8
	Always	1	3.1	3.2	100.0
	Total	31	96.9	100.0	
Missing	System	1	3.1		
Total		32	100.0		

Source: Compiled by the author, 2011

Table 5.18 shows that 56.7% of the valid percentage of companies seldom experiences any difficulty to build relationships with clients in foreign markets (see section 4.2.2). Two companies never find the difficulty to build relationships with clients in foreign markets to be a barrier to the trade of their services. However, eleven or 34.4% of the companies did confirm that they often find it difficult to build relationships with clients in foreign markets. Nevertheless none of the

clients always found this external barrier to be a restriction. The option ‘always’ is therefore not included in the table or figure.

Table 5.18: Difficulty to build relationships with clients in foreign markets

		Frequency	Percentage	Valid Percentage	Cumulative Percentage
Valid	Never	2	6.3	6.7	6.7
	Seldom	17	53.1	56.7	63.3
	Often	11	34.4	36.7	100.0
	Total	30	93.8	100.0	
Missing	System	2	6.3		
Total		32	100.0		

Source: Compiled by the author, 2011

Table 5.19 indicates that a majority of the companies often experience corruption and bribery (see section 4.2.2). Around 61.3% of the valid percentage of companies found corruption and bribery to be a problem. Five engineering companies found corruption and bribery to be present continuously (‘always’) when exporting their services. These companies mostly export their services to the African region. Five companies indicated that they seldom found corruption and bribery to be an external barrier when they export their services. Two companies never experienced this external trade barrier. Most of the surveyed companies export to Africa. It is therefore most likely that corruption and bribery is found to be a problem in dealing with African countries.

Table 5.19: Corruption and bribery

		Frequency	Percentage	Valid Percentage	Cumulative Percentage
Valid	Never	2	6.3	6.5	6.5
	Seldom	5	15.6	16.1	22.6
	Often	19	59.4	61.3	83.9
	Always	5	15.6	16.1	100.0
	Total	31	96.9	100.0	
Missing	System	1	3.1		
Total		32	100.0		

Source: Compiled by the author, 2011

The following external trade barrier discussed is, ‘Risks involved with political instability in a country’ (see section 4.2.2). Table 5.20 reveals that 45.2% of the valid percentage of companies often experienced risks involved with political instability when they export to foreign markets.

Nine of the companies indicated that they seldom experience this external trade barrier. However, six companies made it clear that they always experience risks involved with political instability in the foreign markets. Two companies noted that they never experience this external trade barrier when they export their services. Similar to the restriction, 'corruption and bribery', the barrier, 'risks involved with political instability in a country' is most likely experienced more in African countries.

Table 5.20: Risks involved with political instability in a country

		Frequency	Percentage	Valid Percentage	Cumulative Percentage
Valid	Never	2	6.3	6.5	6.5
	Seldom	9	28.1	29.0	35.5
	Often	14	43.8	45.2	80.6
	Always	6	18.8	19.4	100.0
	Total	31	96.9	100.0	
Missing	System	1	3.1		
Total		32	100.0		

Source: Compiled by the author, 2011

The following external trade barrier that is discussed is, 'poor infrastructure' (see section 4.2.2). From table 5.21 it can be seen that poor infrastructure is often a problem when exporting services. This was confirmed by almost half of the companies. Approximately 28.1% of the companies, however, seldom find poor infrastructure to be a restriction to their exports, and 12.5% of the companies never find this external trade barrier to be prohibitive. About 9.4% of the companies indicated that poor infrastructure always poses to be an obstacle when they export their services. This external barrier is also most likely experienced mostly in African countries.

Table 5.21: Poor infrastructure

		Frequency	Percentage	Valid Percentage	Cumulative Percentage
Valid	Never	4	12.5	12.9	12.9
	Seldom	9	28.1	29.0	41.9
	Often	15	46.9	48.4	90.3
	Always	3	9.4	9.7	100.0
	Total	31	96.9	100.0	
Missing	System	1	3.1		
Total		32	100.0		

Source: Compiled by the author, 2011

Table 5.22 shows that fifteen of the companies seldom and four companies never experience language and cultural barriers (see section 4.2.2) as a restriction to the export of their services. Ten or 32.3% of the valid percentage of the companies indicated that they often find language and cultural barriers to be an obstacle when they export their services, and two companies noted that they always experience this external trade barrier.

Table 5.22: Language and cultural barriers

		Frequency	Percentage	Valid Percentage	Cumulative Percentage
Valid	Never	4	12.5	12.9	12.9
	Seldom	15	46.9	48.4	61.3
	Often	10	31.3	32.3	93.5
	Always	2	6.3	6.5	100.0
	Total	31	96.9	100.0	
Missing	System	1	3.1		
Total		32	100.0		

Source: Compiled by the author, 2011

Table 5.23 shows that licensing procedures (see section 4.2.2 & 4.6) are seldom experienced by 51.6% of the companies and never by 19.4% of the companies. Eight of the 31 companies found that they often have difficulty with licensing procedures, and one of the companies found this external barrier to be a constant restriction ('always') when endeavouring to export the service it provides.

Table 5.23: Licensing procedures

		Frequency	Percentage	Valid Percentage	Cumulative Percentage
Valid	Never	6	18.8	19.4	19.4
	Seldom	16	50.0	51.6	71.0
	Often	8	25.0	25.8	96.8
	Always	1	3.1	3.2	100.0
	Total	31	96.9	100.0	
Missing	System	1	3.1		
Total		32	100.0		

Source: Compiled by the author, 2011

Table 3.24 indicates that that 67.7% of the valid percentage of companies seldom experience the technical standards that they have to adhere to (see section 4.2.2 & 4.6) as an external barrier when they export their services. Approximately 25.8% of the valid percentage of

companies confirmed that they never experience this external trade barrier. Very few companies, only 6.5% of the valid percentage of the companies, indicated that they often experience technical standards to be a prohibitive measure to the export of their services. No company gave an indication advised that they always experience this trade barrier. The option 'always' is therefore not included in the table.

Table 5.24: Technical standards

		Frequency	Percentage	Valid Percentage	Cumulative Percentage
Valid	Never	8	25.0	25.8	25.8
	Seldom	21	65.6	67.7	93.5
	Often	2	6.3	6.5	100.0
	Total	31	96.9	100.0	
Missing	System	1	3.1		
Total		32	100.0		

Source: Compiled by the author, 2011

The following external trade barrier discussed is, 'measures that require your company to be a certain registered type of legal entity or to be part of a joint venture in the target market' (see section 4.2.2). Table 5.25 reveals that seventeen or 53.1% of the valid percentage of companies seldom experience that the foreign markets impose certain requirements on them. Some of those restrictions entail being part of a joint venture in order to conduct your service, or being part of any legal entities in that foreign market. Five of the companies never experience the mentioned external trade barrier. However, eight companies experience this trade barrier often and one architectural company always experience these requirements as a restriction to the export of their services.

Table 5.25: Requirements about legal entities or joint ventures

		Frequency	Percentage	Valid Percentage	Cumulative Percentage
Valid	Never	5	15.6	16.1	16.1
	Seldom	17	53.1	54.8	71.0
	Often	8	25.0	25.8	96.8
	Always	1	3.1	3.2	100.0
	Total	31	96.9	100.0	
Missing	System	1	3.1		
Total		32	100.0		

Source: Compiled by the author, 2011

Table 5.26 reveals that 51.6% of the valid percentage of companies often finds foreign government procurement policies (see section 4.2.2) to be an external barrier to the export of the services they provide. No companies chose the option 'always' and, therefore, this option is not included in the table. Foreign government procurement policies are confirmed by eight companies as seldom an obstacle and seven companies indicated such policies as never a hindrance when exporting their services.

Table 5.26: Foreign government procurement policies

		Frequency	Percentage	Valid Percentage	Cumulative Percentage
Valid	Never	7	21.9	22.6	22.6
	Seldom	8	25.0	25.8	48.4
	Often	16	50.0	51.6	100.0
	Total	31	96.9	100.0	
Missing	System	1	3.1		
Total		32	100.0		

Source: Compiled by the author, 2011

Table 5.27 indicates that 15 or 48.4 of the valid percentage of companies often find distance to the target market (see section 4.2.2 & 4.6) to be an external barrier to the export of their services. Two companies further indicated that they always experience the distance to the target market as an obstacle. Nine companies responded that they seldom experience this external barrier as a problem and five of the companies never experienced the distance to the target market as a barrier.

Table 5.27: Distance to the target market

		Frequency	Percentage	Valid Percentage	Cumulative Percentage
Valid	Never	5	15.6	16.1	16.1
	Seldom	9	28.1	29.0	45.2
	Often	15	46.9	48.4	93.5
	Always	2	6.3	6.5	100.0
	Total	31	96.9	100.0	
Missing	System	1	3.1		
Total		32	100.0		

Source: Compiled by the author, 2011

The last line on the section of external barriers gave the option 'other (not specified above)' (see appendix A). This afforded the companies a chance to mention whether there were any other external barriers that they experience apart from those barriers mentioned. None of the

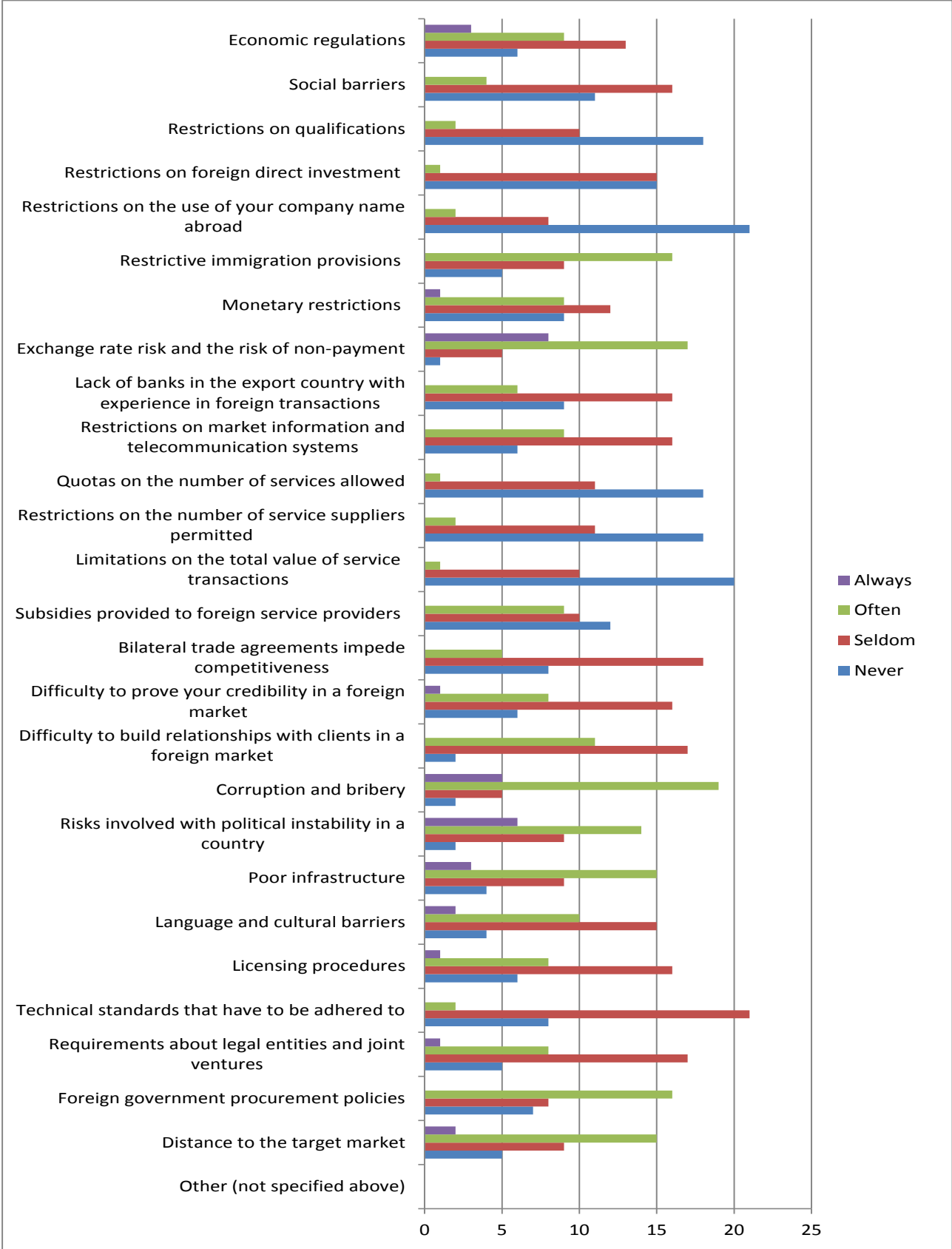
companies, however, marked this option. If a respondent would have marked the option 'other' at the section on external barriers, they could state in question 18 which other external barriers they experience. Even though the companies did not mark the option 'other', two companies did note some other external barriers they experience when they export their services.

Question 13 that focused on the internal barriers had an option to choose 'other', followed by question 14 in which the 'other' internal barriers could be stated. Three companies named some barriers they experience, but these barriers rather should be seen as external instead of internal. As a result the researcher added the barriers that three of the companies did mention in question 14 to the remarks of the two companies on external barriers in question 18. These external barriers the companies mentioned are:

- a shortage of 'bankable projects' requires proper feasibility studies that clients very seldom are prepared to pay for;
- lack of being able to identify local partners who can provide complimentary services and assistance in preparation for a bid and submission in foreign countries;
- withholding tax legislation and red tape surrounding tax tends to slow down payments to clients for work that was done;
- tax regimes in export countries such as withholding tax, and complicated personal tax for employees on projects;
- business tender processes waste the time of hundreds of consultants, and at the end of the day the tenders are awarded to citizens of the funding organizations;
- concerns regarding corruption and identifying suitable trustworthy partners.

In order to draw conclusions from the external trade barriers discussed above, figure 5.14 below provides an overview of all the external trade barriers.

Figure 5.14: Overview of all the external trade barriers



Source: Compiled by the author, 2011

Figure 5.14 above makes it more evident which external barriers companies experience the most, and which they do not seem to find as significant hindrances. Some of the most significant barriers can be listed by focussing on the external barriers that the companies have indicated they experience always or often. The external barriers that five or more companies have nominated as that which they always experience are:

- risk regarding exchange and of non-payment;
- corruption and bribery;
- risks involved with political instability in a country.

The external barrier that reflects the option always the most times is, 'exchange rate risk and the risk of non-payment'.

The external barriers that reflect the option often fifteen times or more and that are, therefore, significant barriers are:

- restrictions on immigration provisions such as delay in obtaining entry visas, residency or work permits;
- risk regarding exchange rate and of non-payment;
- corruption and bribery;
- poor infrastructure;
- foreign government procurement policies;
- distance to the target markets.

The external barrier that most reflect the option often was, 'corruption and bribery'.

The researcher did a cross tabulation analysis between the data obtained from question 17 that focuses on external barriers, with the first question relating to the type of business operations the companies ran. From this analysis it is interesting to note how companies that have different business operations have different viewpoints on the external barriers they experienced often. The quantity surveying company selected the following four external trade barriers as barriers, which they experienced often. Interestingly, these four barriers were not selected as external barriers nominated by ten companies or, fifteen or more companies, as barriers that they often experienced as indicated in figure 5.14 above.

- economic regulations such as pricing regulations, discriminatory taxes and market entry/exit restrictions;
- social barriers such as health and safety restrictions;
- monetary restrictions such as a foreign country refusing to send profits/royalties back to South Africa;

- measures that require the company to be a certain registered type of legal entity or to be part of a joint venture in the target market.

The two construction project managing companies both agreed on the following as external trade barriers that they often experience when exporting their service:

- restrictions on immigration provisions such as delay in obtaining entry visas, residency or work permits;
- corruption and bribery;
- risks involved with political instability in a country;
- poor infrastructure;
- measures that require the company to be a certain registered type of legal entity or to be part of a joint venture in the target market.

One project managing company selected 'exchange rate risk and the risk of non-payment' as an external barrier that they experienced often. The other project managing company indicated that it always poses a problem.

The four architectural companies also had some similar answers about the external trade barriers that they experience. Three of the four architectural companies chose the following as external trade barriers that they experience often:

- restrictions on immigration provisions such as delay in obtaining entry visas, residency or work permits;
- corruption and bribery.

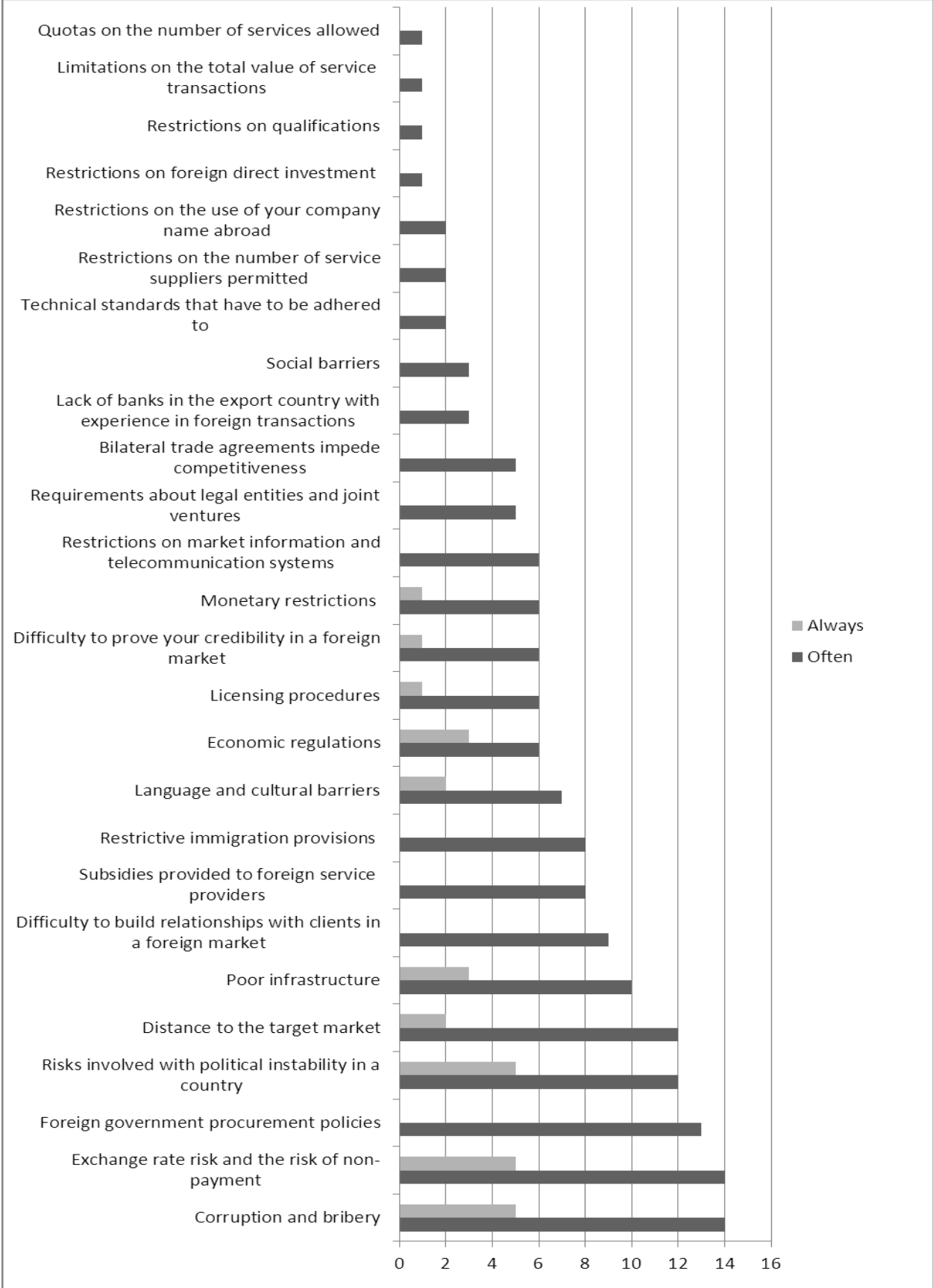
Two of the four architectural companies nominated the following by as external barriers that they experience often:

- lack of banks in the export country with experience in foreign financial transactions;
- restrictions on the access of market information and telecommunication systems;
- poor infrastructure.

Two architectural companies chose 'exchange rate risk and the risk of non-payment' as a barrier they experienced always, whilst one company chose it as barrier often experienced.

The following are external barriers selected by the consulting engineers as barriers that they experience either often or always. These barriers are depicted in the chart below. They are also arranged according to barriers that have the least to the most nominations by companies that experienced these barriers either often or always.

Figure 5.15: Most significant external barriers experienced by consulting engineers



Source: Compiled by the author, 2011

Figure 5.15 shows that 'corruption and bribery', 'exchange rate risk and the risk of non-payment' and 'risks involved with political instability in a country' are all perceived by five consulting engineer companies as external trade barriers that they experience always. Three other barriers that the consulting engineering companies are experiencing often are 'distance to the target market', 'poor infrastructure' and 'difficulty to build relationships with clients in a foreign market'.

In conclusion to the above cross tabulation analysis it is notable that both the quantity surveying company and the construction project managing companies found 'measures that require the company to be a certain registered type of legal entity or to be part of a joint venture in the target market' as an external barrier that they experienced often. Furthermore, external trade barriers that both the construction project managing companies and the architects selected as barriers that they often experience are the following: 'restrictions on immigration provisions such as delay in obtaining entry visas, residency or work permits', 'corruption and bribery' and 'poor infrastructure'. The most significant external trade barrier three of the four architectural companies selected as a barrier they experienced either always or often is, 'exchange rate risk and the risk of non-payment'. Consulting engineering companies indicated that they perceive 'corruption and bribery', as well as 'exchange rate risk and the risk of non-payment' as external trade barriers that they encountered the most often or always.

A cross tabulation analysis was done next in order to determine if there is a relationship between the number of years of export experience and the external barriers the companies experienced (refer to Appendix D). The data from figure 5.9 was used and companies were divided into the categories according to export experience. The external barriers that companies with the similar number of years of export experience found as obstacles 'often' or 'always' are listed below.

The first is the category 0-5 years of export experience. There are six companies in this category. The external barriers three or more of these companies experience often are:

- restrictions on immigration provisions such as delay in obtaining entry visas, residency or work permits;
- exchange rate risk and the risk of non-payment;
- difficulty to prove your credibility in a foreign market as a company from a developing country;
- difficulty to build relationships with clients in a foreign market;
- corruption and bribery;
- risks involved with political instability in a country;
- poor infrastructure;
- distance to the target market.

The second category is the category 5-10 years of export experience. There are ten companies that are placed into this category. The external barriers these companies experience 'often' and 'always' combined five times or more are:

- exchange rate risk and the risk of non-payment;
- corruption and bribery;
- risks involved with political instability in a country;
- poor infrastructure;
- distance to the target market.

The third category is the category 10-20 years of export experience. Ten companies fall into this category, but only nine completed the question on external barriers. The external barriers that these companies experience often and always combined four times or more are:

- economic regulations such as pricing regulations, discriminatory taxes and market entry/exit restrictions;
- restrictions on immigration provisions such as delay in obtaining entry visas, residency or work permits;
- monetary restrictions such as a foreign country that are refusing to send profits/royalties back to South Africa;
- exchange rate risk and the risk of non-payment;
- subsidies provided to foreign service providers reducing the ability of the company to export at a competitive rate;
- difficulty to build relationships with clients in a foreign market;
- corruption and bribery;
- risks involved with political instability in a country
- poor infrastructure;
- language and cultural barriers;
- foreign government procurement policies;
- distance to the target market.

Two of the four firms indicated that they always experience the external barrier, 'economic regulations such as pricing regulations, discriminatory taxes and market entry/exit restrictions'.

The fourth and last category is the category more than 20 years of export experience. There are five companies in this category. The external barriers these companies are experiencing often and always combined three times or more are:

- economic regulations, such as pricing regulations, discriminatory taxes and market entry/exit restrictions;

- restrictions on immigration provisions such as delay in obtaining entry visas, residency or work permits;
- monetary restrictions such as a foreign country refusing to send profits/royalties back to South Africa;
- exchange rate risk and the risk of non-payment;
- difficulty to prove their credibility in a foreign market as a company from a developing country;
- corruption and bribery;
- risks involved with political instability in a country;
- poor infrastructure;
- foreign government procurement policies.

The barriers that are mentioned in at least three of the four categories and therefore are very significant barriers to the export of 'other business' services are:

- restrictions on immigration provisions such as delay in obtaining entry visas, residency or work permits;
- exchange rate risk and the risk of non-payment;
- corruption and bribery;
- risks involved with political instability in a country;
- poor infrastructure;
- foreign government procurement policies;
- distance to the target market.

In conclusion to this cross tabulation analysis it can be noted that the external barriers that companies in all four categories of export experience find significant are:

- exchange rate risk and the risk of non-payment;
- corruption and bribery;
- risks involved with political instability in a country;
- poor infrastructure

Companies in the export experience categories 0-5 years, 10-20 years and 20 years and more all agree on a specific external barrier as being significant: foreign government procurement policies. Companies in the export experience categories 0-5 years, 5-10 years and 10-20 years all found this one barrier to be a significant external barrier: distance to the target market.

Both companies in the categories with the least export experience, as well as companies that have been exporting for more than 20 years indicated that 'difficulty to prove your credibility in a

foreign market as a company from a developing country' is a significant barrier for them. Another external barrier that is significant for companies in the categories 5-10 years and 10-20 years is, 'difficulty to build relationships with clients in a foreign market'.

The external barrier that five of the companies in the category 0-5 years export experience chose, is: exchange rate risk and the risk of non-payment.

The external barriers that seven of the companies in the category 5-10 years export experience selected both, are:

- risks involved with political instability in a country;
- corruption and bribery.

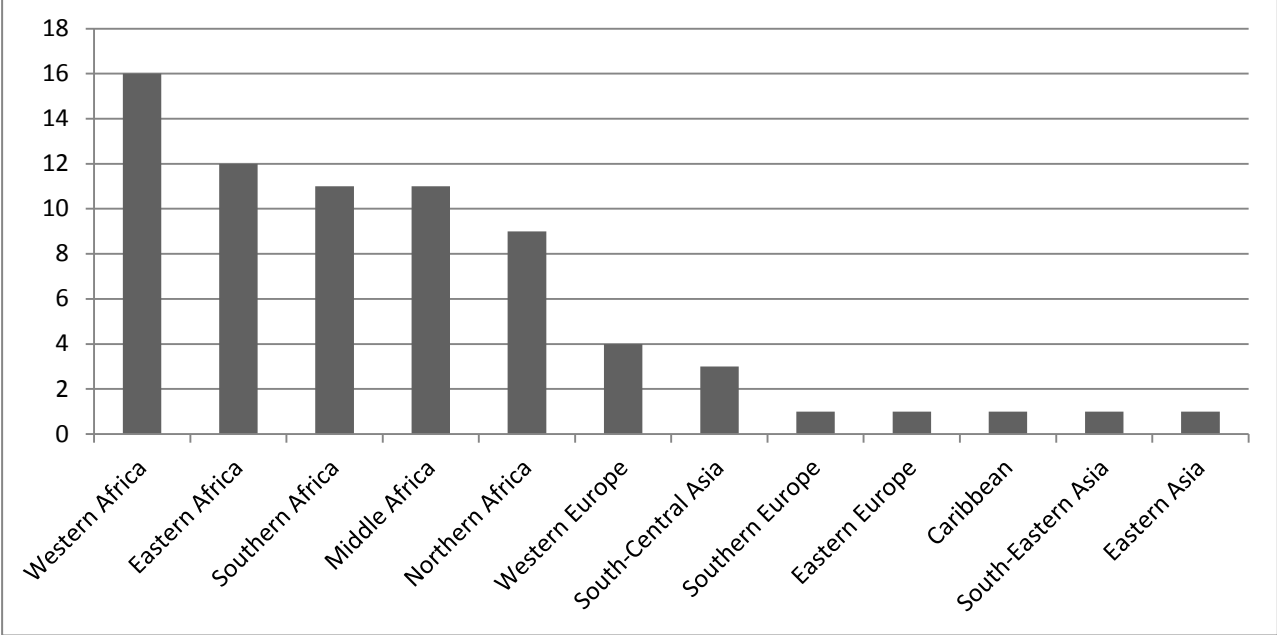
The external barrier that eight of the companies in the category 10-20 years export experience nominated, is: exchange rate risk and the risk of non-payment.

The three external barriers that were five of the companies in the categories 20 years and up export experience picked are:

- corruption and bribery;
- exchange rate risk and the risk of non-payment;
- economic regulations such as pricing regulations, discriminatory taxes and market entry/exit restrictions.

The results from question 19 are discussed next. This question aims to determine in which of the regions the companies experience the external trade barriers mentioned in question 17 the most. Figure 5.16 below illustrates the regions in which the companies experience the above-mentioned external trade barriers the most.

Figure 5.16: Region in which the external barriers are experienced the most

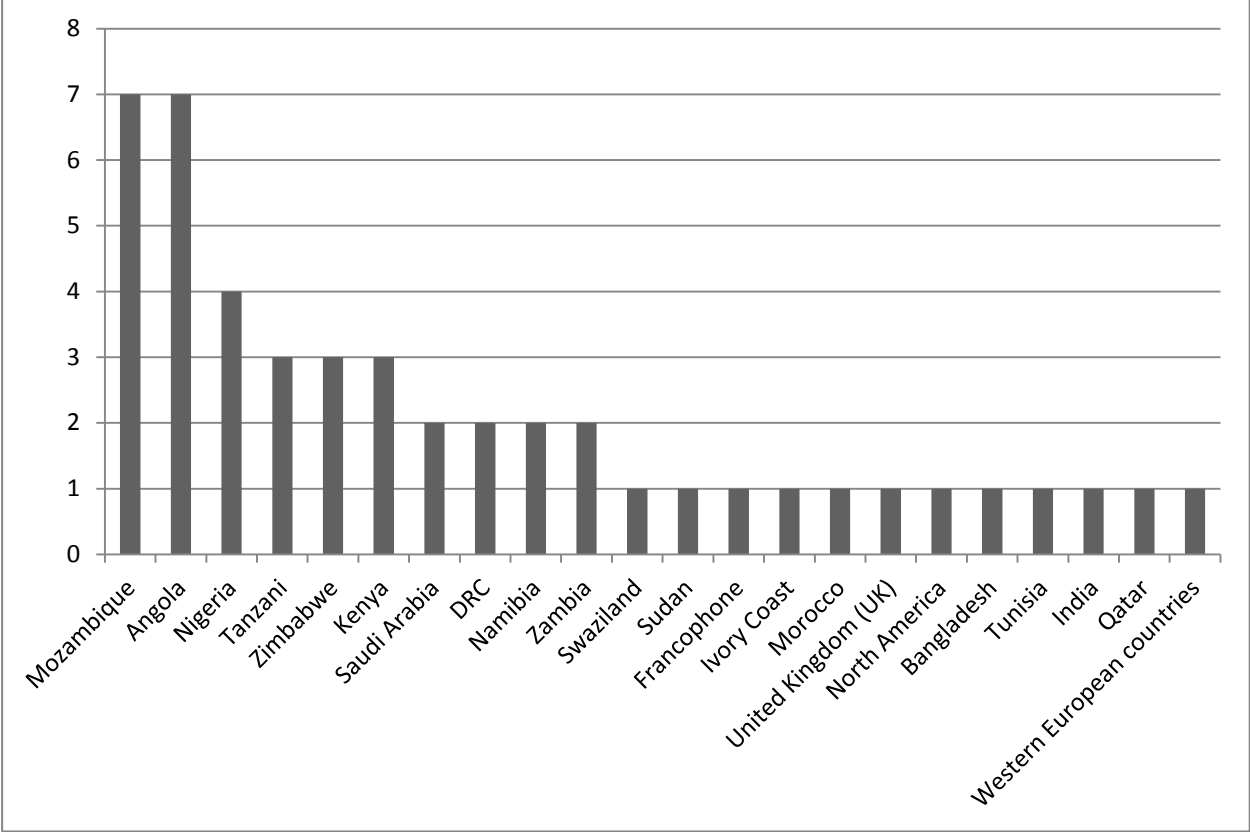


Source: Compiled by the author, 2011

The companies had the option to select all the regions in which they experience external trade barriers the most. The regions that were selected the most, by five companies or more, were Northern Africa, Southern Africa, Western Africa, Eastern Africa and Middle Africa. Fifteen companies selected Western Africa as the region in which they experience external trade barriers the most. Four companies selected Western Europe, and three companies selected South-Central Asia as regions where they experience barriers to the export of their services. Southern Europe, Eastern Europe, the Caribbean, South-Eastern Asia, and Eastern Asia were regions that were selected by at least one company experiencing external barriers when exporting their services to these regions. None of the companies selected Northern Europe, Northern America, Central America, South America, Oceania and Western Asia as possible regions where they experience the mentioned external trade barriers the most.

Question 20 follows question 19 by asking the respondents to name the countries in which their company experiences the most external trade barriers. This question was inserted in the questionnaire to establish in which countries South African providers of ‘other business’ services often experience external trade barriers when they export their services to these countries. The countries in question are listed in figure 5.17 below.

Figure 5.17: Countries in which companies experience the most trade barriers



Source: Compiled by the author, 2011

Figure 5.17 shows the countries that the companies mentioned as destinations where they experience the most trade barriers. Not all of the companies answered this question. The companies that did answer this question named more than one country. The names of these countries are shown, starting with the countries mentioned by the most companies, to those countries mentioned by the least companies. Mozambique and Angola were both noted by seven companies as countries in which they experience the most external trade barriers. Nigeria had four listings, followed by Tanzania, Zimbabwe and Kenya that three companies chose as countries in which they experience the most external trade barriers. Two out of the population of 32 companies chose Saudi Arabia, DRC, Namibia and Zambia as countries in which they experience trade barriers the most. At least one company mentioned one of the following countries in which they experienced the most external trade barriers: Swaziland, Sudan, Francophone countries⁹, Ivory Coast, Morocco, United Kingdom (UK), North America, Bangladesh, Tunisia, India, Qatar, and Western European countries. ‘Western European countries’ do not refer to a specific country, but since it was mentioned by one of the companies it is included in the data. The purpose of that is to indicate that companies do experience

⁹ Francophone countries are countries where French is the national language. The countries are, Belgium, Benin, Burkina-Faso, Burundi, Cameroon, Canada, Central African Republic, Chad, Comoros, DRC, Djibouti, France, Gabon, Guinea, Haiti, Ivory Coast, Luxembourg, Madagascar, Mali, Monaco, Niger, Rwanda, Senegal, Seychelles, Switzerland, Togo, Vanuatu (Shryock, 2006).

barriers some in Western European countries. Two of the companies mentioned some of the specific barriers linked to countries in which they experience trade barriers the most. One company indicated that Zimbabwe is currently in the process of implementing demands for local ownership when a company plans to conduct a service in this country. Another company confirmed that it is difficult to get money out of Nigeria, and also referred to Zimbabwe's requirements that make it difficult to conduct a service in this country. Lastly this company mentioned that Kenya's tax regimes pose a problem for South African service providers.

It is evident from answers to the above two questions that most of the regions and countries that were mentioned as areas in which the companies experience external trade barriers the most are African countries, followed by Western European and South-Central Asian countries.

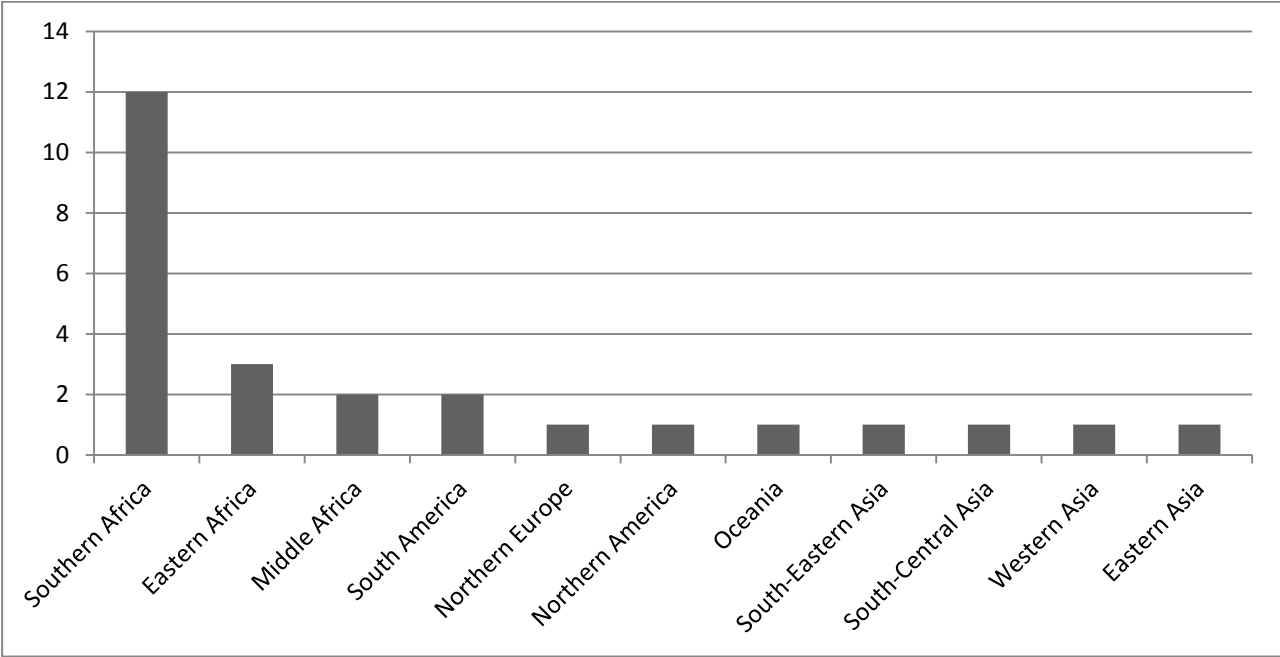
The external trade barriers that most of the companies nominated as barriers that they either always or often experience (as mentioned earlier) were:

- exchange rate risk and the risk of non-payment;
- corruption and bribery;
- risks involved with political instability in a country;
- restrictions on immigration provisions such as delay in obtaining entry visas, residency or work permits;
- difficulty to build relationships with clients in foreign markets;
- poor infrastructure;
- language and cultural barriers;
- foreign government procurement policies;
- distance to the target markets.

Most of the companies agreed that the regions and countries in which they experience external trade barriers the most were Africa, Western European and South-Central Asian countries. From this it can be concluded that the above mentioned external trade barriers are those encountered particularly in the mentioned African countries, as well as Western Europe and the mentioned South-Central Asian countries.

Question 21 focused on the regions in which companies experienced external barriers the least. This question was inserted in the questionnaire to determine in which regions the respondent companies encountered less external barriers when exporting their services. This tendency is illustrated in figure 5.18 next.

Figure 5.18: Region in which the external barriers are experienced the least



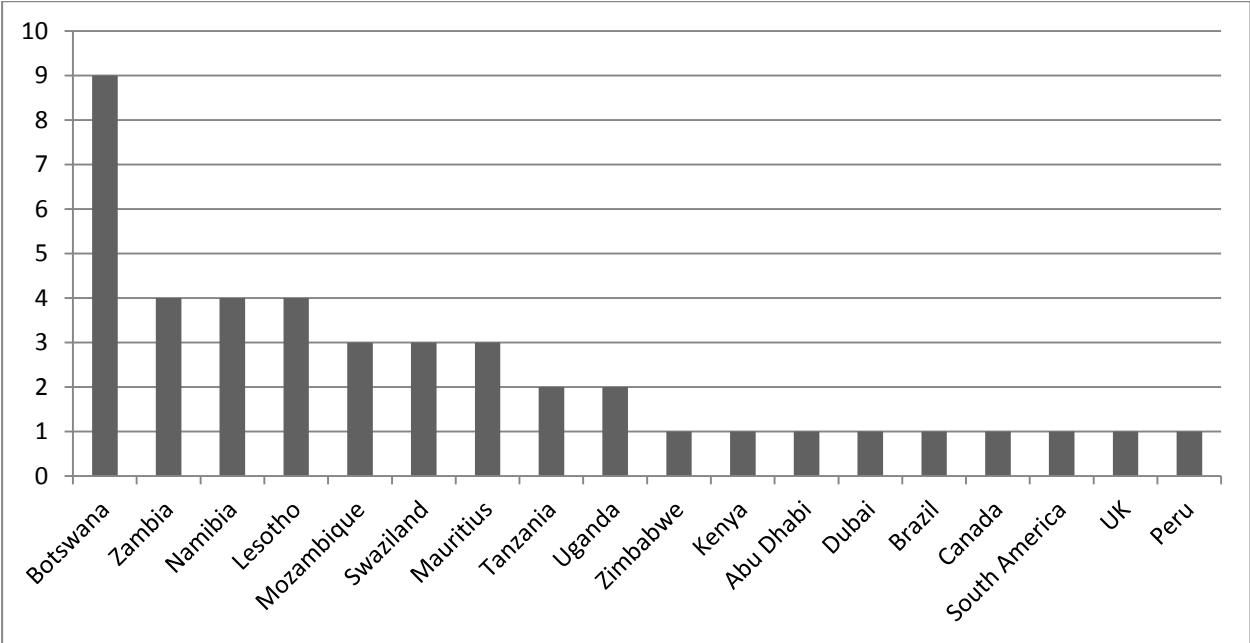
Source: Compiled by the author, 2011

Figure 5.18 depicts the regions, as indicated by the companies, in which they experience the least amount of external trade barriers. It becomes clear that Southern Africa exceeds all other regions when the researcher had to determine which region holds the least number of barriers. Twelve companies chose Southern Africa as the regions in which they experience the least external trade barriers. The other region that three companies chose is Eastern Africa, followed by Middle Africa and South America that were nominated by two companies. Other regions that were nominated by at least one company were Northern Europe, Northern America, Oceania, South-Eastern Asia, South-Central Asia, Western Asia and Eastern Asia.

The data from figure 5.16 shows that two companies chose South-Central Asia as a region in which they experience external trade barriers the most. In opposition to figure 5.16, figure 5.18 shows that only one company indicated that it experience the least amount of external trade barriers in South-Central Asia. The data from figure 5.16 furthermore shows that one company chose South-Eastern Asia and Eastern Asia as two regions in which it experiences external trade barriers the most. This is in contrast to figure 5.18 where a company chose these same two regions as regions in which it experiences external trade barriers the least. When figure 5.16 and figure 5.18 are compared, it also becomes evident that 11 companies chose Southern Africa as most restrictive and 12 companies found Southern Africa as least restrictive. A clear conclusion in this regard is therefore difficult to make.

Question 22 followed question 21 by asking the respondents to name the countries in which their company experiences the least external trade barriers. This question was inserted in the questionnaire to determine which of the countries the companies export to do experience the least amount of external trade barriers. These countries are listed in figure 5.19. Nine different companies chose Botswana as the country in which they experience external trade barriers the least. Four companies nominated Zambia, Namibia and Lesotho, whilst three companies selected Mozambique, Swaziland and Mauritius as countries with the least external barriers to the services they provide. Tanzania and Uganda were selected twice, and Zimbabwe, Kenya, Abu Dhabi, Dubai, as well as Brazil, Canada, South America, the UK and Peru were mentioned by at least one company as a country in which it experiences external trade barriers the least when exporting their service.

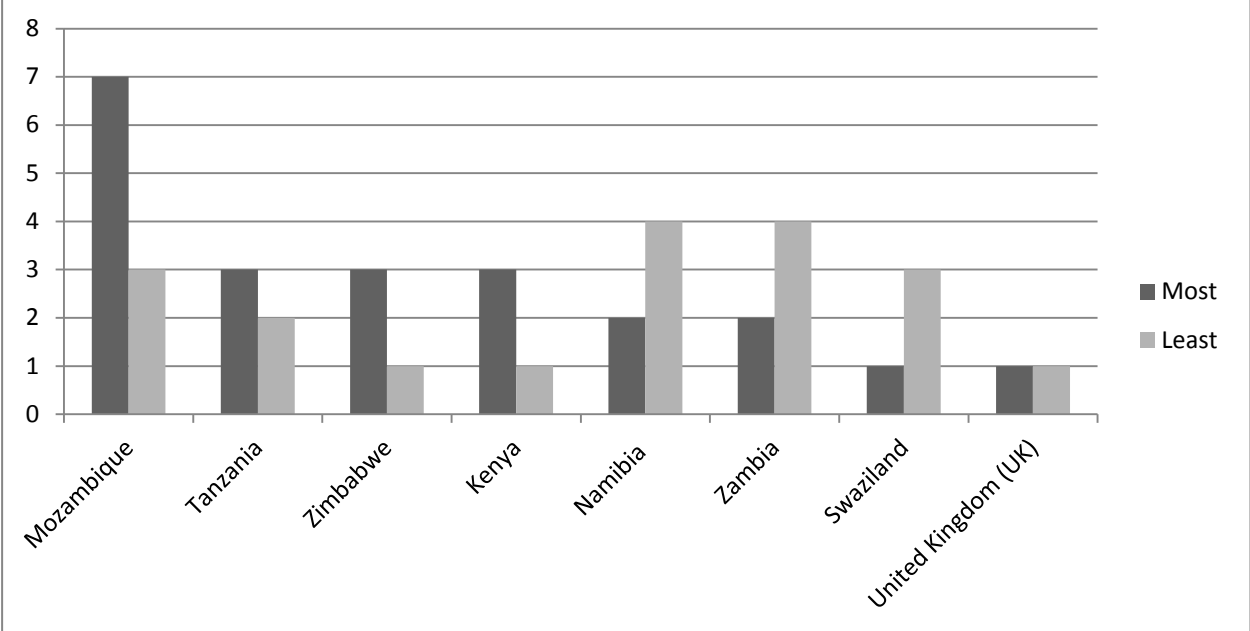
Figure 5.19: Countries in which companies experience trade barriers the least



Source: Compiled by the author, 2011

Figure 5.20 provides a summary of figures 5.17 and 5.19, in order to give an indication of the countries that were nominated as areas in which companies experience both the least and the most external trade barriers. Some companies chose certain countries that hold significant external barriers to trade, in contrast to other companies that experienced the least external barriers to trade in those same countries.

Figure 5.20: Comparison between figures 5.17 and 5.19



Source: Compiled by the author, 2011

Seven companies chose Mozambique as a country in which they experience external trade barriers the most, as opposed to three other companies indicating that they experience external trade barriers the least in Mozambique. Mozambique can therefore be perceived as a country that holds significant external barriers to trade. From figure 5.20 it is evident that Tanzania, Zimbabwe and Kenya can also be seen as countries that impose significant external barriers to the trade of the mentioned services from South African service providers. In contrast to this, Namibia, Zambia and Swaziland seem to be reasonably open to trade and companies do not experience external trade barriers to such a significant extent in these countries. One company chose the UK as a country in which it experiences external trade barriers the most, whilst another company indicated that it experiences external trade barriers the least in the UK. No conclusion can be drawn as to how significant the external trade barriers are in this country.

Some countries were nominated in question 20 as areas in which the companies experience external trade barriers the most, but these countries were not nominated by any other company as a country in which they experience external trade barriers the least. These countries are: Angola, Nigeria, Saudi Arabia, DRC, Sudan, Francophone countries, Ivory Coast, as well as Morocco, North America, Bangladesh, Tunisia, India, Qatar and Western European countries¹⁰. These countries can be seen as destinations in which at least one company experiences significant external trade barriers. Such countries are therefore also seen to be less open to trade with South African ‘other business’ services providers.

¹⁰ ‘Western European countries’ does not refer to a specific country in Western Europe, but has been included in the data, since one of the companies who completed the questionnaire made reference to it.

A number of countries were selected in question 22 as destinations in which companies experience external trade barriers the least. However, these same countries were not chosen in question 20 as a destination in which any company experienced the most external trade barriers. These countries are: Botswana, Lesotho, Mauritius, Uganda, as well as Abu Dhabi, Dubai, Brazil, Canada, South America and Peru. They can be seen as countries that were selected by at least one or more companies as destinations in which they experience the least external barriers and that are therefore more open to trade with South African 'other business' service providers.

The data that was obtained from question 12 (see appendix A), figure 5.11, showed that the top nine countries nominated by five companies or more as destinations to which they export the most are: Mozambique, Botswana, Zambia, Tanzania, as well as Swaziland, Angola, Namibia, Kenya and Lesotho. These are also the countries that most companies selected as areas in which those companies either experience the most or the least external barriers.

A cross tabulation analysis was done to determine whether a relationship exists between the barriers the companies experienced in certain countries and the type of business operation that those companies perform. The one quantity surveying company indicated that the countries in which they experience external trade barriers the most are Francophone countries and Angola. The countries in which this company experience external trade barriers the least are Botswana, Zambia, Uganda and Tanzania.

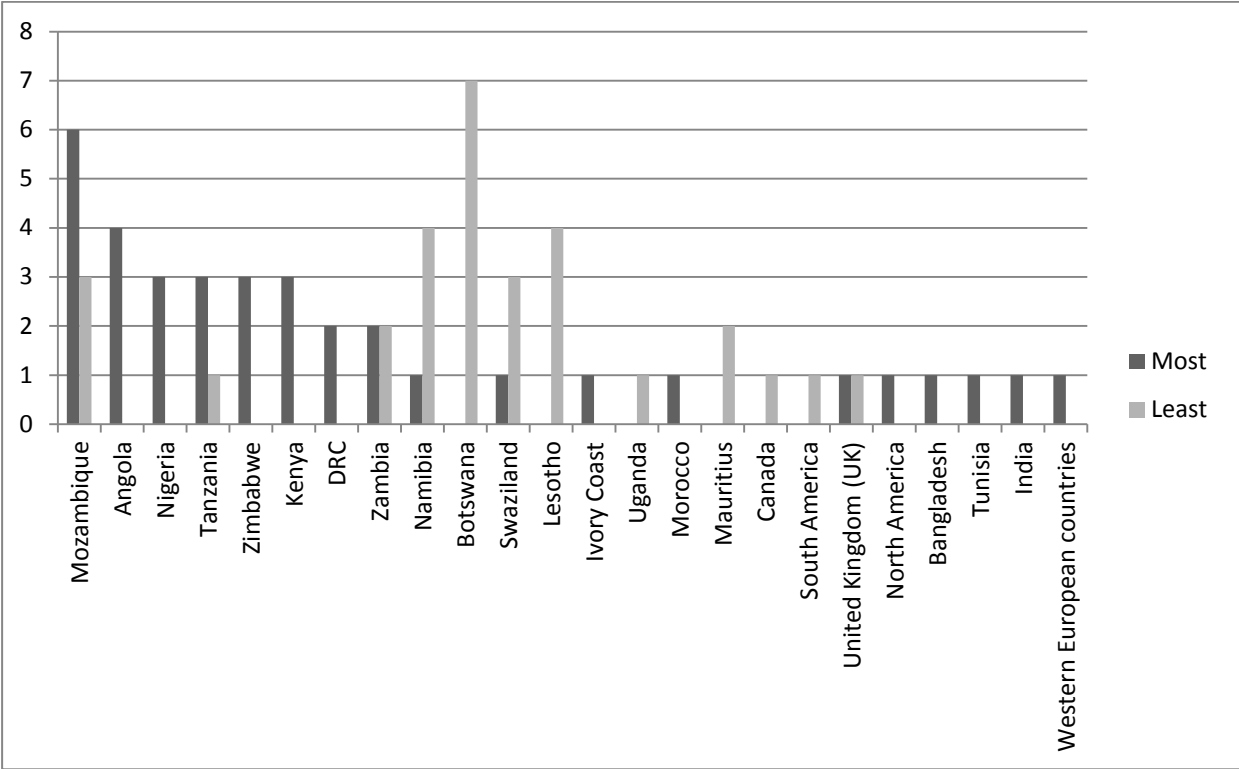
Of the two construction project managing companies one indicated that the country in which it experiences external trade barriers the most is Nigeria, whilst the countries in which they experience such barriers the least are Mauritius and Peru.

The four architectural companies indicated that the countries in which they experience the most external trade barriers are Namibia, Mozambique, Angola, and Saudi Arabia. Two of these four companies chose Angola and Saudi Arabia as countries in which they experience significant external trade barriers when exporting their services. The countries these companies nominated as destinations in which they experience the least number of external trade barriers are, Botswana, Kenya, Zambia, Zimbabwe, Abu Dhabi, Dubai and Brazil.

Of the 24 consulting engineering companies, nineteen chose the following countries as destinations in which they experience the most external trade barriers:, Nigeria, Sudan, DRC, Kenya, Mozambique, Zimbabwe, Qatar, Western EU countries. They also indicated Zimbabwe, Angola, India, UK, North America, Tanzania, Namibia, Zambia, Swaziland, Bangladesh, Ivory Coast, Morocco, Tunisia and the DRC. Countries that the consulting engineering companies

indicated as destinations in which they experience the least amount of external barriers are: Lesotho, Swaziland, Botswana, Mauritius, Mozambique; as also: Namibia, Zambia, UK, Uganda, Tanzania, Canada, and South America. Several of the companies were nominated by more than one company as a country in which they either experience the most or the least external trade barriers. The table indicate the countries in which the consulting engineering companies experience the most and the least external trade barriers.

Figure 5.21: Cross tabulation analysis between the countries in which the consulting engineering companies experience the most and the least barriers



Source: Compiled by the author, 2012

From figure 5.21 it is evident that there are countries that some consulting engineering companies chose as countries in which they experience external trade barriers the most, whilst other consulting engineering companies nominated some of these similar countries as destinations in which they experience external trade barriers the least. These countries are Mozambique, Tanzania, Zambia, Namibia, Swaziland, and the UK. Countries that were only nominated as destinations in which the consulting engineering companies experience the most external trade barriers are, Angola, Nigeria, Zimbabwe, Kenya, the DRC, the Ivory Coast, as well as Morocco, North America, Bangladesh, Tunisia, India and Western European countries. Furthermore, countries that were nominated by three or more companies as destinations in which they experience the most external trade barriers are Mozambique, Angola, Nigeria,

Tanzania, Zimbabwe and Kenya. The country that six consulting engineering companies chose as the destinations with the most external trade barriers is Mozambique.

The countries that were only selected as destinations in which the consulting engineering companies experienced the least number of external trade barriers are Botswana, Lesotho, Uganda, as well as Mauritius, Canada and South America. The countries that three or more companies selected as destinations in which they experienced the least external trade barriers are, Mozambique, Namibia, Botswana, Swaziland and Lesotho. The country that seven of the consulting engineering companies selected as a destination in which they experience the least number of external trade barriers in is Botswana.

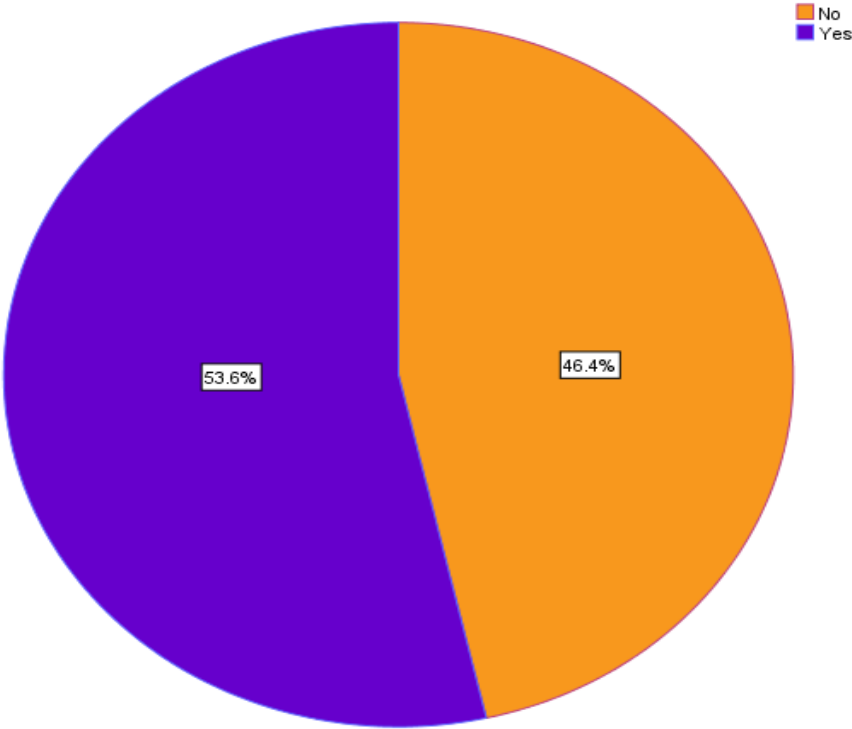
In conclusion to the cross tabulation analysis the following facts can be noted. The one quantity surveying company experiences the most significant external trade barriers in Francophone countries, as well as Angola, whilst one construction project managing company finds Nigeria to hold significant external trade barriers. The four architectural companies experiences Namibia, Mozambique, Angola, and Saudi Arabia to be countries that pose significant external trade barriers. Angola and Saudi Arabia were pointed out by two of the four architectural companies. The countries that at least three consulting engineering companies chose as destinations in which they experience the most external trade barriers are Mozambique, Angola, Nigeria, Tanzania, Zimbabwe and Kenya, of which Mozambique was selected the most.

Furthermore, when focussing on the countries that the companies nominated as those destinations in which they experience the least number of external trade barriers, the quantity surveying company chose Botswana, Zambia, Uganda and Tanzania. The two construction project managing companies each selected either Mauritius or Peru as countries in which they experience the least number of external trade barriers. In addition the four architectural companies selected Botswana, Kenya, Zambia, Zimbabwe, Abu Dhabi, Dubai and Brazil as countries in which they experience the least number of external trade barriers. Lastly, the countries that at least three consulting engineering companies selected as destinations in which they experience the least amount of external trade barriers when exporting their services are Mozambique, Angola, Nigeria, Tanzania, Zimbabwe and Kenya, of which Mozambique was selected the most.

Figure 5.22 below gives a final indication whether companies have a need for the South African government to assist in alleviating any of the mentioned external trade barriers. This question was inserted in the questionnaire to determine if there do exist such a significant need for the South African government to relieve the companies of some of the external trade barriers that they experience. Twenty eight of the 32 companies answered this question. Of the 28

companies, fifteen wanted the South African government to assist with external trade barriers. In contrast to this, thirteen of the companies did not have a need for the South African government to assist in relieving the mentioned external barriers to the trade of the service they provide.

Figure 5.22: Government assistance needed for the alleviation of external company barriers



Source: Compiled by the author, 2011

Question 24 (see appendix A) accompanied question 23 by stating that if a company selected the option that they would prefer for the South African government to alleviate the external trade barriers experienced, they should also indicate which external barriers they need assistance with. The companies' answers to this question are listed as follows:

- restrictions on immigration provisions such as delay in obtaining entry visas, residency or work permits;
- business tender processes that are time consuming and then are awarded to citizens of funding organisations;
- difficulty to build relationships with clients in foreign markets;
- risk regarding exchange rate and possible non-payment;
- licensing procedures;
- foreign government procurement policies;

- tax concessions and favourable tax agreements that do not affect the overall price of the service provided;
- tax breaks and incentives for export activities, particularly for small, micro, and medium sized enterprises (SMME's);
- difficulty to prove credibility in the foreign market as a company from a developing country;
- economic regulations such as pricing regulations, discriminatory taxes and market entry/exit restrictions;
- monetary restrictions such as a foreign country refusing to send profits/royalties back to South Africa;
- subsidies provided to foreign services providers reducing the ability to export at a competitive rate;
- bilateral trade agreements between countries impeding the ability to export at a competitive rate;
- corruption and bribery.

One of the companies indicated that the South African government should alleviate all of the mentioned external trade barriers in question 17 (see appendix A).

5.3.4 A comparison between this study and other existing empirical studies relevant to services

Many of the studies discussed in section 4.3 focused on various other services, such as those rendered in the field telecommunication, maritime, education and the medical profession, as well as on the barriers companies experienced when trading these services. However, these barriers, which the other services encounter, do not apply to this study. A study conducted by Teljeur and Stern (2002) focussed on 'other business' services by means of a GATS approach. This study took into account the commitments made to GATS by potential South African target markets to determine which barriers South African companies encounter when they aim to export these services. Some of the barriers to the trade of 'other business' services that were identified by Teljeur and Stern (2002), were indicated as insignificant by the companies who completed the questionnaire for this study. These barriers are:

- technical standards that have to be adhered to;
- licensing procedures;
- restrictions on qualifications.

The barriers that Teljeur and Stern (2002) mention in their study that have also been identified as significant barriers to the export of 'other business' services from South Africa in this study are:

- restrictions on immigration provisions such as delay in obtaining entry visas, residency or work permits;
- risk regarding exchange rate and of non-payment;
- corruption and bribery;
- foreign government procurement policies.

5.4 Summary and conclusion

Chapter 4 discussed the possible internal and external barriers to the trade of services in general. Chapter 5 focused on determining which of the discussed internal and external barriers apply to the export of 'other business' services from South Africa. This chapter firstly discussed the method how the data was obtained and how the questionnaire was compiled and validated. The data obtained through the questionnaires received from 32 providers of 'other business' services were analysed in the following section, and each question of the questionnaire was discussed individually.

The first section of the questionnaire focused on the demographics of the respondent companies. The main findings of this section were that the majority of companies consist of consulting engineers and most of the respondent companies were large companies. Furthermore, most of the companies were located in Gauteng and most of the companies also operate/provide a service in Johannesburg, Pretoria and Cape Town.

The second section of the questionnaire focused on the companies' exports. It was found that most of the companies have either 5-10 or 10-20 years of export experience. The regions to which these companies mostly export are Southern Africa, followed by Eastern Africa, Western Africa, Middle Africa and Northern Africa. The top two countries that the companies indicated to which they export their services the most were Mozambique and Botswana.

Section 3 of the questionnaire focused on the internal and external trade barriers that the companies experience. The most significant internal barrier that the majority of the companies chose was 'the lack of personnel who are experienced in export activities'. The internal barrier that all sized companies found to be a hindrance to their exports was 'limited managerial time to deal with exports'. Of the 30 companies that answered the question, 21 affirmed that they have the need for the South African government to assist in reducing internal barriers. 'Information on how to enter foreign markets' was noted as the internal barrier with which the companies require assistance the most.

The external barriers five companies or more indicated as barriers that they always experience, are 'exchange rate risk and the risk of non-payment', 'corruption and bribery', and 'risks involved with political instability in a country'. The external barrier that always reflected the option the most was, 'exchange rate risk and the risk of non-payment'. Furthermore, some other barriers that were chosen which companies often experienced were, 'restrictions on immigration provisions such as delay in obtaining entry visas, residency or work permits', 'exchange rate risk

and the risk of non-payment', 'corruption and bribery', The external barrier that reflected the option 'often' the most was, 'corruption and bribery'.

Both the quantity surveying company and the construction project managing companies found 'measures that require the company to be a certain registered type of legal entity or to be part of a joint venture in the target market' to be an external barrier they often experience. Furthermore, external trade barriers that both the construction project managing companies and the architects selected as barriers that they often experience were, 'restrictions on immigration provisions such as delay in obtaining entry visas, residency or work permits', 'corruption and bribery' and 'poor infrastructure'. The most significant external trade barrier that three of the four architectural companies selected as a barrier they experience either always or often, was, 'exchange rate risk and the risk of non-payment'. Consulting engineering companies indicated that they perceived 'corruption and bribery' as well as 'exchange rate risk and the risk of non-payment' as external trade barriers that they experienced the most often or always.

Companies in the export experience categories 0-5 years, 10-20 years and 20 years and up all agreed that 'foreign government procurement policies' was the barrier that they most often experience. Companies in the export experience categories 0-5 years, 5-10 years and 10-20 years all experience 'distance to the target market' as a significant external barrier.

The regions in which the companies experience the most external barriers were nominated as follows: Northern Africa, Southern Africa, Western Africa, Eastern Africa and Middle Africa. Mozambique and Angola were listed as the countries in which the companies experience trade barriers the most. It also became evident that 11 companies chose Southern Africa as most restrictive and 12 companies found Southern Africa as least restrictive. The country, in which they experience the least number of external trade barriers of all, was Botswana. Fifteen of the 32 companies indicated that they have a need for the South African government to assist them by alleviating external trade barriers.

Many of the internal and external barriers that companies in the 'other business' services sector in South Africa were found to experience, can be limited with the assistance of the South African government. Recommendations to this extent are made in the following chapter. By decreasing these barriers, or assisting companies to eliminate some of these barriers, South Africa can ultimately gain from increased trade in 'other business' services.

Chapter 6

Conclusions and recommendations

6.1 Introduction

Services play a vital role in world trade, especially since these actions often serve as inputs into the production of goods and other services that are exported (Panagiotis, 2007; Francois & Hoekman, 2010). Services are known as the factor that sustains long term business and client relationships (Daniels, 2000). Without services rendered, it will not be possible to export many products and other services (Panagiotis, 2007; Francois & Hoekman, 2010).

Services trade make up one fifth of global trade (Fink & Jansen, 2007; Jansen, 2008). Furthermore, 60% of the world's GDP comprise the service sector, and the service sector also provides one third of the world with employment and has been growing since 2000 with an annual rate of 10% (Dee, 2001; UP, 2008; Breinlich & Criscuolo, 2011). Not only is services trade prominent in the world, but the service sector is also important for South Africa and its economic growth (Manuel, 2007). The service sector contributed 59% to South Africa's GDP in 2010 (New Zealand trade and enterprise, 2011).

The most prominent services in the world (as seen in Table 3.1) are other business, travel and transportation services (Hodge, 1997; Mattoo, 2005). According to Fourie (2011), business services contribute approximately 25% of the total services export from South Africa. Trade in the business services sector has become very favourable. This is expected to be a category that continues to be that of a higher output and growth (McLachlan *et al.*, 2002; Mayer, 2005; Breinlich & Criscuolo, 2011).

Trade barriers, however, always stand in the way of exports. They obstruct the free flow of trade in manufactured goods, as well as in services (Hoekman & Messerlin, 1999; Mattoo, 2000; Grünfeld & Moxnes, 2003). The purpose of this study is to identify the trade barriers that exporters of 'other business' services experience in particular. Such exporters are found within the BEPEC Council. Therefore, in order to identify the trade barriers in the 'other business' services category, this study focuses on the trade barriers that the members of the BEPEC encounter. These members are either exporters of consulting engineering, architectural, quantity surveying, or construction project managing services.

Information obtained from the BEPEC companies can help “other business’ service’ export operations to be more successful. Barriers that are identified can be addressed to help increase the competitiveness of South Africa’s ‘other business’ services category.

Section 6.2 concludes this study and indicates how the primary objective and sub-objectives of this study were reached. Recommendations are made on handling the most significant internal and external barriers that were identified in section 6.3. Lastly the limitations of this study are mentioned in section 6.4 together with some areas of future research that can be conducted in this field of study.

6.2 Conclusions

The primary objective of this study was to determine the trade barriers that are experienced by providers of consulting engineering, architectural, quantity surveying, and construction project managing services, or otherwise categorised as ‘other business’ services. This objective was achieved through the following sub-objectives.

6.2.1 The trade theories and how they support trade in services

The first sub-objective was to provide an overview of trade theories and to give an indication of how they support the trade of services. This objective was accomplished in chapter 2 where various trade theories were discussed. The trade theories that apply to and therefore support the trade of services were also mentioned. It became evident that services can be seen as an input into the production process of manufactured products and are supported by many trade theories. Some of the trade theories that make particular reference to the benefit of the trade of services are: Ricardo’s, Heckscher-Ohlin’s, the NEG and gravity trade theory, as well as all other trade theories that included economies of scale.

6.2.2 Overview of the service sector

The second sub-objective was to provide a description and an overview of the service sector. The objective was reached in chapter 3, section 3.2. This entailed, amongst others, classifying services in categories such as old, new and complementary services, which were also grouped in accordance with the economic characteristics they possess, such as consumer, producer and community/social services. Furthermore, the changes that services bring about are listed as change in: the environment, people, manufactured goods, and changes that allow people to acquire knowledge.

6.2.3 Overview of trade in services globally

The third sub-objective was to provide a description and overview of the trade in services globally. This objective was reached in chapter 3, section 3.3 and section 3.3.2. In these sections the importance of services trade was illustrated by indicating that services trade constitutes 20% of global trade or 50% if the services used to complete and export manufactured goods are included in this estimate (Francois & Hoekman, 2010). The global trade of services according to figures provided from 2006 to 2010 was discussed in more detail. It became obvious that travel, transportation, and 'other business' services were the three largest services categories globally.

6.2.4 Overview of trade in services in South Africa

The fourth sub-objective was to provide a description and overview of the trade in services in South Africa. This objective was accomplished in chapter 3, section 3.3.3. In this section South Africa's services export and import values for the time between 2006 and 2010 were provided and discussed. It became evident that the three largest contributors to South Africa's total services exports and imports were travel, transportation and 'other business' services.

6.2.5 Overview of the GATS and its role in the removing of service trade barriers

The fifth sub-objective was to provide an overview of the GATS agreement and the role that GATS plays in removing service trade barriers. This objective was addressed in section 3.1.1, which focused on the role of the GATS agreements in services trade. It became clear that the GATS agreements focus on two primary goals: the liberalisation of services trade barriers and transparency of rules and regulations about services. It was found that GATS stipulate five categories of measures, by to which member countries should adhere. These categories ensure that trade of services is conducted in an efficient manner. The categories are: qualification requirements, qualification procedures, licensing requirements, licensing procedures and technical standards. In this section the four modes to supply a service abroad was also discussed. The four modes of supply discussed were: cross border trade, consumption abroad, commercial presence in a foreign country and temporary movement of natural persons. The twelve services categories into which all services are classified were also mentioned.

6.2.6 Overview of the service trade barriers

The sixth sub-objective was to provide an overview of the service trade barriers as given by literature. This objective was reached in chapter 4, section 4.2. Firstly, section 4.2 provided a short description of barriers to the trade of services and also indicated that barriers can either be experienced within a company or result from external factors. The following section (4.3) focussed on discussing internal, as well as external barriers that companies may experience when exporting services. The three main groups into which internal barriers can be categorised became apparent as: resource, knowledge, and procedure barriers. Services trade regulations could, according to Panagiotis (2007), be grouped in categories known as: economic, social, and process regulations. The various external barriers to the trade of services were also discussed in detail. Some of these external barriers could include: licensing requirements, distance to the target market, as well as corruption and bribery.

After categorising the internal and external barriers, section 4.3 examined some of the existing international, as well as South African empirical studies relevant to services. These were included in order to emphasise the need for this study to focus on the barriers experienced by the providers of 'other business' services. Other reasons were also given as motivation for this study, such as the DTI's funding of services that support improved investment and infrastructure projects.

6.2.7 Overview of the 'other business' services sector

The seventh sub-objective focused on providing a description and an overview of the 'other business' services sector. This description was provided in section 4.4, and it was also made clear that this study focuses on the 'other business' services provided by companies listed under the BEPEC. These 'other business' services include the consultations made by engineers, architects, quantity surveyors and construction project managers, and are found under the sub-sector professional services and 'other business' services (WTO, 1991; Bartuska & Young, 1994). These services are therefore inputs into the production of structures (Panagiotis, 2007).

6.2.8 Overview of the top ten countries' and South Africa's trade

The eighth sub-objective was to provide an overview of the top ten countries' and South Africa's trade in 'other business' services. This objective was reached in section 4.5. Trade figures in 'other business' services were provided for the top 10 countries that exported and imported 'other business' services between 2006 and 2010. Furthermore, South Africa's export and

import values for 'other business' services that were traded between 2006 and 2010 were also given. South Africa's imports of 'other business' services were found to exceed their exports of 'other business' services. Therefore, the next section focussed on some common 'other business' services trade barriers that could be apparent. Some of these barriers were found to be: the lack of transparency in building regulations and inconsistency of building standards in other countries, as well as licensing requirements.

6.2.9 Overview of the trade barriers BEPEC members experience

The ninth sub-objective was to provide an overview of the trade barriers BEPEC members experience when exporting business services from South Africa. This objective was reached in chapter 5, section 5.3. Chapter 5 provided a discussion of the empirical research that was conducted in this study. Firstly, the methodology of obtaining the data was discussed in section 5.2. Next, section 5.3 focussed on analysing the data obtained from the 32 completed questionnaires. This study's questionnaire was divided into three sections: the demographic information, the companies' exports, and the trade barriers experienced by the companies.

6.2.9.1 Questionnaire: demographic information

The first section of the questionnaire focused on the demographic information of the companies concerned. The majority of respondent companies were found to be consulting engineering companies. Furthermore, the majority of the companies were found to be based in Gauteng and have the most offices in Johannesburg, Pretoria and Cape Town. The provinces in which most of the companies operate/provide a service were found to be Gauteng and the Eastern Cape. Moreover the metropolitan cities that more than 20 of the companies chose were: Johannesburg, Pretoria, EThekweni (Durban), Ekurhuleni (East Rand) and Cape Town. A comparison was made between the provinces in which the companies are based and the provinces in which they provide a service. It was found that more than half of the companies provide a service in most of the provinces, even if they are not based in those provinces. A comparison was also made between the metropolitan cities in which the companies operate/provide a service and the metropolitan cities in which the companies are based. It was found that the companies perform services not only in the metropolitan cities in which they are based, but also in the other metropolitan cities mentioned. It was also discovered that the majority of the companies can be categorised as large companies.

6.2.9.2 Questionnaire: exports

The second section of the questionnaire focused on the exports of the companies (see appendix A). The majority of the companies indicated that they have been exporting for either between five and ten years or between ten and twenty years. The countries that the companies mostly export to were found to be situated in Africa. The top nine countries that the companies indicated the most were: Mozambique, Botswana, Zambia, Tanzania, as well as Swaziland, Angola, Namibia, Kenya and Lesotho.

6.2.9.3 Questionnaire: trade barriers

The third section of the questionnaire focused on the trade barriers that the companies experience (see appendix A). The internal barrier mostly experienced was found to be the lack of personnel who have experience in export activities.

Next, a cross tabulation was done between the size of the respondent companies and the internal barriers that the various size companies experience. The similar barriers experienced by micro, small, medium and large sized companies were: lack of information about foreign markets and lack of information on how to enter these foreign markets.

A cross tabulation analysis was done between the companies' years of export experience in relationship to the internal barriers experienced by the companies. The internal barrier that was mentioned by companies in three of the four categories – and therefore a very significant internal barrier for any company, regardless of its export experience – was too few personnel who are experienced in export activities. Most of the companies confirmed that they have a need for the South African government to assist them by alleviating some of the mentioned internal barriers. The internal barrier with which the companies require assistance and that was mentioned the most, was the lack of information on how to enter foreign markets.

The following barriers of section 3 that were focused on were all the external barriers discussed in chapter 4 (see section 4.2.2 and 4.6). The external barriers that were nominated the most as barriers the companies experienced always were:

- risks regarding exchange rate and of possible non-payment;
- corruption and bribery;
- risks involved with political instability in a country.

Other barriers that almost half the companies nominated as barriers that they experience often were:

- restrictions on immigration provisions, such as delay in obtaining entry visas, residency or work permits;
- poor infrastructure;
- foreign government procurement policies;
- distance to the target market.

A cross tabulation analysis was done between the external barriers and the companies' business operations. Companies that provide different services indicated different external barriers as barriers they experience often or always. Some business categories, however, also agreed on barriers that they experience often. For example, external trade barriers that both the construction project managing companies and the architects selected as barriers they experience often were:

- restrictions on immigration provisions such as delay in obtaining entry visas, residency or work permits;
- corruption and bribery;
- poor infrastructure.

Next, a cross tabulation analysis was done to determine whether there is a relationship between the number of years of export experience and the external barriers the companies experience. It was noted that the external barriers that companies in all four categories of export found significant were:

- risks regarding exchange rate and of possible non-payment;
- corruption and bribery;
- risks involved with political instability in a country;
- poor infrastructure.

In figure 5.16, Western and Eastern Africa were selected as the regions in which the companies experience external trade barriers the most. Furthermore, Mozambique and Angola both got the highest count as countries in which the companies experience external trade barriers the most. Southern Africa was furthermore nominated by 11 companies as the region in which the companies experience trade barriers the most, and by 12 companies as the region in which they experience trade barriers the least. Botswana was selected as the country in which the companies experience external trade barriers the least.

A cross tabulation analysis was done next to determine whether there is a relationship between the trade barriers companies experience in certain countries, and the type of business operation these companies perform. Three of the four companies in the business operation categories

chose Angola as the country in which companies experience the most external trade barriers, whilst two of the business operation categories chose Botswana as the country in which they experience the least number of barriers. Almost half of the companies indicated that they need the South African government to help them by alleviating external trade barriers. Companies indicated numerous external barriers with which they need the South African government's assistance. These external barriers include: 'tax concessions and favourable tax agreements that do not affect the overall price of the service provided'.

The tenth sub-objective was to make recommendations on how to help address the export barriers encountered in the BEPEC. The recommendations are put forward in section 6.3.

To summarise, the primary objective of this study was to identify the 'other business' service exports trade barriers that companies in the BEPEC experience often or always, and at the same time identify the service export trade barriers in the category, 'other business' services. These objectives were achieved by researching international trade literature, as well as by compiling a questionnaire to identify which trade barriers the companies experience to a greater extent in this specific sector. The internal barriers that were identified in this study as significant obstructions to the export of 'other business' services were: 'the lack of personnel who have experience in export activities', 'lack of information about foreign markets', and 'lack of information on how to enter these foreign markets'. The external barriers that were indicated as the most significant to the export of 'other business' services were:

- risks regarding exchange rate and of possible non-payment;
- corruption and bribery;
- risks involved with political instability in a country;
- restrictions on immigration provisions such as delay in obtaining entry visas, residency or work permits;
- poor infrastructure;
- foreign government procurement policies;
- distance to the target market.

It was found that many of the internal and external barriers that companies in this sector experience can be decreased by assistance from the South African government. More detailed recommendations to this extent are made in the following section.

6.3 Recommendations

In this section, recommendations are based on the results of the questionnaire. These recommendations are divided into those regarding internal company barriers (see section 4.2.1), and external export trade barriers (see sections 4.2.2 and 4.6).

6.3.1 Recommendations regarding internal company barriers

Of the 32 companies, 21 affirmed that they need the South African government to assist in reducing internal barriers. Therefore, it is important that the South African government, and particularly the DTI, focus on assisting firms with the following internal barriers:

1. The internal barriers 'lack of information about foreign markets' and 'lack of information on how to enter these foreign markets' can be addressed by the DTI. The DTI can provide market related information for each individual country on its website or make this information available more readily to exporters.
2. Export assistance programmes should be advertised more clearly and provided to exporters in this sector.
3. The DTI can assist by providing training to the companies who find 'the lack of personnel who are experienced in export activities' and 'lack of information on how to enter foreign markets' as a barrier to the exports of their services.
4. The internal barriers 'scarcity of internal financial resources for export purposes and export promotion' are those mostly experienced by micro/small companies. The DTI can assist such companies with initial funding for export purposes or direct them to possible funding sources.
5. The DTI can help to source initial funding until the release of letters of credit.
6. The DTI can provide performance guarantees for the exporters of 'other business' services at a more competitive rate than the banks, thus ensuring that 'other business' services can be conducted at a competitive rate.
7. Bilateral trade agreements for the export of 'other business' services in particular can be entered into with potential export destination countries.

Many of the above internal barriers can be resolved by training and providing market-related information. The South African government should be involved more actively in assisting these firms to overcome such barriers, as that could lead to an increase in exports of 'other business' services.

6.3.2 Recommendations regarding external company barriers

Fifteen of the 32 companies that answered the question do need the South African government to assist them through alleviating external trade barriers. Recommendations can be made to the South African government and the DTI in particular, regarding external company barriers. These recommendations are based on the outcomes of the questionnaire and do not take the current trade agreements etc. into consideration. The recommendations are as follows:

1. Southern Africa, followed by Eastern Africa, Western Africa and Middle Africa were found to be the regions to which most of the South African exporters of 'other business' services export their services. The government should focus on providing export promotion activities, especially in these regions.
2. Mozambique and Angola were nominated as the countries that hold the most external trade barriers for the exporters of 'other business' services. The DTI can particularly assist to alleviate barriers in these African countries.
3. The DTI should work in collaboration with the various consulates in South Africa to ensure that visas and work permits are issued timeously. Should the exporters of 'other business' services experience any unnecessary delays, fines could be issued to the consulates.
4. The DTI has to protect the companies against the risk of non-payment, by providing information on various payment methods as well as assisting these companies in obtaining export credit insurance for the markets concerned.
5. The DTI should assist or train South African 'other business' service providers on how to channel profits/royalties back to South Africa.
6. Stricter measures can be implemented by the South African government against offenders from our country who take part in corruption and bribery.
7. The DTI could have a representative involved with business tender processes to ensure that the government procurement policies are fair to all applicants and not biased toward citizens of funding organisations.
8. A travel incentive could be implemented by the DTI, to assist the exporters of 'other business' services with the costs involved in travelling to distant target markets.
9. Favourable tax agreements, that do not affect the overall price of the service rendered from South African 'other business' services providers, should be discussed with other African countries, especially African countries with which South Africa has trade agreements.

The external trade barriers experienced by 'other business' services companies are all aspects with which the South African government can assist, either through training, or through trade

negotiations, and thus help open markets for South African 'other business' services exporters. The focus should be on the African continent as part of South Africa's drive to increase trade with the rest of Africa.

6.4 Limitations of this study and recommendations for future research

This study was limited in the number of questionnaires that were returned. As a result, the data was limited in some instances.

Further research can be done on the barriers that architect, quantity surveying, and construction project managing companies experience, since these are the three groups from which the researcher obtained the least questionnaires. Further research could also include trade agreements that exist, as well as GATS schedules to help support the alleviation of service trade barriers. A follow-up study could be undertaken on those South African companies that have a comparative advantage over their international counterparts when it comes to trade in 'other business' services. How could the government assist these South African companies and help them to maintain their advantage by alleviating certain trade barriers internally and by negotiating the slackening of such barriers with other countries externally, at least on the African continent? On the other hand, how can the negotiated slackening (liberalisation) of trade barriers from foreign countries (especially on the African continent) help to break ground for those South African companies that are on the brink of such a comparative advantage in 'other business' services, and possibly assist them in gaining such an advantage internationally?

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QUESTIONNAIRE: BARRIERS TO TRADE IN BUSINESS SERVICES

Please complete all the questions by marking the most relevant answer with an X.
If more than one answer is relevant to your business, please tick all relevant boxes.

SECTION 1 – DEMOGRAPHIC FEATURES OF YOUR COMPANY

1. Indicate which of the following professions describe your **business operations**:

Consulting engineers	1	Architects	2	Quantity surveyors	3	Construction project managers	4
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2. In which South African **province/provinces** are you based?

Gauteng	1	North West Province	4	Mpumalanga	7
Eastern Cape	2	Northern Cape	5	Western Cape	8
KwaZulu-Natal	3	Free State	6	Limpopo	9

3. In which of the following South African **metropolitan cities** are you based?

Johannesburg	1	EThekweni (Durban)	4	Cape Town	6
Pretoria	2	Ekurhuleni (East Rand)	5	Port Elizabeth	7
Other (please specify)	3				

4. In which South African province/provinces do you **operate/provide a service**?

Gauteng	1	North West Province	4	Mpumalanga	7
Eastern Cape	2	Northern Cape	5	Western Cape	8
KwaZulu-Natal	3	Free State	6	Limpopo	9

5. In which of the following South African metropolitan cities do you **operate/provide a service**?

Johannesburg	1	EThekweni (Durban)	4	Cape Town	6
Pretoria	2	Ekurhuleni (East Rand)	5	Port Elizabeth	7
Other (please specify)	3				

6. Please indicate the number of **staff** currently employed by your company:

< 10 employees	1	11-50 employees	2	51-100 employees	3	> 100 employees	4
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7. Please indicate your company's total annual **turnover** (in R millions):

< R2 000 000	1	< R 10, 000 000	2	< R 20, 000 000	3	> R20, 000 000	4
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SECTION 2 – YOUR COMPANY’S EXPORTS

8. Does your company **export** the service it provides?

Yes	1	No	2
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9. If you selected ‘no’ in question 8, please indicate the reasons why you have not been exporting your service:

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10. For how many years has your company been exporting?

0-5 years	1	5-10 years	2	10-20 years	3	20 years and up	4
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11. Please indicate to which of the following regions your company exports to:

Northern Africa	1	Northern Europe	6	North America	11	Southeast Asia	15
Southern Africa	2	Southern Europe	7	Central America	12	South-Central Asia	16
Western Africa	3	Western Europe	8	South America	13	Western Asia	17
Eastern Africa	4	Eastern Europe	9	Oceania	14	Eastern Asia	18
Middle Africa	5	Caribbean	10				

12. Please name the countries that your company exports the **most** to in the space provided below:

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SECTION 3 – TRADE BARRIERS EXPERIENCED

13. Which one of the following **internal barriers** do you experience in your company that prevents you from increasing your exports?

1. Scarcity of internal financial resources for export purposes and export promotion	1
2. Lack of knowledge of export assistance programmes	2
3. Lack of knowledge on how to obtain external funding for export purposes	3
4. Difficulty in obtaining bank loans	4
5. Lack of information about foreign markets	5
6. Lack of information on how to enter these foreign markets	6
7. Difficulty to identify opportunities within foreign markets	7
8. Lack of personnel who can dedicate time to export activities	8
9. Lack of personnel who have experience in export activities	9
10. Difficulty in handling export documentation requirements	10
11. Limited managerial time to deal with exports	11
12. Language differences (verbal/nonverbal)	12
13. High financial cost of the means of payment used in international operations	13
14. Insufficient capacity within your firm to expand exports	14
15. Other (not specified above)	15

14. If you selected 'other' in question 13, please indicate what other **internal barriers** your company experiences in the space provided below:

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15. Does your company have the need for the South African government to assist in reducing any of these internal barriers?

Yes	1	No	2
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16. If you selected 'yes' in question 15, please indicate which **internal barriers** you need assistance with:

17. Please indicate which of the following **external barriers** to service exports are experienced, and to what extent are they experienced (by selecting between never, seldom, often and always):

EXTERNAL TRADE BARRIERS	NEVER	SELDOM	OFTEN	ALWAYS
1. Economic regulations such as pricing regulations, discriminatory taxes and market entry/exit restrictions	1	2	3	4
2. Social barriers such as health and safety restrictions	1	2	3	4
3. Restrictions on qualifications (foreign government not recognising South African qualifications)	1	2	3	4
4. Restrictions on foreign direct investment that do not permit your company to enter into partnerships with foreign companies	1	2	3	4
5. Restrictions on the use of your company name in another country	1	2	3	4
6. Restrictions on immigration provisions such as delay in obtaining entry visas, residency or work permits	1	2	3	4
7. Monetary restrictions such as a foreign country refusing to send profits/royalties back to South Africa	1	2	3	4
8. Exchange rate risk and the risk of non-payment	1	2	3	4
9. Lack of banks in the export country with experience in foreign financial transactions	1	2	3	4
10. Restrictions on the access of market information and telecommunication systems	1	2	3	4
11. Quotas on the number of services allowed	1	2	3	4
12. Restrictions on the number of service suppliers permitted in the market	1	2	3	4
13. Limitations on the total value of service transactions that may be performed in the market	1	2	3	4
14. Subsidies provided to foreign service providers reducing your ability to export at a competitive rate	1	2	3	4
15. Bilateral trade agreements between countries impeding your ability to export at a competitive rate	1	2	3	4
16. Difficulty to prove your credibility in the foreign market as a company from a developing country	1	2	3	4
17. Difficulty to build relationships with clients in foreign markets	1	2	3	4
18. Corruption and bribery	1	2	3	4
19. Risks involved with political instability in a country	1	2	3	4
20. Poor infrastructure	1	2	3	4
21. Language and cultural barriers	1	2	3	4
22. Licensing procedures	1	2	3	4
23. Technical standards that have to be adhered to	1	2	3	4
24. Measures that require your company to be a certain registered type of legal entity or to be part of a joint venture in the target market	1	2	3	4
25. Foreign government procurement policies	1	2	3	4
26. Distance to the target market	1	2	3	4
27. Other (not specified above)	1	2	3	4

18. If you selected 'other' in question 17, please indicate what other **external barriers** your company experiences in the space provided below:

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19. In which of the following regions do you experience the above trade barriers the **most**?

Northern Africa	1	Northern Europe	6	North America	11	Southeast Asia	15
Southern Africa	2	Southern Europe	7	Central America	12	South-Central Asia	16
Western Africa	3	Western Europe	8	South America	13	Western Asia	17
Eastern Africa	4	Eastern Europe	9	Oceania	14	Eastern Asia	18
Middle Africa	5	Caribbean	10				

20. Please name the countries that your company experiences the **most external trade barriers** in, in the space provided below:

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21. In which of the following regions do you experience the above trade barriers the **least**?

Northern Africa	1	Northern Europe	6	North America	11	Southeast Asia	15
Southern Africa	2	Southern Europe	7	Central America	12	South-Central Asia	16
Western Africa	3	Western Europe	8	South America	13	Western Asia	17
Eastern Africa	4	Eastern Europe	9	Oceania	14	Eastern Asia	18
Middle Africa	5	Caribbean	10				

22. Please name the countries that your company experiences the **least external trade barriers** in, in the space provided below:

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23. Does your company have the need for the South African government to assist in alleviating any of these external barriers?

Yes	1	No	2
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24. If you selected 'yes' in question 23, please indicate which **external barriers** you need assistance with:

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We thank you for taking the time to complete this questionnaire.

Appendix B

Cross tabulation analysis between micro/small sized companies and the internal barriers that they experience



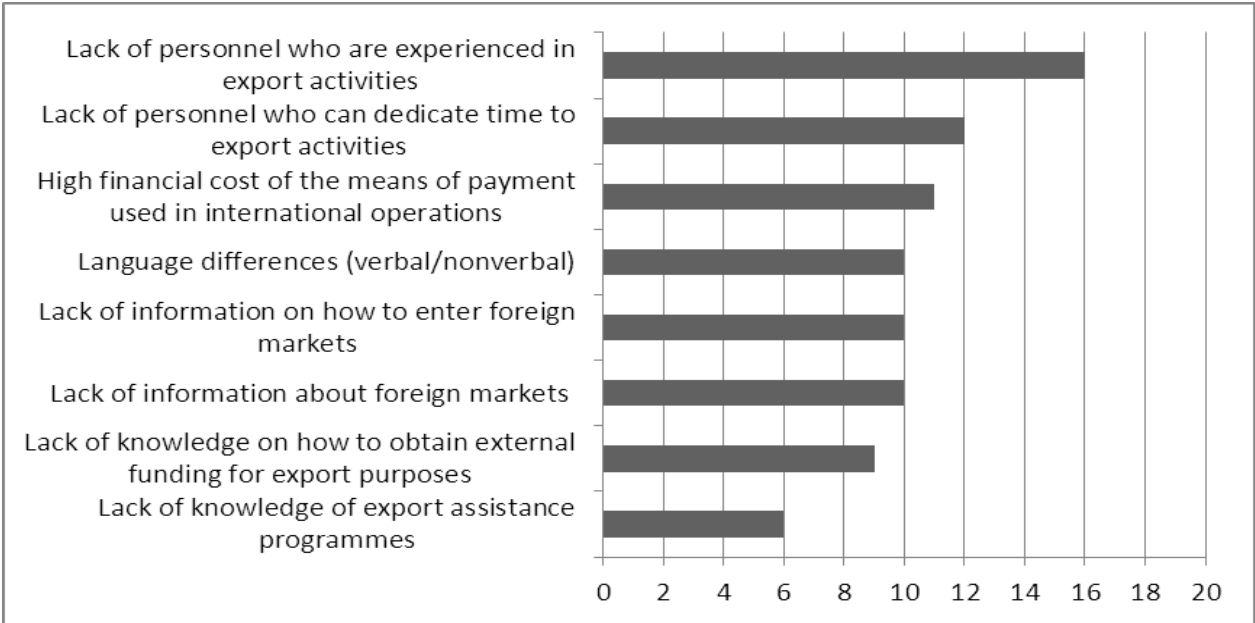
Source: Compiled by the author, 2012

Cross tabulation analysis between medium/large sized companies and the internal barriers that they experience



Source: Compiled by the author, 2012

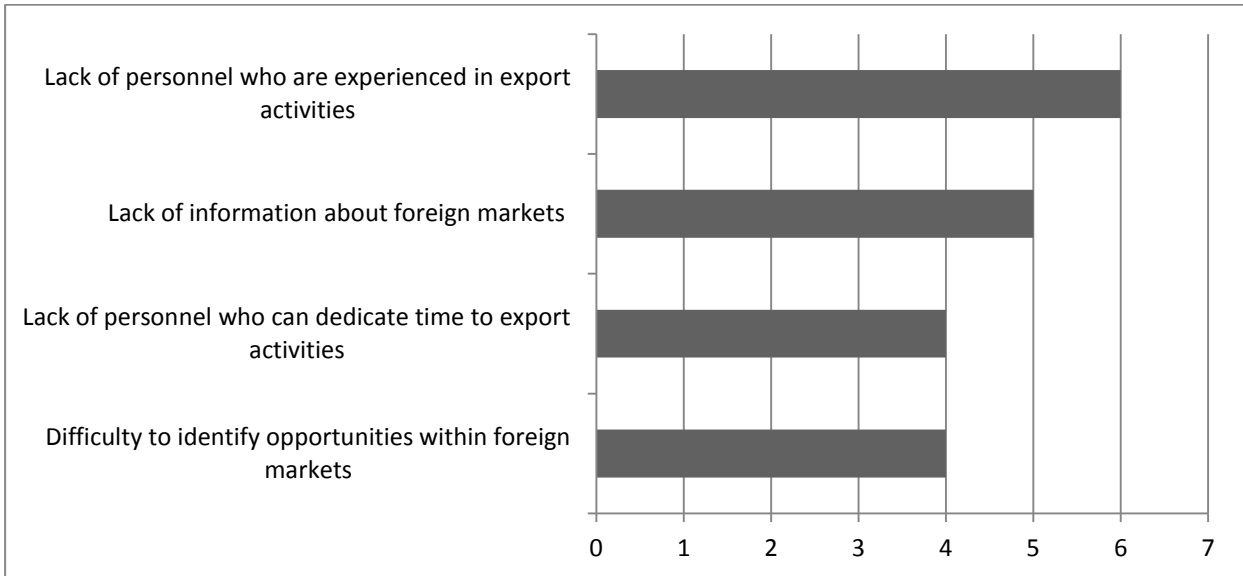
Cross tabulation analysis between large sized companies and the internal barriers that they experience



Source: Compiled by the author, 2012

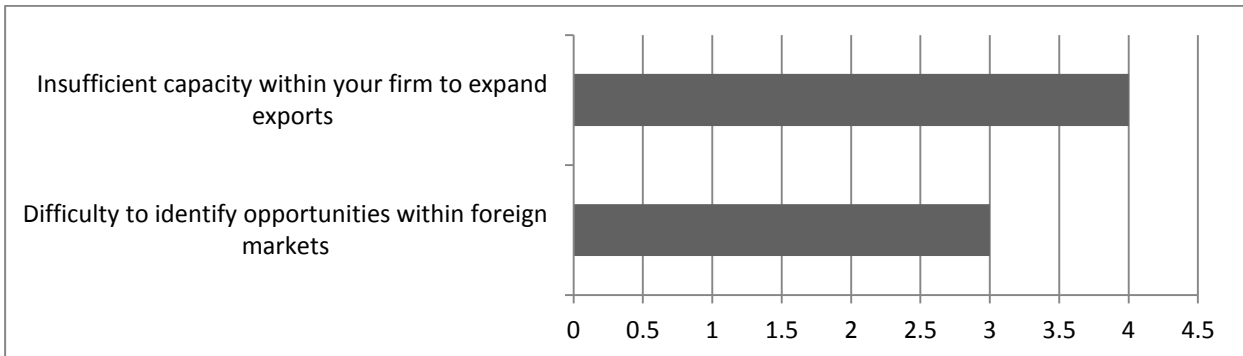
Appendix C

Cross tabulation analysis between companies with 0-5 years export experience and the internal barriers that they experience



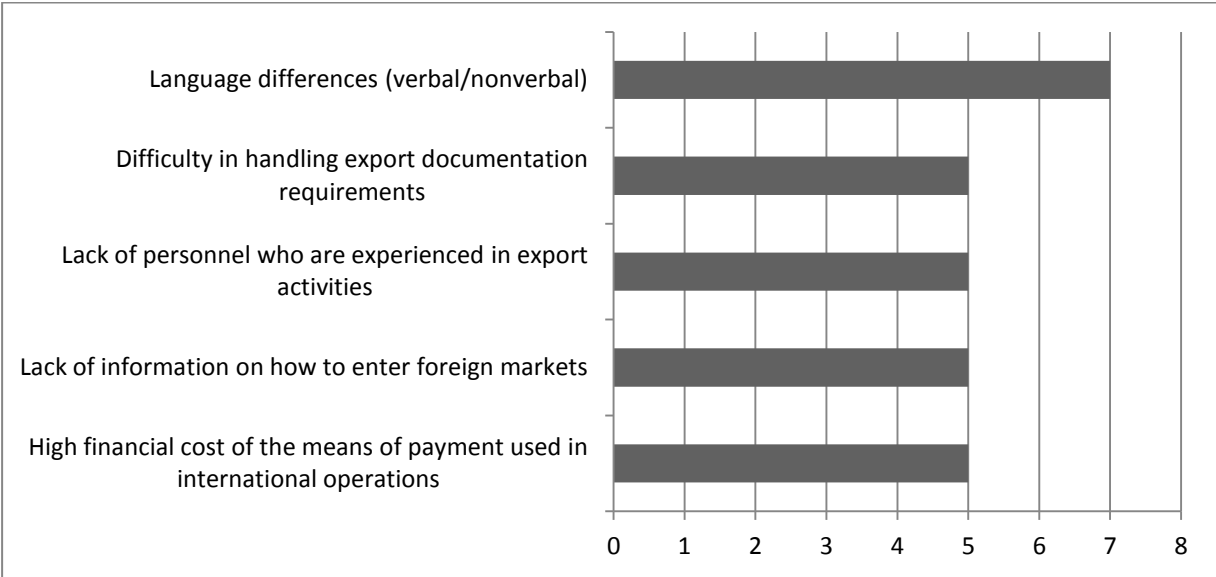
Source: Compiled by the author, 2012

Cross tabulation analysis between companies with 5-10 years export experience and the internal barriers that they experience



Source: Compiled by the author, 2012

Cross tabulation analysis between companies with 10-20 years export experience and the internal barriers that they experience



Source: Compiled by the author, 2012

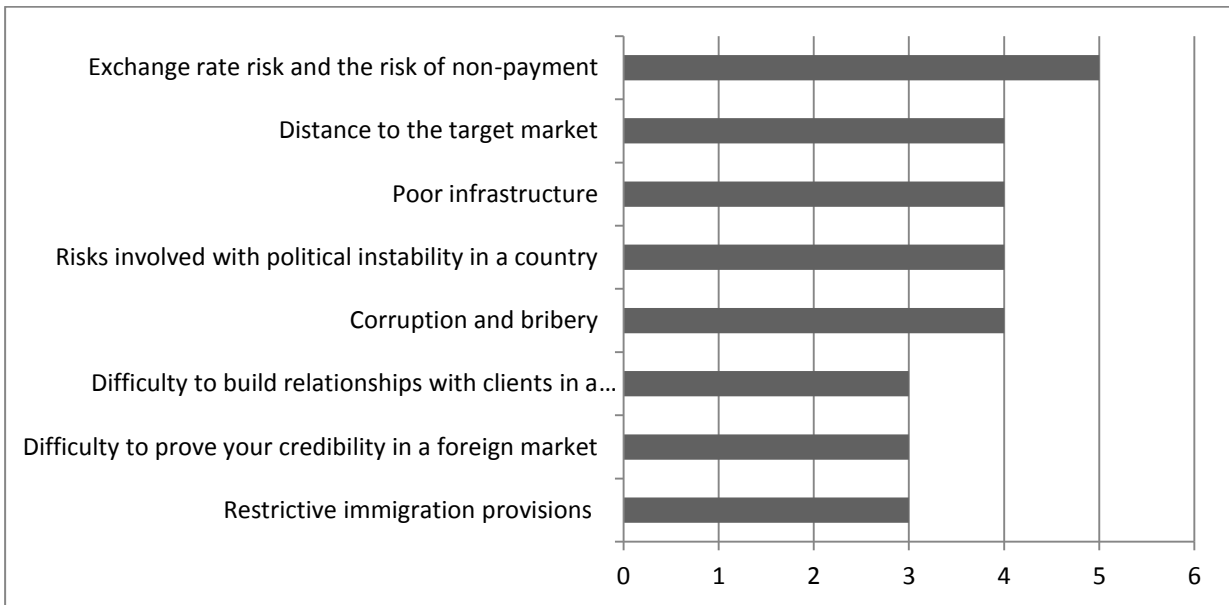
Cross tabulation analysis between companies with 20 years and up export experience and the internal barriers that they experience



Source: Compiled by the author, 2012

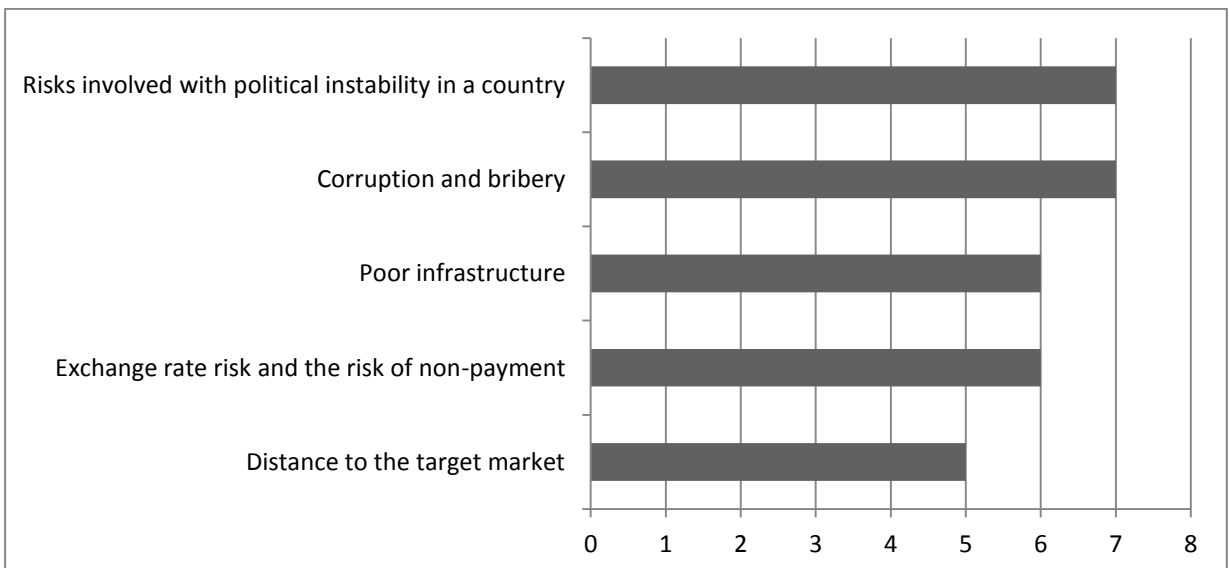
Appendix D

Cross tabulation analysis between companies with 0-5 years export experience and the external barriers that they experience



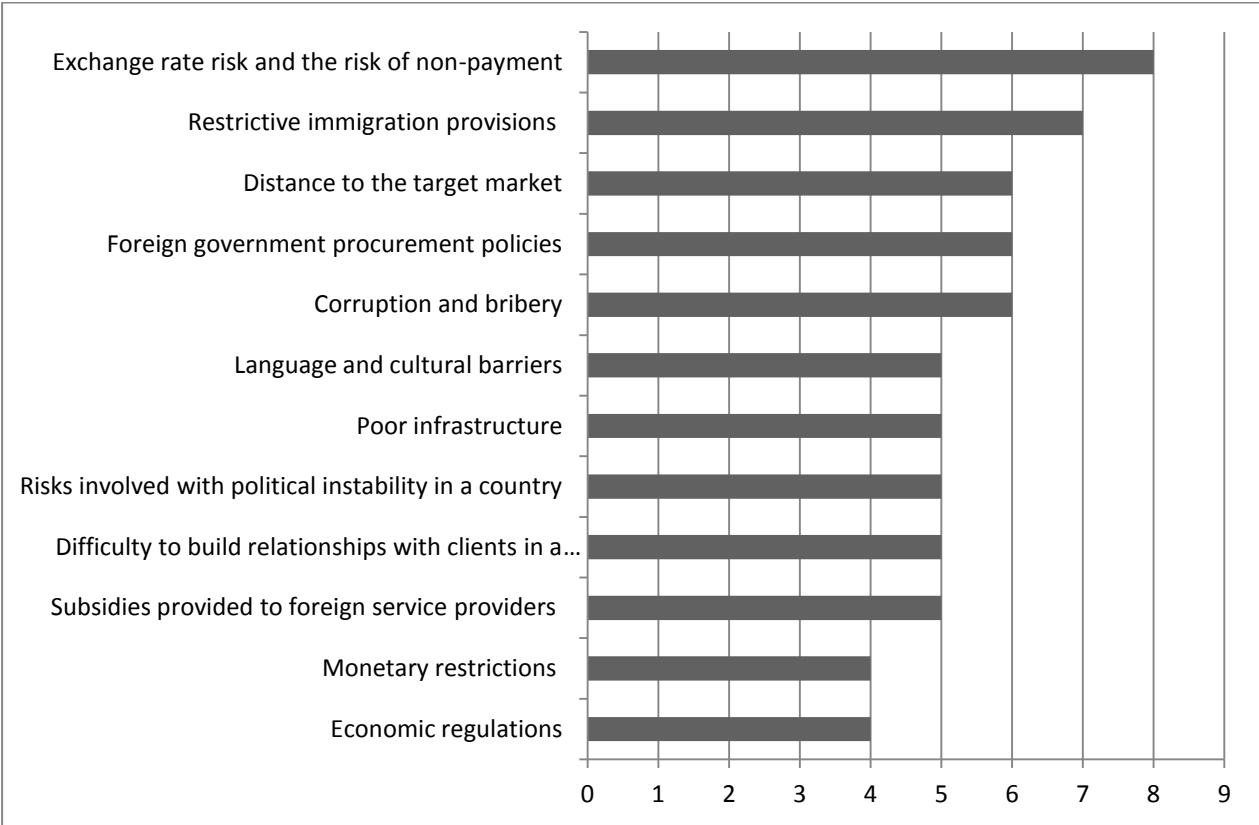
Source: Compiled by the author, 2012

Cross tabulation analysis between companies with 5-10 years export experience and the external barriers that they experience



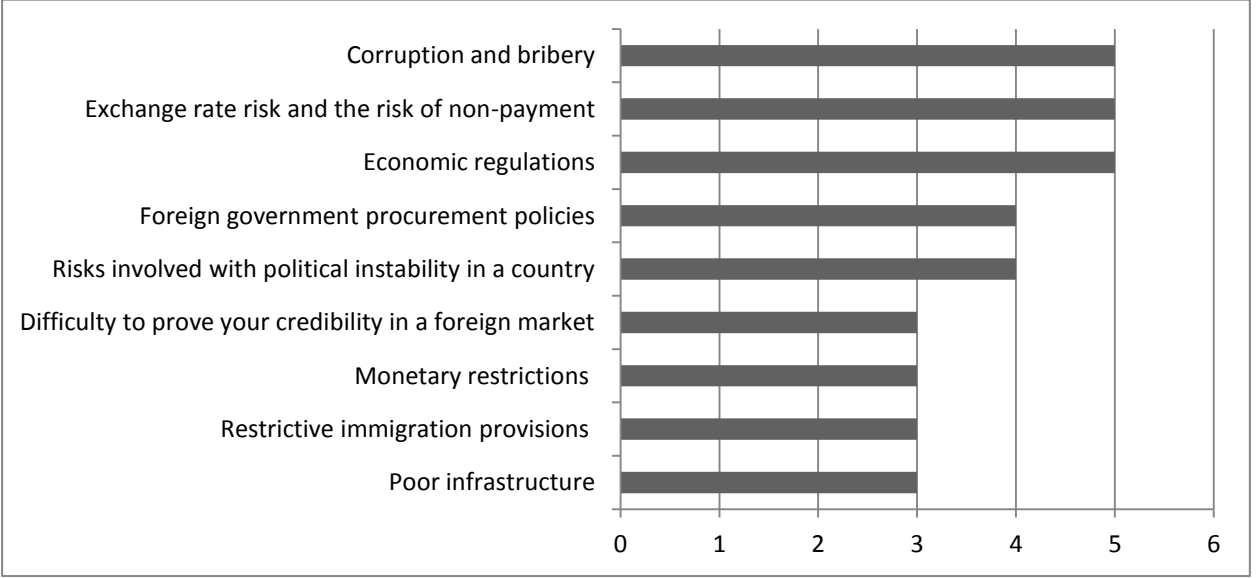
Source: Compiled by the author, 2012

Cross tabulation analysis between companies with 10-20 years export experience and the external barriers that they experience



Source: Compiled by the author, 2012

Cross tabulation analysis between companies with 20 years and up export experience and the external barriers that they experience



Source: Compiled by the author, 2012