

Issues Regarding Small Service Suppliers

Prepared for the CARICOM Regional Negotiating Machinery by
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1. Why Size Matters

Based on experience with manufacturing firms, there has been a presumption in trade development that export capacity and competitiveness increase as the size of the firm increases. Policy makers have often dismissed very small firms as “cottage industries” or “micro enterprises” that could not ever compete in the global arena.

While this may be true in goods production, where economies of scale increase as production size increases, it certainly is not true in services where there are numerous examples of one- and two-person firms successfully exporting specialized expertise. The Australian Bureau of Statistics (1997) has published interesting business performance ratios that indicate that, in fact, service firms of fewer than five employees frequently outperform their larger counterparts (see Table 1).

Table 1: Australian Business Performance Ratios by Size of Firms: 1996

<i>Business Performance Ratio</i>	% Profit Margin			% Return on Assets			
	<i>Number of Employees</i>	1-4	5-19	200+	1-4	5-19	200+
Manufacturing		9.0	5.4	10.5	16.6	10.7	11.2
Services:							
Finance & insurance		31.7	63.6	17.5	9.1	14.2	2.8
Property & business services		17.8	8.2	-0.4	9.5	5.0	-0.3
Personal & other services		16.8	8.3	9.5	32.2	20.3	10.7
Cultural & recreational services		12.4	3.1	10.6	18.1	10.4	10.3
Accommodation; restaurants		9.6	5.6	8.4	8.0	5.2	4.3
Construction		8.1	5.4	3.3	21.8	14.8	4.9
Transport & storage services		7.6	2.1	6.5	12.8	3.8	9.5
Retail Trade		7.0	3.6	4.5	18.9	11.8	11.4
Wholesale trade		4.7	3.1	4.1	11.4	7.9	8.1
Total of All Industries		11.0	8.7	8.4	12.7	10.5	4.9

Source: Australian Bureau of Statistics.

In most discussions of services trade and developing countries, the ongoing foreign-exchange generating activities of small service suppliers are invisible. Instead, assertions are frequently made that the main benefits of services trade liberalization for developing countries are either to create a more attractive environment for foreign investment or to open markets for more individuals to work abroad. If assumptions continue that there are

few if any small service suppliers who export, policy decisions may be taken and negotiating positions developed that undermine rather than enhance the competitiveness of existing small service suppliers. This is particularly true if a focus on attracting foreign investment does not include an analysis of the potential loss of business (and related jobs) for domestic small service suppliers due to the establishment of major foreign competitors in key service industries.

All CARICOM countries are already exporting a wide range of “other services” (i.e., other than transportation and tourism), particularly business and professional services. Examples include accountancy, architectural and engineering services, computer and database services, Internet-related and web design services, data processing and data repair services, legal services, consultancy, market research, equipment and property maintenance, services related to agriculture and fishing, research and development, security services, wholesale and retail services, educational services, health-related services, financial services, cultural and sporting services, and multi-media and film production services (Riddle, 1998b). Much of this export activity is by small service suppliers. It is important to bear in mind that, in facilitated private-public sector dialogues in developing countries, small service suppliers have consistently pushed for much more market openness than their governments thought they would want (Riddle, 2000b, 2001a, 2002c).

Small service suppliers can be internationally competitive, given the right environment. But they do face three specific challenges linked to size, which are detailed below.

1.1 Human Resource Constraints

Typically, small service suppliers are owner-operator enterprises. The owner-operator is likely filling multiple roles (e.g., finance officer, marketing officer, business strategy officer, human resources officer) without specialized training in any of them. In addition, the small staff is likely to be multi-tasking without the luxury of being highly specialized in their focus (Riddle, 1996). There are likely to be no dedicated computer or Internet staff, and no dedicated marketing staff.

Not surprisingly, the primary growth constraint for services export development is staff time. To maintain competitiveness in this era of e-trade, constant monitoring of the cyber environment and online opportunities is needed (Riddle, 1999). This activity often requires a full-time staff person=s attention, whether the firm has two employees or 20 employees or 120 employees. In professional services firms in particular, senior staff need to travel in order to meet potential clients face-to-face, again imposing a human resource constraint for small service suppliers. The human resource constraints on growth become even more noticeable when considerable time is needed to track down information on regulatory regimes abroad and deal with legal requirements for entry into foreign markets.

Experience shows that human resources are the primary constraint, across all sectors and markets, as it is staff that actually create and deliver any service.

1.2 Market Development Constraints

For small service suppliers, low brand name recognition outside the domestic market is a market development constraint when competing with large well-known service transnationals. This means that small service suppliers cannot market their services based simply on reputation. They have to find some way (often involving travel to the target market) to demonstrate their capabilities (Riddle, 1997a, 2001e).

A related issue is the fact that often small service suppliers have limited networks abroad. Since customers select new service providers in part due to referrals, networks are particularly important in gaining entrée into a new market (Riddle, 1998a, 2001e).

1.3 Financial Resource Constraints

Many service firms rely primarily on internal working capital for export market development, which creates a kind of ‘glass ceiling’ for small service suppliers with limited financial resources (Riddle, 2001e). Small service suppliers wishing to access external funds (e.g., bank financing) report having to invest considerable time to educate account managers regarding their businesses and their credit worthiness (Bruce, 2001; Riddle, 2000e). For contractors, access to funding to post performance bonds may also be difficult. In most CARICOM countries, the usual financing mechanism for service suppliers of an overdraft secured by accounts receivable is not available.

2. Defining Small Service Suppliers

Since human resources are the primary competitive differentiator for service firms, a “small service supplier” is defined most appropriately based on number of employees. Thus, a small service supplier is *an independent, non-subsidiary private enterprise with fewer employees than an agreed upper limit*. In fact, the small service supplier may have no employees at all if it is organized as a partnership or a sole proprietorship with all support functions contracted out.

Countries vary widely in the limits they place on various size categories for small and medium-size enterprises (SMEs) (see Table 2). Most statistical agencies and industrial policies now recognize that a significant number of service firms are small or very small and have lowered the upper limit of number of employees needed in order to be classified as a *A_{small}* service firm. Some economies have official subdivisions for *A_{micro-enterprise}*, *A_{very small}*, and *A_{small}* while others only have an *ASME* definition. Note that the statistical definitions used by economies are not necessarily the same as the definitions used in industrial policies.

Table 2: Sample Size Definitions of Service SMEs

Country or Organization	Service SME Subdivisions				Service SME
	Micro	Very Small	Small	Medium	
Australia			<20	20-499	
Canada	[<5]	[5-19]	<49	50-499	

Country or Organization	Service SME Subdivisions				Service SME
	Micro	Very Small	Small	Medium	
E.U.*	<10		10-49	50-249	
Hong Kong					<50
Japan					<50
Mexico*	<16		16-100	101-250	
OECD#	<5	5-19	20-49	50-500	
U.S.A.*					<500

*No differentiation between size definitions for service and goods SMEs.

#A statistical convention, not an official definition.

[] Categories that are only used informally for policy purposes.

Using the Canadian Business Register data to illustrate the consequences of the size categories, Table 3 has two proposed sets of size categories for use by CARICOM in FTAA negotiations. It should be noted that, while the U.S. uses 500 employees as its cut-off for “small,” in 1995 almost 79 percent of its firms had fewer than 10 employees (Acs, 1998); and by 1999, still nearly 70 percent had less than 20 employees (Office of Trade & Economic Analysis, 2001). European research has suggested the extreme size categories of “small” being less than three employees and “large” being over 20 employees (Koschitzky & Zenker, 1999).

For CARICOM, the proposed working definition of the upper limit of employees for a “small service supplier” would be 20 employees. In addition to defining small service suppliers as having less than 20 employees, one could also define subcategories of “micro” (less than five employees) and “very small” (between five and nine employees). Table 3 gives a conservative estimate of the percent of CARICOM service firms likely to be in each size category, based on Canadian Business Register data. Other defining factors – such as gross revenues or capital investment – could also be used, but they would vary by sector and by economy whereas number of employees provides a generic measure that does not need to be modified by sector or economy.

Table 3: Size Category Options Based on Canadian Business Registry Data

Number of Employees	Percent of Canadian Service Firms	Cumulative Percent	Proposal for CARICOM	
			Definition	Subdivisions
Less than 5	57.0%	57.0%	Small	Micro
5-9	17.8%	74.8%		Very small
10-19	12.5%	87.3%		Small
20-49	8.5%	95.8%	Medium	Medium
50-99	2.5%	98.3%		
100+	1.7%	100.0%	Large	Large

Source: Statistics Canada Business Register.

3. Issues in Strengthening Domestic Small Service Supplier Capacity

The General Agreement on Trade in Services (GATS) and draft text for the Free Trade Area of the Americas (FTAA) both identify the strengthening of domestic capacity as one of the primary objectives of services trade liberalization. There are, however, specific competitiveness issues that need to be considered in any capacity building initiative.

3.1 Government Familiarity with Domestic Service Capabilities

Small service exporters in CARICOM, as in other developing countries, report that lack of international credibility and profile are their greatest barrier to growth (Riddle, 1997a; 2001e). Their own governments are unaware of their capabilities and so do not promote them actively. National websites make little or no mention of worldclass service exports, and international donor agencies consistently overlook the expertise that they have to offer. In addition, there are few, if any, service industry associations to fill the gaps in terms of exporter identification and export advocacy.

One of the reasons for a lack of familiarity is that traditionally export promotion has focused on goods. A second is that the vast majority of service exporters have never used government services, in part because those services are geared to goods producers. In Canada (which has an active services export promotion program), survey results indicate that less than half of small service exporters had ever used government assistance (Riddle, 2000e). A third, and perhaps more critical, reason is that most governments do not have an accurate database of service exporters. Since many of these exporters are very small or micro enterprises, consultations with these firms to learn their successes and concerns is challenging.

3.2 Women-Owned Service Firms

OECD estimates that between one-quarter and one-third of firms are owned by women, most of which are in service industries (OECD, 2000). Women-owned businesses in North America are creating new jobs at four times the rate of men-owned firms, and they employ more persons than the Fortune 500 firms (US SBA, 2001). This means that any policy or regulatory issues that have a gender component will be of particular relevance to service exporters. Such issues include both domestic policies (such as tax-deductible childcare costs) that could be considered trade-distorting subsidies, and domestic or investment regulations that impose restrictions based on gender. Examples of gender-based restrictions abroad that could affect women-owned CARICOM companies could include restrictions on ownership of property, restrictions on the composition of corporate officers, restrictions on hours of work, restrictions on the establishment of bank accounts (without a husband's signature or guarantee), restrictions on activities such as driving a vehicle, and restrictions on the issuance of entry visas.

3.3 Role of Services in the Economy

In the goods-producing sector, manufacturing industries may operate independently of each other; and linkages to other goods-producing activities are limited. Regarding services, however, all enterprises (goods producers and service suppliers alike) use services as inputs. This means that the competitiveness of all economic activities is influenced by the availability, price, quality, and specialization of the services available domestically or through import (Riddle, 2002d). Any measure that reduces the competitive pressures on domestic service firms has the potential to lower the international competitiveness of all enterprises.

Small service suppliers are more likely than manufacturing firms to be distributed throughout an economy, in communities of all sizes. They are typically responsible for at least two-thirds of new job creation (CFIB, 2002). Over half of small service businesses operate either at or from home (SBDC, 2002). Economic development policies that focus on reducing discrepancies between urban and rural or remote areas need to address the concerns of small service suppliers, particularly with regard to the quality and cost of telecommunications and Internet access.

3.4 Business Services Infrastructure

Within any service sector, from 38 to 50 percent of production is “intermediate services” or services sold to other businesses. Business and professional services (a further subset) are services that provide not only functional benefits but also generic (cross-functional) benefits such as increased strategic flexibility (through moving service provision from a fixed to a variable cost), optimized use of skilled resources for the core business, improved operational efficiency, and increased value-added. All business services themselves use other business services, so that the quality and availability of a particular type of business service has an effect on the quality and availability of all other business services (Riddle, 2002d).

Private sector business service suppliers may be either generalists or specialists in a particular business service. If specialty firms have developed, it is usually by acquiring foreign clients (either locally based or in export markets) in order to have sufficient demand to sustain the maintenance of specialty skills.

3.5 Sources of Domestic Competition

Even without services trade liberalization, the growth of the Internet has brought with it international competition from online service providers. In addition, small service suppliers also face strong domestic competition. Their primary competition is from in-house production, or self-service. Due to concerns about confidentiality or professional standards, firms in developing economies show a pattern of high reliance on internal resources for services like market research and accountancy/audit services (Riddle, 2002d). Enterprises are most likely to turn to outside resources for training and computer services. Service firms are noticeably less likely to use external consultancy services, both because they are critical of

the quality of assistance available and because they have difficulty finding consultants knowledgeable in issues facing the managers of service firms.

Another challenge for small suppliers of business services is a lack of awareness among their potential clients about the costs associated with the (often unconscious) choice to self-produce business services in an unskilled fashion. Most small firms show little awareness of the opportunity and economic costs associated with:

- a) Diverting skilled resources from producing core revenue-generating products and services to self-producing business services.
- b) Using generalist rather than specialist business services expertise.
- c) Purchasing low-cost and low-quality business service inputs “to save money.”

At the same time, business service suppliers are not themselves necessarily well-informed users of other business services, with few able to articulate supplier selection criteria and many themselves self-producing. Thus, while current demand may be modest, educational programs (run by service industry associations) can activate latent demand.

Another common source of competition is from their own governments, due in part to a lack of awareness of the expertise that already exists in the private sector. Government officers may offer market research services, for example, in direct competition with private sector market research firms or offer export consultation and training services that duplicate private sector offerings.

In addition, there may be requirements that government departments purchase their business services from other government agencies rather than from private sector suppliers. This is of particular concern because one of the main mechanisms for supporting private sector growth is through the contracting out of support services to government.

Small service suppliers also face competition from new market entrants (often NGOs) that are funded by donor agencies, especially to provide training, consultancy, and market research services. The degree of competition from donor-funded NGOs depends in part on whether service provision is subsidized and therefore cheaper. Private small service suppliers may then survive mainly through foreign corporate clients or as contractors to the donor community itself.

A final source of competition comes from government agreements to “tied aid” in order to obtain external funds. In this case, the professional services are provided by firms from the donor country without any requirement to partner with local professionals. When large projects and specialty work are consistently awarded to foreign firms, it makes it extremely difficult for local professionals (who have often been trained and licensed in those foreign countries before returning home) to remain profitable and maintain their specialised expertise.

3.6 Types of Financing Available

Surveys in Canada (Bruce, 2001; CFIB, 2002) and the U.K. (UK FSB, 2000; 2002) reveal dissatisfaction with interest rates charged to small businesses (often more than double the amount above prime rate as compared with larger firms), bank service charges, and the cost of lines of credit. Double the number of very small firms were refused loans as compared with larger firms. In Canada, 26.5 percent of business service firms had a new account manager (at their bank) at least once a year. Owners of service firms report that they spend an inordinate amount of time educating new account managers in order to obtain even minimal debt financing (Riddle, 2000e).

A typical response to the financing needs of small service suppliers is to propose venture capital as an alternative. Experience shows that venture capitalists are unlikely to be interested in investing in most of the types of services listed earlier – e.g., consultancy or legal firms, market research, educational services, etc. It is much more common for service firms in developed markets to finance their growth out of debt financing or their own working capital. At issue in a developing country context is whether or not banks will recognize accounts receivable as a legitimate form of security for debt financing.

3.7 Trade Supports

Few economies train trade officers to provide services-specific advice or offer export training that is tailored to the needs of service firms. Data from the U.K. (UK FSB, 2000, 2002) and Canada (Riddle, 2000e) indicate a dissatisfaction with the advice given by government trade officers. Many export development programs and services continue to have minimum size criteria for participation eligibility.

3.8 Availability of Skilled Workers

Most developing country small service suppliers are severely constrained in finding appropriately trained staff to design and deliver competitive services. Even in the UK (UK FSB, 2000, 2002) and Canada (CFIB, 2002; Mallett, 2001, 2002) small service suppliers have trouble finding appropriately skilled workers. Unfilled vacancies are especially high in construction and business services.

One of the often-overlooked human resource issues is that service firms typically cannot protect their market position through patents and copyright. Instead, in order to remain competitive, service firms must continually innovate (Riddle, 2000c). That innovation process is carried out by staff – often front-line staff interacting with customers (Riddle, 2001d).

A review of the education and training portions of national development plans often indicates a lack of awareness on the part of both national governments and the donor community of the types of skills (e.g., communications, problem solving, customer service, learning how to learn, computer and online skills,

services design) that are needed by service firms. This places a heavy burden on small service suppliers to train new staff in order to be competitive (CFIB, 2002; Riddle, 1997b).

Small service suppliers are more likely than their goods-producing counterparts to rely on the Internet (Mallet, 2000). Given the growth of e-trade, small service suppliers need staff that are comfortable working online and are willing to adapt their working hours to accommodate a 24x7 digital environment. In most instances, small service suppliers need staff that have at least a secondary school education.

It is possible that traditional immigration policies are becoming less relevant. Service firms facing a dearth of appropriately-skilled workers and time-consuming immigration procedures for hiring foreign workers are now resorting to contracting out to teleworkers in other countries, thus limiting the multiplier effects in the host country. Along the same line, immigration barriers to hiring foreign trainers (ostensibly in order to protect domestic training capacity) are now being circumvented by utilizing online training courses, again with few multiplier effects in the host country. In such instances, more open movement of skilled workers might lead to more domestic economic benefits.

3.9 Costs of Doing Business

Small service suppliers rely on telecommunications and related information technologies as their primary infrastructure, much as goods producers rely on transportation infrastructure. This means that they need access to high quality, low cost telecommunications infrastructure, which is not always available in rural and remote communities. In fact, non-competitive pricing of reliable telecommunications and Internet access can severely restrict their ability to adopt e-business practices (Riddle, 2002a) or access lucrative “back office” contracts (Riddle, 2000a, 2000d). Due to size, it is often difficult for small service suppliers to negotiate bulk discounts for office equipment and supplies or to obtain competitively-priced employee benefits packages.

Government policies can also increase the cost of doing business (CFIB, 2002; UK FSB, 2000, 2002). Small businesses are often disproportionately affected by increases in taxes such as payroll taxes. Grants for export market development may be linked to being larger than a certain minimum size (on the assumption that larger service firms are more competitive). For women-owned businesses, there may be costs of child care that are not considered an eligible business expense. In addition, governments may delay payments for services provided by small service suppliers for well over the standard 45 days, and may make a habit of awarding aid-funded contracts to foreign rather than domestic suppliers.

3.10 Licensing Procedures

Quality of service is controlled in large part through licensing. In CARICOM countries, not all professions are licensed. A related issue is the matter of whether

or not government supports the professional service associations in enforcing professional codes of ethical conduct. What is needed is a licensing process that reviews education and training credentials, verifies conformance with a code of conduct, and requires continuing professional education in order to maintain or renew a license. Putting in place internationally-recognized licensing procedures may be problematic given that the professional associations that normally perform licensing functions may face capacity constraints.

4. Trade Negotiation Issues of Relevance to Small Service Suppliers in Developing Economies

The first seven issues raised in Section 3 above, plus the matter of the domestic skills training infrastructure are typically considered matters for national governments to address domestically. In a trade negotiations, however, the matter of technical assistance can be explored for remediating developmental constraints even if they are domestic in nature. However, some staffing issues, matters related to the cost of doing business, and the licensing of professionals have all been raised as part of trade negotiations.

The following are a series of trade negotiation issues that are of particular relevance to small service suppliers in CARICOM and other developing economies.

4.1 Access to Information

The human resources limitations faced by small service suppliers limit the time they have available to research information on legal and regulatory requirements and track the changes thereto. Many small service exporters do not have dedicated marketing or market research staff to track down this information. Since virtually all service exporters (even in least developed countries) have established Internet connectivity, web-based technologies can be used to provide such access as long as the files can be accessed quickly (less than five seconds to load even at slow baud rates) and the costs of Internet access are kept modest.

It is important to recognize that special efforts may need to be made in order to ensure that information on contact points and how to access their services is actually provided to small service suppliers (not simply to government officials). In addition, if women-owned businesses are not well represented in the national organizations that mediate trade information, special initiatives may be needed to ensure that private sector access to information includes women-owned firms. The author's experience since the conclusion of the Uruguay Round has been that locally-organized briefing and training events for service exporters in developing countries have included less than two percent of women-owned service enterprises.

In the FTAA, commitments to transparency need to specify how one-stop access to legal and regulatory information will be provided that is:

- a) comprehensive in its coverage (i.e., includes all levels of government);

- b) comprised only of relevant measures that significantly affect trade in services;
- c) presented in plain language understandable by a business person;
- d) as brief as possible;
- e) in a common format across all FTAA Parties;
- f) easily searchable by industry, size of operation, type of measure, export origin, and export destination; and
- g) accessible quickly and inexpensively online.

In order to ensure support to small service suppliers, the FTAA text might include specifications about how information on accessing legal and regulatory requirements for different markets is to be disseminated to small service suppliers themselves.

4.2 Reliance on Mode 4

For small service suppliers in particular, business travel is a critical aspect of export development. CARICOM service professionals, as well as other employees of small service suppliers, need to travel abroad to conferences and other venues where they can meet potential international clients and demonstrate their competence, to negotiate contracts, to report to clients, or to deliver services. Any delay at the border can have the effect of eliminating a business opportunity – much more serious consequences than that of having a shipment of goods remain warehoused for a more extended period of time.

The process of obtaining temporary entry visas can be very time-consuming, sometimes taking weeks and preventing businesspersons from engaging in time-sensitive travel. Often host countries require that the businessperson present a letter of invitation or provide financial statements from their bank or tax authority. Since the terrorist attacks in the U.S. on September 11, entry into the U.S. in particular has become even more difficult. Because visas are required at border crossings, the basis for granting business visas and the procedures for border clearance are of great interest to the business community. All of these practices can make it very difficult for small service exporters to respond quickly to market opportunities or to requests for assistance from foreign customers, and give the advantage to larger service firms that have the resources to establish local offices in a range of countries abroad.

It would be extremely useful if the FTAA negotiations could establish common service standards for handling temporary business travel, including principles like the following:

- Establish “visa free” or “visa-at-border” entry for business development purposes.
- Establish common service standards for the processing of temporary entry visas – e.g., turnaround time, documentation needed, recourse.

- Expand the range of professions that are entitled to “business visitor” status.
- Expand the range of support staff (e.g., research staff, executive support staff, technical staff, staff in training for professional or technical positions) that are entitled to “business visitor” status.
- Admit as business visitors persons who are partners or clients of domestic service suppliers.
- Create multiple-entry business visas for service suppliers with contracts in another Party’s market to support delivery of services and reporting to clients.
- Train immigration/customs officers regarding the business traveller.

It may be necessary to engage immigration officials as parties in the FTAA services trade negotiations.

4.3 Reliance on Mode 1

The most cost-efficient methods of exporting services for small service suppliers are via Modes 1 and 2. In both instances, services can be supplied using the firm’s existing domestic infrastructure without the need for additional expenditures on administrative structures abroad. Any requirement to create a local presence (i.e., a requirement to trade through Mode 3) will increase a small service supplier’s costs of doing business, particularly regarding personnel and financial resources.

If the FTAA is to limit or remove local presence requirements, it will be necessary to research models for addressing cross-border professional liability issues effectively. It may also be desirable to restrict the ability to trade via Mode 1 without local presence only to small service suppliers.

4.4 E-Trade

Policy discussions regarding e-trade and e-commerce are of critical relevance to small service exporters (Riddle, 2002a). The Internet and the rapid development of web-based technologies is levelling the playing field between large and small service firms as well as between service firms based in developed or developing economies. However, adoption of e-business practices has been relatively slow among small service suppliers in developing economies.

One of the strategies that can be used successfully to stimulate the transition to e-business/e-trade is through e-government initiatives. If small firms are able to conduct all of their interactions with government online, they have an incentive to integrate digital transactions into how they run their business. E-government initiatives also allow government officers to gain much-needed expertise with e-business issues. In addition, there are specific arenas in which governments need to collaborate and play an active role – e.g., intellectual property protection, policies to fight cyber crime, etc.

Within the FTAA, it may be desirable to launch a regional e-government initiative that can provide the infrastructure for national governments to also adopt e-government practices. It would also be useful to specify an initiative for joint policy development in areas like intellectual property protection and cyber crime.

4.5 Government Procurement

Government is often a major customer for purchasing services. In fact, small service suppliers may get their initial growth from government contracts. If small service suppliers are exporting services for which government is the natural customer, any barriers to bidding on government contracts abroad restrict their ability to trade. Note that simply reserving smaller contracts for domestic firms does not necessarily address the needs of small service suppliers since they may need the type of work involved in larger contracts in order to maintain their technical expertise.

One area in which governments typically make provisions for small service suppliers is with regard to bidding on government contracts. Within the North American Free Trade Agreement (NAFTA), for example, thresholds have been specified above which federal government contracts must be put out for competitive bid among service firms from all three economies. In general, these federal thresholds are US\$50,000 for general services contracts and US\$6.5 million for construction contracts. The U.S. government has reserved the right to continue its set-asides for small business – meaning that certain contracts are only available for bid by small U.S. businesses (US SBA, 1999).

For the FTAA, it is critical to small service suppliers that the matter of government procurement be included in the scope. Negotiators may wish to consider a combination of permitting governments to set contract thresholds below which bidding is not open to service firms from other economies, and establishing criteria for government bids that are only open to small service suppliers (from all FTAA Parties).

4.6 Subsidies for Small Service Suppliers

The other mechanism (besides government procurement) by which governments typically address the needs of small service suppliers is that of subsidies. Subsidies could take the form of offsetting the actual costs of doing business, underwriting part or all of the costs of export market development, or providing preferential financing terms. In some instances, all small service suppliers (regardless of ownership) are eligible for the subsidies. In other instances, only locally-controlled firms are eligible. The U.S. Small Business Administration, for example, has active programs for small business support and export financing.

In the FTAA, it will be important to address the issue of subsidies and their link to firm size.

4.7 Regulatory Requirements that Increase the Cost of Doing Business

Small service suppliers in Canada (CFIB, 2002) and the U.K. (UK FSB, 2000) report that it is resource intensive to track and adapt to the frequent changes in legislation that affect small businesses, including coping with the paperwork burden. Service exporters survive and thrive based on innovation, yet research and development tax credit programs are not structured to recognize innovations in service design, service delivery, or organizational redesign to support service excellence. Outdated municipal zoning regulations may place restrictions on the development (or at least the licensing and identification) of home-based businesses. In some economies, import duties on computer and telecommunications equipment, as well as office equipment, create challenges for small service suppliers.

There are at least five types of domestic regulations that can affect the competitiveness of small service suppliers:

- a) Excessive bureaucracy and inefficient government procedures.
- b) Monopolies or exclusive service providers (e.g., finance, telecommunications, air transportation) that artificially raise the cost of doing business.
- c) Restrictions on the form of business (e.g., incorporation, multi-disciplinary firm).
- d) Policies that force government departments to purchase their support services from other government departments.
- e) Licensing requirements that restrict virtual partners (in an age of e-trade).

There is also the matter of technical standards and professional qualifications. To the extent that international standards are recognized and followed, small service suppliers only have to register or be reviewed/audited once. When national standards supercede international standards, then small service suppliers may have to incur enormous costs to re-qualify in each market.

The FTAA provides an opportunity to initiate a work program in the arena of domestic regulations that respects national governments' right and responsibility to regulate while providing a framework and technical support for how to do that effectively. The work program could include guidelines for regulatory review, model domestic regulations linked to illustrative economic development objectives, and suggestions for the adoption of international standards.

4.8 Recognition of Professional Credentials

For professional services, one of the main barriers to services trade is a lack of recognition of professional credentials. To some extent, this issue can be circumvented by working with local partners in export markets; however, that approach limits the competitive options of exporters of professional services. At issue are the equivalencies among different educational programs and requirements, what knowledge and skills are generic and what are jurisdiction specific, how professionals can be held accountable across borders for

unprofessional conduct (i.e., professional liability), and how mutual recognition agreements (MRAs) are to be enforced. For some of the CARICOM economies, developing adequate professional licensing procedures will need to precede the opening of their markets.

Issues to be addressed in supporting the mutual recognition of professional credentials include:

- a) Harmonising education and training requirements.
- b) Adopting common (international) codes of conduct.
- c) Developing a solution for cross-border professional accountability.
- d) Developing international (rather than bilateral) mutual recognition agreements (MRAs) to reduce the burden of compliance on small professional service firms.
- e) Enforcing existing MRAs.

Within the FTAA, it will be important both to strengthen the role of service industry associations in mediating and managing the licensing of professionals and to ensure that associations may be regional (not just national).

4.9 Assessing the Impact of Services Trade Liberalization

In order to determine how effective services trade negotiations have been and to help shape requests and offers, CARICOM countries need comprehensive bilateral services trade data by mode of supply. Services trade statistics have historically been incomplete, in part because there is not a convenient check point (such as a border crossing) at which trade data can be collected for the majority of services but also because many service firms are unaware that they are exporters (Riddle, 2001b).

With the high percentage of small service suppliers, a large portion of services export activity is typically under-represented in statistical surveys due to response burden. In addition, small service suppliers typically do not have staff dedicated to government relations and so do not participate actively in government trade consultations. One possible solution could be to utilize e-mail consultations as most small service suppliers use e-mail regularly.

In order to ensure that small service suppliers are able to thrive and grow, it will be critical to support the development of broad-based consultation within the CARICOM economies. Two tools that may be useful as a starting point are a proposed consultation strategy and structure for developing countries (Riddle, 2002b), and the *GATS Consultation Kit* (Riddle, 2001c) which has a series of questions that could be adapted to the FTAA context. With regard to services statistics, current technical assistance initiatives need to be continued and better resourced.

5. Additional Trade Negotiation Issues of Relevance to Small Service Suppliers in Small Economies

When the economy within which a small service supplier operates is also small in size, there are additional sources of competitiveness challenges.

5.1 Limited Domestic Markets

One of the immediate implications of small domestic economies is the need for small service suppliers to rely on global markets in order to be profitable. That may occur through supplying services to foreign investors in the domestic market, through distance delivery of support services from back office operations (Riddle, 2000a, 2000d), or through the more traditional development of export markets.

In order to support small service suppliers in small domestic economies, it is critical that CARICOM gain maximum market access concessions and also submit specific requests to liberalize existing market access barriers in key FTAA trading partners.

5.2 Limited Human Resources

The challenges that small service suppliers have in finding appropriately skilled workers are exacerbated in a small domestic market. Recruitment becomes particularly difficult if foreign investors have been mandated to hire locally and have been able to attract the bulk of well-educated workers.

Some trade policies that might assist small service suppliers in acquiring the human resources that they need are ones that may appear controversial: (a) free movement of service suppliers within the FTAA region; and (b) removal of requirements for foreign investors to hire local skilled workers.

5.3 Limited Association Support

One of the mechanisms through which small service suppliers are able to achieve efficiencies in accessing market information is through the services of service industry associations. Unfortunately, a common characteristic of small economies is a lack of specialized associations through which trade policy consultations may be held and export market intelligence disseminated.

The importance of the active engagement of service industry associations has already been mentioned in Section 4.8 and is even more important for the associations in small economies. It will also be important to reserve the right for service associations to be sub-regional (e.g., OECS) or regional (e.g., CARICOM) in scope in order to capitalize on economies of scale in the staff of associations.

5.4 Limited Government Resources

A primary constraint in small economies is the number of trade officers available to address services trade issues. Typically, there is no single ministry responsible for services. Instead, there may be over 20 different ministries and governmental bodies, each with a portion of the mandate (Riddle, 2002b). Table 4 gives

examples of possible responsible parties, linked to the common service classification categories. How policies and procedures among these parties are to be coordinated remains a challenge for most small economies.

The collection of services statistics remains a challenge for all of the FTAA Parties regardless of size. For small economies, the task of transitioning from focusing statistical resources on the goods-producing sectors to allocating a major of resources to services statistics (in keeping with the proportion of economic activities from services) is daunting. In addition, since most governments still have less experience with services export development than with goods export promotion, proactive services trade initiatives that are relevant to small service suppliers are typically missing along with the anecdotal export activity information that could substitute for a lack of statistical data.

Technical assistance in the FTAA will need to address the human resource constraints within the governments of small economies if they are to be able to manage and assess services trade liberalization initiatives.

Table 4: Examples of Government Agencies or Governmental Authorities Responsible for Services

Service Sector or Cross-Sector Issue	Responsible Parties	
	Government Agency	Responsibilities That May Have Been Privatised
Business services	Ministry of Industry Ministry of Agriculture Ministry of Fisheries Ministry of Forestry Ministry of Mining Ministry of Justice	Real Estate Board Professional Licensing Registrar Government Printer National Research Council
Communication services	Ministry of Communications Ministry of Industry Ministry of Culture	Internet Service Suppliers Telecommunications Regulator Postal Service National Film Board National News Service
Construction and related engineering services	Ministry of Public Works Ministry of Industry	Housing Authority Planning & Zoning Authority
Distribution services	Ministry of Industry Customs Authority	
Educational services	Ministry of Education Ministry of Industry	
Environmental services	Ministry of the Environment Ministry of Industry	Waste Disposal Authority Recycling Authority
Financial services	Ministry of Finance Central Bank Insurance Registrar Securities Regulator	Securities Exchange/Stock Market

Service Sector or Cross-Sector Issue	Responsible Parties	
	Government Agency	Responsibilities That May Have Been Privatised
Health-related and social services	Ministry of Health Ministry of Social Welfare Ministry of Women & Families	Natural Disaster Agency Infectious Disease Authority Vocational Rehabilitation
Recreational, cultural and sporting services	Ministry of Culture Ministry of Sports Parks Authority Recreation Centres	National Museum National Library Council for the Arts
Tourism and travel-related services	Ministry of Tourism Parks Authority	
Transport services	Ministry of Transportation Vehicle Licensing	Port Authority Airport Authority
Other services	Utilities Regulator	Public utilities (water, gas, electricity)
Cross-Sector: Modes of Supply & E-Trade	Immigration Authority Investment Authority Export Development Authority Company Registry Land Title Registry Ministry of Trade	
Cross-Sector: Standards & Professional Credentials	Standards Agency Employment Standards Worker's Compensation Board Licensing & Work Permits Ministry of Trade	
Cross-Sector: Co-ordination among Levels of Government	Ministry of Trade	
Cross-Sector: Economic and Labour Force Development	Human Resource Development Human Rights Commission Micro-Enterprises Taxation Authority Planning & Zoning Authority Ministry of Labour	

5.5 Limited Inclusion in Trade Policy Consultations

During negotiations, private sector interventions tend to be from large service firms with government relations staff and a vested interest in commercial presence abroad. The interests of small service suppliers are seldom heard, both because they don't have staff time for extensive government consultations and because government officers don't have time to initiate extensive consultations.

CARICOM could help broaden the FTAA consultation base by experimenting with online consultation models, using the *GATS Consultation Kit* for content. Guidelines and assistance with the inclusion of small service suppliers in FTAA consultations could be part of the FTAA technical assistance program.

6. The Case for Special Treatment for Small Service Suppliers

6.1 Merits of Special Treatment

In many ways, small service suppliers are the engines of growth for CARICOM economies. From an economic development perspective, small service suppliers can play a unique role in helping to create jobs throughout an economy and thus encourage people to stay in smaller communities rather than migrate to large urban areas or abroad. From a competitiveness perspective, supporting the export growth of small service suppliers can improve the quality of service inputs available domestically. To be competitive in a global market, service exporters have to meet international quality standards. This enhanced quality of exported services improves the competitiveness of both domestic and exported goods as well as of all service suppliers that use those inputs.

Given the importance of small service suppliers to CARICOM economies and the constraints they face, it would seem logical to have special carve-outs or protection for them. In goods trade, any special treatment is for the good originating in specified developing country markets. In the case of services, it is the service supplier that needs special treatment.

6.2 Demerits of Special Treatment

Because of the importance of competitive service inputs, however, a similar case can be made for not condoning special treatment for small service suppliers. If these firms are not subject to international competition, the quality of services inputs available for all economic activities is likely to decline.

For small service suppliers in small domestic markets in particular, access to foreign export markets (and the larger customer base they provide) is critical to profitability. If access to the domestic market is protected, it may be difficult to negotiate access for small service suppliers to external export markets.

7. Alternate Approaches to Special Treatment for Small Service Suppliers

There are five general approaches that could be taken to special treatment for small services suppliers, not all of which are mutually exclusive. Regardless of the approach taken, there needs to be adequate transparency commitments and centralized online access to regulatory information.

#1 No special treatment.

Under this approach, there would be no provisions specific to small service suppliers though there might be provisions specific to small economies such as non-symmetrical market access commitments.

#2 Support small service suppliers indirectly through market access limitations

Under this approach, the focus would be on reducing domestic competition for existing service suppliers of all sizes through market access restrictions (such as quotas on number of operators, and economic needs tests) – not be specific to small service suppliers.

#3 Support small service suppliers through government procurement limitations

This approach would have provisions targeted specifically at small service suppliers in order to help them increase potential export revenues. The provisions could be of two types: (a) government procurement set-asides of contracts of a specified amount that are only available for bid to small service suppliers from FTAA Parties (e.g., US\$25,000 to US\$75,000, with an option for governments to reserve contracts under US\$25,000 for their own national firms); and (b) a commitment that a minimum percent of contracts from international financial institutions go to local small service suppliers (e.g., 10 percent of all World Bank or Inter-American Development Bank funding for a given FTAA Party).

#4 Support small service supplier growth through technical assistance

This approach would focus on provisions that help to improve the cost structure and competitiveness of small service suppliers. They could include initiatives such as the following:

- Subsidies for export development and innovation activities.
- Vouchers to offset operating expenses.
- "Universal access" requirements of all large service providers, foreign and domestic, to ensure that small service suppliers in rural and remote communities have access to the same quality of service inputs as those in urban areas.
- Training funds available specifically to small service suppliers in order to improve the human resources available.
- Government loan guarantee program for export development financing to small service suppliers.
- Provision by foreign banks of commercial banking services for small service suppliers at rates similar to those offered to medium-size firms and including overdraft facilities secured by accounts receivable.

#5 Support small service suppliers indirectly through priority attention to trade issues of importance to them

This approach would place priority focus on the following types of issues because of their particular importance to small service suppliers, without singling out small service suppliers:

- Reduce the regulatory burden and cost of doing business through regulatory reviews and streamlining of government authorization processes.
- Significantly improve conditions of temporary business travel.
- Remove local presence requirements for Mode 1 supply of services.
- Accelerate the development of mutual recognition agreements, with service industry associations taking the lead.
- Examine possibilities to allow freer movement of consumers in order to support Mode 2 supply of services.

8. Recommendations for CARICOM Negotiating Stance

Keeping in mind particularly the human resource constraints of small service suppliers, below are some proposed general principles for the FTAA negotiations as well as specific recommendations for the FTAA Chapter on Services text.

8.1 General Principles

- a) Keep the structure and coverage of the FTAA Chapter on Services parallel to that of the GATS, including the application to both services and service suppliers. This will reduce the burden on small service suppliers and on the limited human resources of many CARICOM governments to learn different trade agreements.
- b) Keep the same classification system that CARICOM members have already used for their GATS commitments and with which small service suppliers are becoming familiar (so that the two can be easily compared). Again, a standard presentation and classification format makes it easier for small service suppliers to track the liberalization commitments in various potential target markets and for CARICOM governments to manage the scheduling process.
- c) Safeguard the right of CARICOM members to develop and implement new regulations. This is critical in that the regulatory structures in some CARICOM economies are weak (e.g., in licensing) and need to be strengthened before market access is liberalized.
- d) Ensure that no additional administrative or reporting requirements are imposed by the FTAA. This principle is particularly important for both small service suppliers and for small economies with limited human resources.

8.2 *Specific Recommendations*

As other authors have also commented (Abugattas, 2000; Abugattas and Stephenson, 2002), the FTAA agreement needs to be situated between commitments already made under the GATS and commitments already made in CARICOM. The proposals in Table 5 assume that the terms of the FTAA should be more liberal than the GATS but not as liberal as Protocol II. The specific recommendations are coded as to rationale as follows:

A: Reduce administrative burden through harmonization with the GATS and Protocol II

The main recommendations under this rationale are to keep the following FTAA elements the same as the GATS:

- Classification system
- Scope (all but activities involving the exercise of governmental authority)
- Coverage (all levels of government and governmental authorities)
- Measures covered
- Modes of supply
- The right of governments to regulate and adopt new regulations
- The importance and relevance of domestic regulations
- Most-favoured-nation principle
- Transparency and contact points
- The importance of mutual recognition of professional credentials
- Monopolies and exclusive service providers
- Market access principle
- National treatment principle

In addition, it would be helpful to link the time frame of the FTAA to that of the GATS so that offers are made under the FTAA after they have been prepared and received for the GATS.

B: Preserve the additional benefits of economic and labour market integration under Protocol II

The main recommendations under this rationale are to ensure that there remains additional liberalization benefits for CARICOM members under Protocol II that are not extended to all FTAA parties, such as:

- A positive list approach
- A more liberal negotiating base
- A more accelerated liberalization process through scheduling the removal of restrictions
- Coverage of the employment of skilled personnel.
- Removal of residency and work permit requirements within CARICOM

- Inclusion of “non wage-earning activities” (i.e., self-employment)
- Regional licensing of professionals

C: Additional liberalization or specification for the FTAA

There are also areas where additional liberalization or specificity under the FTAA (as compared with the GATS) could be of help to small service suppliers, such as:

- Address the rights of spouses and immediate dependents in the case of intracorporate transfers
- Address investment promotion and protection
- Specify categories of business visitors
- Detail temporary business travel conditions
- Ensure substantial sectoral coverage.
- Possible inclusion of “non wage-earning activities”
- Specific stipulations for small economies
- Work program on domestic regulation
- Greater specificity on denial of benefits
- Model MRAs
- Allowance for regional licensing authorities
- Active role for professional associations
- Specific stipulations on government procurement
- Specific stipulations on e-trade
- Specific stipulations on technical cooperation

D: Address issues of particular concern to small service suppliers

Finally, there are areas where specific FTAA negotiating positions can be of direct benefit to small service suppliers, such as:

- Local presence not required for Mode 1
- Free movement of consumers for Mode 2
- Central online database of regulations in a common format across FTAA Parties
- Inclusion of government procurement
- Inclusion of e-trade
- Technical cooperation initiatives that address human resource constraints and issues of relevance to small service suppliers

Table 5: Recommendations for FTAA Services Negotiating Positions

Topic	CARICOM/Protocol II	FTAA	GATS	Rationale
Negotiating modality	Negative list	Positive list	Positive list	B
Negotiating base	Level of access provided by existing measures on services	Level of bound access commitments in the GATS	Level of bound access commitments in the GATS	B
Progressive liberalization	Standstill mandated Schedule for removing restrictions	Mandated progressive liberalization	Article XIX	B
Classification system	WTO document MTN.GNS/W/120	WTO document MTN.GNS/W/120	WTO document MTN.GNS/W/120	A
Time frame for stages of negotiations		Text finalized – January 2003 Initial offers – April 2003	Requests – June 2002 Offers – March 2003	A
Scope	All but activities involving the exercise of governmental authority. [Article 35(3)]	All but activities involving the exercise of governmental authority.	Article I(3)	A
Coverage	Central, regional, sub-regional, and local governments and authorities.	Central, regional, and local governments and authorities, plus hemispheric and sub-hemispheric non-governmental bodies with delegated authority.	Central, regional, and local governments & authorities and non-governmental bodies with delegated authority	A
Measures covered	GATS wording	GATS wording	GATS wording	A
Modes of supply	4 modes of supply, with commercial presence as Mode 3 [Article 36(4)]	4 modes of supply, with commercial presence as Mode 3	4 modes of supply, with commercial presence as Mode 3 [Article I(2)]	A
Mode 1		Local presence not required for small service suppliers.		D

Topic	CARICOM/Protocol II	FTAA	GATS	Rationale
Mode 2		Free movement of consumers.		D
Mode 3	[Article 36a(3c)]	Right of spouses and immediate dependents to move with intracorporate transfers.		C
Investment promotion and protection		Handled in a separate Investment chapter, with supply through commercial presence remaining as Mode 3 in the Services chapter		C
Mode 4 coverage	Employment of skilled personnel covered.	Employment not covered. Adoption of the NAFTA list of Business Visitor categories, plus additional categories.	Employment not covered. Business visitors covered, but categories unspecified.	B,C
Annex on Temporary Movement of Persons		<ul style="list-style-type: none"> ➤ Establish “visa free” or “visa-at-border” entry for business development purposes. ➤ Establish common service standards for the processing of temporary entry visas – e.g., turnaround time, documents needed, recourse if denied. ➤ Expand the range of professions that are entitled to “business visitor” status. ➤ Expand the range of support staff (e.g., research staff, executive support staff, technical staff, staff in training for professional or technical positions) that are entitled to “business visitor” status. ➤ Admit as business visitors persons who are partners or clients of domestic service suppliers. ➤ Create multiple-entry business visas for service suppliers with contracts in 		C

Topic	CARICOM/Protocol II	FTAA	GATS	Rationale
		<p>another Party's market to support delivery of services and reporting to clients.</p> <p>➤ Train immigration/customs officers regarding the business traveller.</p>		
Meeting GATS Article V requirements	Labour market integration will require the removal of residency requirements and work permits within CARICOM	Economic integration will require substantial coverage.	Article V	B,C
Commitments apply to:	Natural and juridical persons. Includes "non wage-earning activities" (self-employment).	Natural and juridical persons Consider including "non wage-earning activities"	Natural and juridical persons	B,C
Treatment of differences in development and size		<p>FTAA.TN/18</p> <p>Separate developing economies and small economies.</p> <p>Increased flexibility in scheduling, longer time frame, fewer sectors initially.</p> <p>Possibility of non-symmetrical commitments.</p>	Article IV and Article XIX(2)	C
Right to regulate and adopt new regulations	National prerogative & responsibility	National prerogative & responsibility	National prerogative & responsibility	A
Domestic regulations		GATS + work program on regulatory review, model domestic regulations, and the adoption of international standards	Article VI	A,C
Denial of benefits		If juridical persons are not authorised or domiciled, in accordance with the national	Article XXVII	C

Topic	CARICOM/Protocol II	FTAA	GATS	Rationale
		legislation, in a respective Member State and that are not substantially owned and effectively controlled by nationals of that Member State (with “substantially owned” being more than 50% equity interest, and “effectively controlled” being having the power to name a majority of its directors and otherwise legally direct its actions).		
MFN	Yes	Yes, plus initial exemptions	Article II	A
Transparency & contact points		GATS + central online database in common format	Article III	A,D
Mutual recognition of professional credentials	Regionwide licensing	GATS + model MRAs	Article VII	A,B,C
Annex on Professional Services		GATS + regional authorities allowed and liberalization led by professional associations	Disciples on Domestic Regulation in the Accounting Sector	A,C
Monopolies & exclusive service providers	Article 35a(1)	GATS	Article VIII	A
Market access		GATS	Article XVI	A
National treatment		GATS	Article XVII	A
Government procurement		➤ Thresholds below which contracts may be reserved to domestic firms.	Article XIII	C,D

Topic	CARICOM/Protocol II	FTAA	GATS	Rationale
		<ul style="list-style-type: none"> ➤ Set-asides for very small service suppliers, using “very small” as meaning fewer than 10 employees. ➤ Requirements for local partners on contracts awarded to medium or large service suppliers from other Parties. 		
E-trade		<ul style="list-style-type: none"> ➤ Technological neutrality in services trade commitments (especially Mode 1). ➤ Full support for the protection of intellectual property rights online. ➤ Policy co-operation with other governments in fighting cyber crime. ➤ Support for private sector self-regulatory initiatives. ➤ Creation of model regulations (for consideration by trading partners) to address sensitive issues such as privacy, authentication, consumer protection and recourse, etc. ➤ Fast-track e-government initiatives so that small service suppliers in particular will benefit from lower transaction costs. 		C,D
Technical cooperation		<ul style="list-style-type: none"> ➤ Build national capacity to implement regulatory review and reform prior to liberalization. ➤ Assistance in capturing services statistics and building a business register. 	Article XXV	C,D

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