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Promotion of trade in service in developing economy: challenges and prospects

Prof. A. A. Okharedia
Academic Director
Graduate School of Business Leadership
University of South Africa
Telephone: 011-6520375
E-mail: okharaa@unisa.aac.za

Abstract:

In the past, trade in services was not considered important by international Economists. One of the main arguments put forward for ignoring the concept of trade in service was that services were non- tradable In view of this, this paper attempts to investigate the role played by service industries and the associated challenges in a developing economy with particular reference to the SADC countries. This investigation shows that the service industries are uncompetitive and inefficient when compared with their peers in developed economy.

This paper recommends that there is an urgent need for a major-shake up especially within the core economic infrastructure services. This paper also highlights that the service industries in the SADC region contributes greatly to GDP, creates employment opportunity, improved access to transport which translates into improved access to customers and suppliers. The transport sector is of crucial importance in poverty alleviation and regional economic integration. Some of the challenges identified include, the need for SADC countries to conform to international standards in delivery of its services since most SADC countries are members of GATS, ILO and WTO. The other challenge is the different legislative framework in the service industries within the SADC region. There is an urgent need to harmonise the different legislative framework.

Key words: Trade in Service, Developing Economy, SADC region, Service Industries.

Introduction

In the past, trade in service was not considered important by International Economists. One of the main arguments put forward for ignoring the concept of trade in service was that services were nontradeable (B. Hoeman and C.A.P Braga:2000). Unfortunately, this cannot be said to be true mainly because transportation, travel and communication services have always been considered as economic activities. In the early 1980s statistics have shown that International services transections expanded rapidly as new modes of supply and became more fruitful in respect of services transmitted over electronic network. In 1990, global services trade stood at US dollars 80.8 trillion or 20 percent of global trade (WTO 1996). In view of the fact that services provided via telecommunication network may not have been properly captured in conventional balance of payments statistics, growth of services trade is most likely to be underestimated.

According to B.Hoekman et.al (2000), the presences of advanced technology still make many services still difficult to trade.

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They argued that producers of such services. Generally must supply foreign markets through commercial presence, especially foreign direct investment (FDI). FDI in services has also grown substantially over the last fifteen years. We can still recall that in the early 1990s some 50 percent of the global stock of FDI was in services activities. The share of services in annual FDI inflows into many countries has often been much higher in recent years (World Bank: 1994, UNCTAD 1994, Sauvant and Zimny, 1987, Bloomstrom and Lipsey, 1989, Li and Guisinger, 1992, Edvardsson et. al 1993).

The above scholars show clearly that internationalization of services is therefore reflected in the growth of both trade and FDI flows. They argued that both have been driven by innovations in information and communication technology that allowed increasing specialization and product differentiation, as governmental policies. In this paper much attention will be paid to the available services in particular sector of a developing economy by paying particular attention on the challenges on trade in services (GATS) treatise.

The General Agreement on Trade in Services (GATS) is an inter– governmental agreement. It is more complex than similar agreements because the global services sector is highly differentiated, covering both consumers and industrial and institutional customers Usunier (2000) proposed an outline of service attributes:

- Consultancy including professional and computer services
- Communications (including information)
- Distribution
- Health
- Education and training
- Environment
- Finance including banking and insurance
- Tourism and hospitality
- Transportation services
- Contraction and engineering, including sale of technology
- Recreation, culture and sport

In general terms, a service is trades when the supplier and the customer are from different countries, regardless of the location of the transaction. One of the barriers to multilateral agreement has been a lack of clarity about how services may be traded (Drake and Nicolai1992), linked to the general sense that services are not tradable. In order to address the definitional issue, one must first remember what defines an external trade activity in its most basic form - namely, an economic exchange between residents and non – residents, firms or person or put more simply, the gain or loss of foreign exchange. For the trade in goods, the concept is relatively straight forwards, because the produces stay in one country and the good travels across a border to another country.
For services the situation is more complex, because in many cases the suppliers and the customers need to be in the same location. This means that there are four possibilities for movement. The service moves across the border, the customer moves across the borders to receive the service, the producer moves across the border to provide the service through a commercial establishment, or the producer moves across the border only temporarily to provide the service. The results has been the so – called “modes of supply” definition of the services trade (Altiger and Enders, 1996)

The General Agreement on Trade in Services (GATS) states that “trade in service is defined as the supply of a service:

- From the territory of one country into the territory of any other country (cross – border)
- In the territory of one country to the service consumer of any country (Consumption abroad)

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- By service supplier of one country, through commercial presence in the territory of any country in the territory of any other country (movement of natural person)

GATS and its challenges in the Health Service: – South African Experience.

Recent research conducted by Scott Sinclair (2006) on municipal Services shows that there is a potential, inconsistency between South Africa 1994's (GATS commitments on health services and the South Africa's new national health legislation of 2004. The conflicts between South Africa is 1994 GATS commitments and the South Africa's health legislation are quite substantial. In general public planning policies that allocate health resources more equitably between urban and rural areas, between rich and poor people, and between public and private sectors conflict with the GATS prohibitions against limiting the numbers or activities of private sector service providers.

In particular, the National Health Act of 2004 "certificate of need" system conflicts with the GATS Market Access rule (Article xvi). This system is the legislation primary policy instrument, requiring all health establishments to acquire "certificate of need" in order to operate. The legislation gives the health minister the authority to grant or refuse certificates based on community needs, and to set conditions on certificates to service poorly – served regions or populations, or train community health care professionals. These basic measures which are moderate and typical by world health policy standards conflict with GATS Article XV1:2. This GATS provision explicitly prohibits the application of such "economic needs tests" to the approval of new facilities or the expansion of existing health establishments. The "economic needs tests" is simply a government measure which restricts the entry of service suppliers based on an assessment of the needs in the markets. Some individuals are of the allocation of health resources on a public assessment of health needs rather than leaving these solely to private market forces is, of course, precisely what the certificate of needs system is intended to do. It provides democratically – elected governments and public health officials with a tool to achieve more uniform quality in the health care system and more equitable access to health care services by shifting providers and resources to where the need is greatest. Its function is basically redistributive since it advances overall health policy goals by limiting growth in areas or markets that are already well – served, while encouraging expanded services to poorly – served regions or population from GATS perspective, such measures are illegal barriers to market entry. The NHA gives the Director – General, the Head of the national health department, broad discretion to administers certificates of needs to limit growth in Health establishments, types of medical procedures, licensing of equipment and other services, in certain areas until more needy areas or populations are betters served.

Attaching restrictions on the numbers of health professionals employed in a region or by a particular health establishment for example could conflict with the article XV1.2(d) prohibitions of limits on the number of natural persons "that may be employed in a particular service sectors or that a service supplier may employ". In addition to this, the certificates of needs system also required government approval to acquire prescribed health technology". Such a requirement appears to violate XV1.2 (c) by limiting the "total number of service operations or the total quantity of service output" especially for specialized, technology – dependent services such as diagnostic process.

Article XV1.2 (e) prohibits "restrictions on or requirements for certain types of legal entity

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or joint venture for the supply of a service" this would prevent, for example, a requirement that a foreign physician must enter into a joint venture with a local physicians or local community – based clinic to enter the market. It could also create problems for - profit sector, while encouraging a greater role by the public or not – for – profit section (which are specific forms of legal entity) according to Scott Sinclair (2004), the exercise of this type of discretion, while not required, is clearly authorized by the national health legislation. The operationalizing of the NHA also shows that a foreign – owned medical services provider could defeat the purpose of the South Africa "health legislation by establishing a clinic in an already well – served neighborhood or market niche, as well as by hiring doctors, nurses and other medical personnel away from higher – priority regions or health services. South African governments at all levels, which are contained or authorized in the current law, to curb such practices without violating the country's GATS market access commitment.

The second major GATS rule that is not favorable to South Africa is Article XV11 which deals with National treatment. This article obliges government to "accord to services and services suppliers of any other member, in respect of all measures affecting the supply of health services, treatment no less favorable than that it accords to its own like services and services suppliers". This GATS National Treatment rules create a host of regulatory issues and problems for South Africa in the health care sector.

The fourth NHA rule that is problematic in South Africa Health Service Sector is the issue of total control and decision – making in most countries, there is a strong tradition of local accountability and control in the delivery of health services. Such policies cut against the grain of the national treatment rule, for example, requirements that a majority of senior management or boards of directors of private health clinics come from the local community or district would discriminate against foreigner, violating national treatment. Similarly requiring that a foreign health providers form a partnership with a local, community based organization in order to provide health services would also violet national treatment.

The fourth NHA rule that is a problem in the Health Sector is the local training and technology transfer. The requirements that foreign health service provider transfer technology or train locals are also a violation to GATS national treatment.

The fifth NHA rule that affects the health sector in South Africa is the implementation of the broad based black Economic Empowerment Act of 2003. Thus Act defines BEE as "the economic empowerment of all black people including women, workers, youth, people with disabilities and people living in rural areas through diverse but integrated socio – economic strategies that include , but are not limited to:

- Increasing the number of black people that manage own and control enterprises and productive assets.
- Facilitating ownership and management of enterprises and productive assets by communities, workers, cooperatives and other collective enterprises.
- Human resource and skills development
- Achieving equitable representation in all occupational categories and levels in the workforce
- Preferential procurement
- Investment in enterprises that are owned or managed by black people.

The implementation of the broad based Black Economic Empowerment Acts of 2003 in the health sector is both repulsive and odds with the GATS national treatment

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rule. Infects, government measures favouring ownership by, transfer of assets or technology to, and training for black South Africa's – indeed any set of South African – discrimination against foreigners and therefore violate the national treatment provision of GATS.

EDUCATIONAL SERVICE SECTOR IN SOUTH AFRICA

In the sector, the South African Government has discriminated against foreigners. In the implementation of Employment Equity Acts of 1998, preferential treatment is given to South African in terms of employment opportunity. In the implementation of the Employment Equity Act of 1998, preferential treatment is given to South African in terms of employment opportunity. The Employment Equity Acts of 1998 clearly spelt out the importance and the needs to use affirmative action in the selection of applicants to be employed in any department or organization. This directly hinders foreigners in rendering their services to most established institution. In terms of promotion, South African is also given a better opportunity than foreigners. The case of Baloro V University of Bophuthatswana illustrates this point. In this case Balora who is from Zambia was denied promotion in the above University while South Africans were being promoted. Baloro regarded this action as unfair discrimination while the court regarded it as a means of balancing the past imbalances that existed in South Africa.This action by the university negates s the United Nation Bill of rights and the (GATS) principle of National treatment.

Another interesting case is the case of Mortala v university of Natal. In this case, an Indian born South African Student was denied admission into the medical school of University of Natal. The student has all the requirements to be admitted, but unfortunately, he was told that the place that was left was for historical black students. The Indian student regarded this as unfair discrimination, but the court ruled that it was a fair discrimination if the past imbalances were to be addressed. This verdict negates the principle of the Bill of rights where everybody is considered equal and should be given equal opportunity. The above discussion highlights few of the challenges facing the promotion of trade in service in a developing economy.

THE ROLES OF TRADE IN SERVICE IN SOUTHERN AFRICA DEVELOPMENT COMMUNITY (SADC)

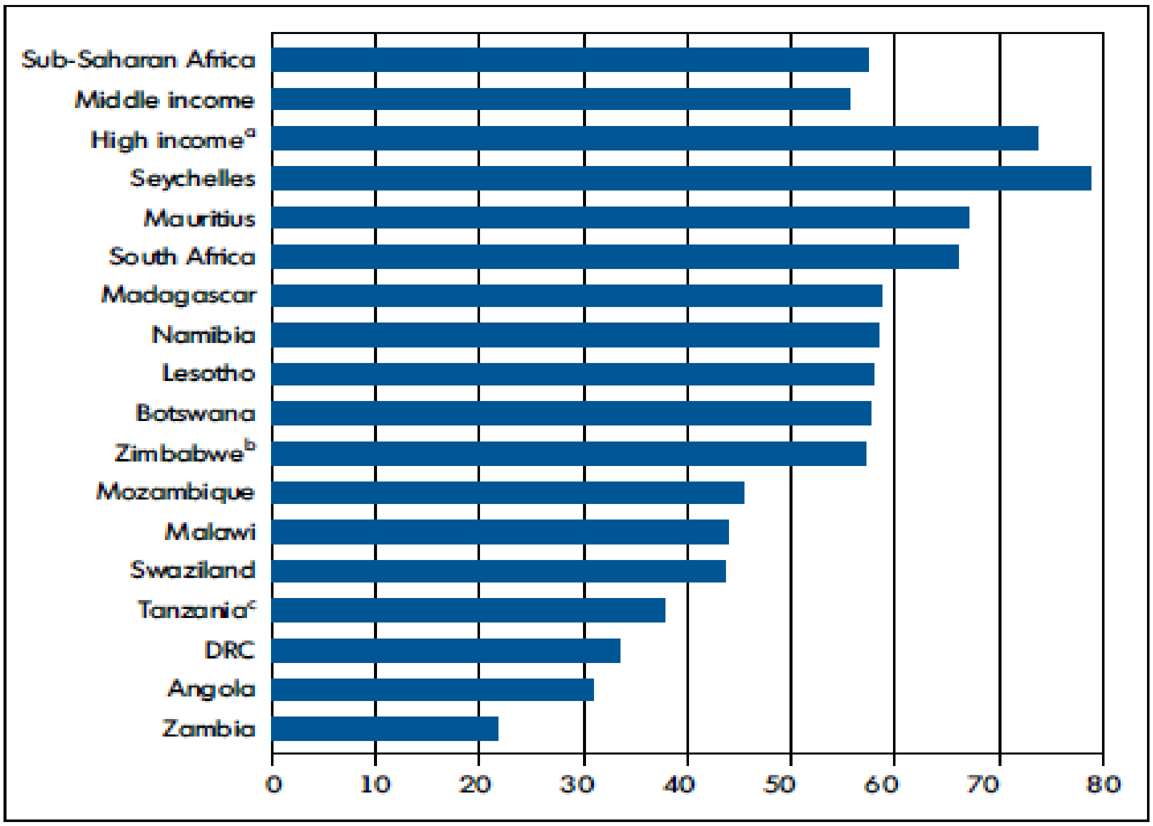
In respect of the prospect of trades in service, an attempt will be made to examine how countries in Southern African Development Community have benefited from the service sectors. The Southern Africa Development Community (SADC) region is characterized by vast differences in economic size, development and structure as expected, the scale of service output and trade also differs markedly by country. Most SADC countries are constrained by expensive and inefficient service industries. Effective service sector liberalization could contribute to increases competition within SADC member states, which in turn could generate increased investment, lower prices and improved output in service, with spin – off benefits for the wider domestic and regional economy. SADC member countries are currently involved in a number of service sector negotiations at the multilateral, regional and bilateral levels. In particular, Economic partnership Agreement (EPA) negotiations with the EU incorporate a substantive services chapter, and SADC itself has initiated a protocol on Trade in Services.

In general terms, services are often intermediary products that are necessary for the efficient operation of most sectors of the economy, and the means by which the poor can achieve economic inclusion for example, a farmer with a mobile phone has a great advantage when negotiating the price of his crop with an intermediary who is not in close proximity. He can farm a large area if access to financial services is efficient and cheap enough to allow some form of input financing. The various ways in which the service sectors have contributed to the economic and social development of the SADC region will be discussed below.

SERVICES SECTORS CONTRIBUTION TO GDP IN THE SADC REGION.

Fig. 1.below illustrates the shares of the service sector in GDP in high – income and middle – income countries and the 15 SADC member states.

Figure 1: Shares of Service Sector in GDP (%) 2009



Data For 2006. Data For 2005. Data For 2008 Source: DNA Economics Calculations based on World Bank, Open Data, Database, http://data.worldbank.org, accessed June 2012

Services contributed over 70% of GDP in high income countries in 2009, compared to less than 60% GDP in sub- Saharan African countries. Tourist destinations such as Mauritius and the Seychelles have fairly high service contributions to GDP, with the Seychelles even higher than the average for high – income countries. At the other end of the spectrum, the less-developed SADC countries of Tanzania, the democratic Republic of Congo (DRC), Angola and Zambia have service sectors that contribute less than 40%

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TABLE 2: Service Sector Breakdown as a percentage of GDP

Sector	Botswana (2009)	DRC (2008)	Malawi (2009)	Lesotho (2009)	Mauritius (2009)	Mozambique (2009)
Agriculture and fishing	2.4	38.2	8.3	35.3	3.9	27.3
Mining	29.9	12.2	2.4	0.9	0.04	1.2
Manufacturing	4.1	4.1	18.6	8.0	19.2	13.9
Electricity, Gas, Water	2.5	0.6	5.3	1.5	2.2	5.2
Construction	6.0	8.3	5.3	4.7	6.9	3.7
Trade	9.2	22.4	7.3	14.3	11.4	12.7
Hotel and restaurants	2.9	22.4	1.3	1.8	6.6	1.7
Transport, Communications	5.0	6.5	8.3	7.4	9.6	11.7
Financial	13.8	6.1	6.0	6.7	10.1	5.6
Real estate, business	13.8	6.1	14.4	5.7	11.7	7.5
Public administration	18.9	1.6	11.7	2.9	6.1	4.0
Education	5.2	1.6	7.9	2.8	4.4	4.1
Health, Social, Community	5.2	1.6	3.1	3.7	3.5	1.5
Other	-	1.6	3.1	4.3	4.3	

Source: DNA calculations based on data from country central banks and statistics offices and African Development Bank, African Economic Outlook, database, http://www.africaneconomicoutlook.org/en

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Sector	Namibia (2009)	South Africa (2009)	Seychelles (2009)	Swaziland (2008)	Tanzania (2009)	Zambia (2008)	Zimbabwe (2007)
Agriculture and fishing	7.4	2.6	2.6	7.9	2.63	12.9	21.3
Mining	5.3	6.0	-	0.3	2.6	8.4	22.7
Manufacturing	14.7	16.7	8.9	42.3	10.1	10.2	8.0
Electricity, Gas, Water	2.8	2.1	1.5	0.8	2.2	2.4	11.4
Construction	4.1	3.6	6.0	3.0	7.2	11.7	3.1
Trade	13.2	13.4	10.5	8.9	15.2	17.0	10.9
Hotel and restaurants	2.1	13.4	20.5	2.10	2.4	2.9	10.9
Transport, Communications	7.2	10.2	12.7	7.4	8.2	9.4	4.9
Financial	5.6	23.7	7.6	3.5	2.1	7.6	1.5
Real estate, business	10.9	23.7	18.1	50.0	10.8	8.6	0.5
Public administration	10.3	21.6	5.8	15.4	8.3	8.8	1.7
Education	7.8	21.6	2.6	4.20	1.9	8.8	1.9
Health, Social, Community	7.5	21.6	2.6	4.20	1.5	8.8	3.1
Other	0.9	21.6	0.6	4.0	0.7	-	9.1

Source: Ibid

Table2 above shows the service sector breakdown as a percentage of GDP.

The contribution of hotels and restaurants to GDP in the Seychelles is high at 20.5% when compared with Mauritius which is at 6.6%. Wholesale and retail trade is a significant contributor for all countries, contributing at least 7% to GDP in SADC countries.

The financial and real estate and business service sector contribute significantly to GDP in most SADC countries, even in same less – developed countries such as Lesotho, where the two sectors combined contribute 20.4% to GDP. However, their contribution is lower in Swaziland, at just 3.5%. in South Africa, the two sectors contribute 23.7% to GDP.

The transport and communications sectors comprise a small share of GDP for landlocked countries. They are particularly small in both Botswana and Zimbabwe, at around 5.0% of GDP. In South Africa, Mozambique and the Island nations of the Seychelles and Mauritius their contribution is higher.

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CONTRIBUTION TO EMPLOYMENT

Table 3 below highlights the growing contribution of the service sector to regional employments for SADC Countries with the exception of the Seychelles. Employment in the service sector increased for most SADC countries between 1980 and 1997 (with the exception of Mauritius, which experienced a large industrial expansion during this time). The Southern African Customs Union (SACU) countries were particularly dependent on the service industry for employment. In Malawi and Mozambique, however, service employment was relatively low.

TABLE 3: Percentage of total employment by sector

Country	Agriculture		Industry				Services	
			Total		Manufacturig			
	1980	1997	1980	1997	1980	1997	1980	1997
Angola	76.0	73.0	7.6	8.3	4.0	4.4	16.0	18.4
Botswana	63.9	36.5	10.0	26.1	1.3	7.4	26.1	37.2
DRC	71.6	65.5	12.0	14.2	7.6	8.7	16.3	20.3
Lesotho	40.2	39.8	34.2	23.7	2.5	1.7	25.6	36.4
Madagascar	81.6	76.1	5.6	7.4	3.5	5.4	12.7	16.5
Malawi	**87.3**	**86.3**	**5.4**	**4.7**	**3.3**	**2.8**	**7.4**	**9.0**
Mauritius	27.2	9.8	27.6	53.2	18.4	41.3	45.2	36.8
Mozambique	**84.3**	**81.5**	**7.5**	**8.5**	**6.7**	**7.6**	**8.3**	**10.0**
Namibia	56.4	44.2	15.0	15.5	4.8	6.3	28.6	40.3
South Africa	17.3	11.2	34.7	30.0	18.2	14.2	48.1	58.5
Swaziland	50.0	32.5	18.6	25.0	9.1	12.3	31.4	42.5
Tanzania	85.8	83.6	4.5	5.1	3.4	3.9	9.8	11.2
Zambia	76.1	73.7	8.1	8.7	3.2	3.6	15.8	17.6
Zimbabwe	72.4	65.9	12.3	6.2	8.3	4.2	15.3	28.0

Source: Fafo, UNI and the Service Sector Workers in Southern Africa, 2000,www.union-network.org/unisite/regions/Africa/pdf/UNIFAFORen.searchInSouthAfrica – en.pdf

Table 4 below presents a breakdown of employment by service subsector (Angola, DRC, Malawi, Mozambique, Seychelles, Swaziland and Zimbabwe are excluded).The trade and distribution sector is a major contributor to employment across many SADC Countries, accounting for 22.9% of total employment in South Africa. In Mauritius the hotels and restaurants sector accounts for 7.1 % total employment, twice as much as any other SADC country shown. Government is among the largest

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employer in all five SACU countries, providing almost one – third of total service sector employment in South Africa, Botswana and Namibia.

TABLE 4: Employment by Economic Activity (%)

Sector	Botswana (2006)	Lesotho (1999)	Madagascar (2005)	Mauritius (2008)	Namibia (2004)	South Africa (2008)	Tanzania (2006)	Zambia (2000)
Primary	32.6	72.8	82.2	9.0	31.9	8.1	75.2	72.9
Manufacturing	6.7	3.5	2.8	19.7	6.2	14.3	3.1	2.8
Electricity, Gas, Water	0.8	0.5	0.3	0.7	1.6	0.7	0.1	0.4
Construction	5.1	4.8	0.1	11.1	5.1	8.3	1.2	1.3
Trade and distribution	14.4	4.7	4.9	13.8	14.0	22.9	8.8	6.8
Hotel and restaurants	2.7	0.7	0.7	7.1	3.4	-	2.1	-
Transport, Communications	3.0	1.7	0.9	7.4	4.1	5.6	1.4	1.9
Financial Intermediation	1.6	0.3	0.04	2.6	2.0	12.0	0.1	1.0
Real estate, business	4.7	0.9	-	5.1	2.4	-	0.5	-
Public administration	11.2	1.2	2.1	6.6	8.0	19.1	1.0	12.9
Education	8.0	2.1	0.5	5.8	8.1	-	1.3	-
Health, Social, Community	2.6	0.8	0.1	3.2	3.6	-	0.6	-
Other	6.8	5.8	5.5	8.0	9.6	9.0	4.6	-

Source DNA Economics calculations based on the International Labour Office, LABORSTAT, database, http//laborsta.iol.org, accessed 1May 2011

TRANSPORTATION SERVICES

In many SADC countries, the traditional network is supplied by the state and because of this; the concerns over the state of competition in the sector have been reserved for those limited areas where service provider competition is permitted. Competition has typically been extremely limited in the provision of air services (Particularly international air service, rail services and road operations. However, deregulation and decreased state involvement has the potential to improve substantially the efficiency and quality of transport services and infrastructure. In resource constrained countries, private sector participation may also help to overcome financing constraints associated with transport infrastructure.

Transport geographer hers are of the view that improved access to transport translates into empowered access to customers and suppliers. Accordingly, the state of the transport sector is of crucial importance in poverty alleviation and regional integration initiatives. Recent research suggested that In areas of sub – Sahara Africa that are within four hour's travel time of a city, crop

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production levels reach 45% of potential productions levels. This falls to just 5% for areas that are more than eight hours away (Dorosh p et al: 2010)

The table 5 below illustrates the quality of transport infrastructure in 10 SADC countries (Angola, DRC, Seychelles, Swaziland and Zambia are excluded) which is widely regarded by its business people as inadequate. The component of transport infrastructure that is most highly regarded is air transportation which is typically more expensive than road transport for the movement of both goods and people. In comparison, the road and rail networks that should service the needs of poorer commuters and primary and secondary industry are very underdeveloped.

Poor quality infrastructure contributes to the high – cost transportation system in Africa. This high cost affects the ability of African goods and service producers to complete in international markets.

TABLE 6: QUALITY OF TRANSPORT INFRASTRUCTURE

Country	Quality of roads	Quality of railroad Infrastructure	Quality of port infrastructure	Quality of air transport infrastructure	Average score
Botswana	**4.5**	**3.6**	**4.2**	**3.8**	**4.0**
Lesotho	**2.0**	**1.9**	**2.6**	**2.3**	**2.2**
Madagascar	**2.9**	**1.7**	**2.6**	**4.3**	**2.9**
Malawi	**2.5**	**1.8**	**3.5**	**2.9**	**2.7**
Mauritius	**4.5**		**4.4**	**5.4**	**4.8**
Mozambique	**2**	**1.8**	**2.8**	**3.5**	**2.5**
Namibia	**5.4**	**4.3**	**5.3**	**5.1**	**5.0**
South Africa	**4.8**	**3.5**	**4.4**	**5.9**	**4.7**
Tanzania	**2.5**	**1.9**	**2.8**	**3.5**	**2.7**
Zimbabwe	**3.3**	**2.9**	**4.3**	**3.4**	**3.5**
Average	**3.4**	**2.6**	**3.7**	**4.0**	**3.5**

Note: 1 =underdeveloped, 7 = Extensive and efficient by international standards.
Source: WEF, *The Africa Competitiveness Report 2009.* WEF, 2009

CONCLUSION

The above discussion shows that SADC service industries are large and increasingly important. The service industries are also uncompetitive and inefficient when compared with their peers. In view of this, major shake- up clearly needed, especially within the core economic infrastructure services. This service sector in SADC region contributes greatly to the GDP of the various SADC countries and also creates employment opportunity in the region. In the same vein the improved access to transport translates into improved access to customers and suppliers. The transport sector is of crucial importance in poverty alleviation and regional economic integration that is needed in the SADC region.

There is also the need for SADC countries to conform to international standards in the delivery of its service since most SADC countries are members of GATS, ILO, WTO, they must comply with the policies and procedure in the delivery of their services. This will not only help SADC countries to improve in their services, it will also give them a reputable image in international circles

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