

Magnitude and possible consequences of labour migration under GATS

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1. Introduction

Temporary movement of service providers (Mode 4) under the General Agreement on Trade in Services (GATS) accounts for a small share of international trade in services and a small share of cross-border movement of labour. Nevertheless, further liberalisation of services by this means has emerged as one of the major topics in the GATS negotiations and raises a number of important and complex issues that go beyond trade policies for both sending and receiving countries.

It is clear that within GATS, Mode 4 is the most politicised and publicly debated of the four modes of service supply. In general, discussions of temporary labour migration take place within the context of increasing labour migration and the growing importance of the service sector and international trade in services. From the EU perspective, Mode 4 liberalisation is also intertwined with the debates on EU enlargement and increased labour mobility from the new Member States, the EU services directive, relocation of capital, and slow growth and high unemployment in some Member States. From developing countries' perspective, liberalisation of Mode 4 is seen as a main source of gain from the DDA Round due to their comparative advantage in low- and medium-skill labour-intensive services.

The combination of a range of factors – such as the growth of trade and investment flows, technological change, declining transport and communication costs, and global business chains – will probably lead to more demand for liberalisation of the movement of natural persons. Temporary mobility is also likely to grow given that developed countries are trying to balance issues resulting from population aging, rising education levels and growing demand for certain services, among other things. But is the GATS an appropriate forum for negotiating cross-border movement of natural persons?

With Mode 4 likely to increase in importance, this paper attempts to improve our understanding of its scope and related issues. It first reviews the scope and extent of liberalisation under Mode 4 to date. It then discusses the issues related to the measurement of Mode 4 trade and looks at the estimated cross-border movement of service providers. Finally, the article focuses on potential socio-economic implications of temporary movements of service providers for sending (with the focus on developing countries) and receiving countries (with the focus on the EU). The paper concludes with some policy implications for further Mode 4 trade liberalisation.

2. GATS and Mode 4

2.1 What is GATS?

The General Agreement on Trade in Services (GATS) is an international agreement, forming part of the WTO legal framework. It was negotiated in the Uruguay Round of global trade talks and came into force in 1995. GATS creates a legal framework for international trade in services valid for all WTO member states and aims to increase trade in services by providing transparency in and progressive liberalisation of services markets.

GATS sets out four modes or ways in which services can be traded between WTO Members:

- (i) *Mode 1* – cross-border supply (that is, for example, cross-border routing of telephone calls via call centres);
- (ii) *Mode 2* – consumption of services abroad (that is, study at a foreign university; medical treatment abroad, etc.);
- (iii) *Mode 3* – commercial presence abroad (that is, establishing a foreign branch; entering into a joint venture, etc.);
- (iv) *Mode 4* (the focus of this article) – temporary movement of service providers (that is, for example, employees of transnational companies sent to various group locations).

The GATS negotiations involve a request and offer system: countries put forward requests representing what WTO members seek from other trade partners in terms of liberalisation of trade in services, and offers representing what members are prepared to put forward in terms of market opening. Governments are allowed to decide on a case-by-case basis in which service sectors (or subsectors) and to which modes of service supply they wish to be bound.

As part of GATS, member states have also agreed to progressively liberalise, meaning that they will continuously open up new sectors and reduce barriers to trade in services. For the Doha Development Agenda (DDA) Round, according to the original schedule, the revised GATS offers were due in July 2006, and the final draft schedules of commitments were due by October 2006 (Sinclair 2006). Given the suspension of the DDA Round, services talks were also suspended. At the time of writing, it was unclear when the GATS negotiations would be resumed.

2.2 Definition and scope of Mode 4

GATS describes trade in services under Mode 4 as ‘the supply of a service ... by a service supplier of one Member, through the presence of natural persons of a Member in the territory of any other Member’¹. As further specified in the Annex on the Movement of Natural Persons Supplying Services,² Mode 4 covers temporary entry by the following four main categories of natural persons:

¹ http://www.wto.org/English/docs_e/legal_e/26-gats.pdf
www.wto.org/english/docs_e/legal_e/26-gats.doc

- (i) *intra-corporate transferees* (managers, specialists, trainees);
- (ii) *business visitors and services sales persons* (service providers who enter into another member state's territory for the purpose of setting up a commercial presence or negotiating the sale of services);
- (iii) *contractual service suppliers* (service providers who enter the territory of another WTO member state on a contract between their employer and service consumers in the territory of the other member state);
- (iv) *independent professionals* (self-employed workers who enter into another member state's territory for the purpose of temporarily supplying a service).

In general, GATS covers all international temporary movements of service providers, whether from developing to developed countries, from developed to developing, or between developed or developing countries; and potentially includes liberalisation of the movement of highly skilled, medium skilled or unskilled services providers. Furthermore, GATS Mode 4 applies to nationals and, in certain circumstances, permanent residents of WTO member states seeking to supply services abroad.

The precise limits of Mode 4, however, are very ill-defined, posing a number of general and more specific challenges. First, the Annex on the Movement of Natural Persons Supplying Services states that Mode 4 *does not* cover natural persons seeking access to the receiving country's employment market. But as already mentioned, one Mode 4 category is movement of independent professionals, under which service providers seek employment in a foreign country on a temporary basis. Therefore, one can argue that the Mode 4 definition is subject to interpretation. Secondly, GATS Mode 4 covers service providers who move only temporarily. But how long is 'temporary'? The Agreement does not draw clear lines, beyond the exclusion of permanent migration, and this issue is left to the discretion of individual countries. In effect, the length of stay identified in the offers made by the WTO member states varies from a few months to a few years (renewable) depending on the type of work and, usually, skills level. On the one hand, such flexibility could be seen as an advantage of not creating a definitional straightjacket. But the seemingly open-ended notion of 'temporary' may render more difficult a credible distinction between Mode 4 and migration: a distinction that could have significant political resonance (Chaudhuri 2004). Thirdly, it is not entirely clear what types of contract are covered: does natural persons 'employed by a service supplier of a Member' include foreigners employed only by foreign firms or also those employed by host country firms? Furthermore, a number of more specific examples could be pointed out showing the difficulties of trying to arrive at a single concept of Mode 4 (for example, it is undetermined if GATS covers posted workers; if temporary agricultural workers providing agricultural services could move temporarily under GATS, and so on).

One can argue that due to the ill-defined and evolving GATS provisions, actual offers and the conditions/limitations laid down in the offers of WTO member states become very important.

2.3 Offers and requests in Mode 4

As regards offers concerning the liberalisation of services trade through Mode 4, so far commitments have been limited compared to other modes of service supply. In general, most commitments have been horizontal rather than sectoral (that is, applicable without distinction to all sectors inscribed in a member state's schedule of commitments), and mostly limited to senior and skilled intra-corporate transferees, often linked with Mode 3 (foreign direct investment) (see Box 1). Such commitments are indeed more of interest to developed countries that are significant foreign investors than to developing countries.

According to World Bank research, no significant differences exist between the commitments scheduled by developed and by developing countries: both groups seem to have been equally hesitant in undertaking commitments for Mode 4. But countries that acceded to the WTO since 1995 have been more willing to make commitments in the category of contractual service suppliers (Chaudhuri 2004).

Moreover, it is widely acknowledged that WTO member states' commitments to date generally do not even reflect prevailing entry conditions for natural persons. The submitted offers are preliminary in the sense that negotiations of their content have yet to commence. From a research perspective, this means there is no clear baseline from which to measure changes caused by Mode 4 liberalisation.

The offers are submitted to the WTO and circulated to all member states. Requests, on the other hand, are confidential in nature, exchanged only between bilateral partners. Thus very little analysis is possible. Some information is available on the joint request by the least developed countries (LDCs) group to key developed countries on Mode 4 (submitted in May 2006). This request came after an initial one had failed to receive a meaningful response from recipient member states. In the revised request on Mode 4, LDCs show key sectors in which they would like liberalisation of Mode 4 in the GATS negotiations. The sectors include professional services, computer related services, research and development services, real estate services, communication services, education services, financial services, health and related social services, tourism and travel related services, recreational, cultural and sporting services, and transport services. Furthermore, the LDC request targets the inclusion of categories beyond highly skilled providers by broadening the scope of service providers whose competencies and qualifications may meet the standard for Independent Professionals, Business Visitors, and Contractual Services Suppliers. LDCs propose that such qualifications include diplomas, university degrees and demonstrated experience, presenting these as substitutable options (Kategekwa 2006). Indeed, some developing countries at the WTO have indicated that their willingness to undertake liberalisation commitments for other modes of service supply will be determined by the extent of Mode 4 liberalisation offered by developed countries.

Box 1: The EU offer

The main aspects of the EU conditional revised offer in relation to Mode 4 are summarised here.

In the category of *intra-corporate transferees* (managers, graduate trainees and specialists temporarily transferred in the context of the provision of a service through commercial presence), entry and stay for the managers and specialists is limited to three years (five years in Latvia). Trainees can be transferred to affiliated companies in the EU-25 for up to one year for career development purposes.

Business visitors are allowed to enter and stay in the EU for up to 90 days in a one-year period (six months in Estonia) for the purpose of negotiating or agreeing the sale of services or opening up a commercial presence. As regards sectoral coverage for *intra-corporate transferees* and *business visitors*, one has to refer to the sector-specific commitments and limitations in the conditional revised offer of the EU (http://trade.ec.europa.eu/doclib/docs/2005/june/tradoc_123488.reduced%20cells%20v2.pdf). But the number of bound sectors is very limited (for example, the most open sectors are telecommunications and financial services, mainly in case of intra-corporate transferees).

Contractual service suppliers (CSS), who are employees of a company that has no commercial presence in the EU-25, are allowed to provide services in 21 sectors¹ for up to six months within one year, and have to comply 'with laws, regulations and requirements of the European Communities and the Member States where the contract is executed' (European Commission, 2004). Contractual service providers must operate under the service contract from the final consumer in the EU member state concerned, and the commitment relates only to the service activity which is the subject of the contract.

In the *independent professional category (IP)*, self-employed service providers are allowed to provide legal, architectural, engineering, computer, management consulting and translation services in the EU for up to one year.

Contractual service providers and independent professionals must possess a university degree or technical qualifications demonstrating knowledge at the equivalent level; professional qualifications and at least three years experience in the sector for the CSS and six years in the sector for the IP. Furthermore, commitments for CSS and IP are subject to numerical ceilings, except in Denmark, Netherlands, Sweden and the UK. In addition, in Poland independent professionals and in Italy contractual service suppliers are not subject to numerical ceilings.

In the EU sector-specific commitments, the main scheduled limitations are economic need tests which in most cases do not provide criteria (economic need tests do not apply to intra-corporate transferees and business visitors); quantitative limits on foreign employment; other requirements such as associated training of local staff; labour market conditions such as domestic minimum-wage legislation and limitations regarding conditions of work, working hours and social security; residency requirements; and technology transfer (that is, requirements to train local staff).

2.4 Debate on further liberalisation of services trade under Mode 4

There are various interests at play in the negotiations on temporary movement of service providers under Mode 4. The proponents of the Agreement (notably WTO, European Commission, OECD, and European Services Forum) emphasise the benefits of further Mode 4 liberalisation. It is indeed true that the combination of a range of factors – such as the growth of trade and investment flows, technological change, declining transport and communication costs and global business chains – is increasing demand for liberalisation of the movement of natural persons (OECD 2003). From this viewpoint, Mode 4 is seen as facilitating access to a more qualified and more productive labour force and as a way of smoothing fluctuations in demand for services (these arguments are discussed in more detail later). The interest groups that represent services companies (European Services Forum in the EU and Coalition of Services Industries in the USA) are also calling for more commitments under Mode 4, especially regarding high skilled workers and service providers linked to commercial presence (intra-corporate transferees and business visitors). This is seen as important for underpinning existing and future Mode 3-specific commitments: that is, if a foreign service company seeks to establish a commercial presence in a third country, temporary workers would move under Mode 4 before, during and after the investment process. From the business perspective, global corporations should be able to move personnel around as needed and may be more inclined to invest in countries that facilitate this (OECD 2003).

But many governments, social partners and some NGOs in the EU and other migrant receiving countries are reluctant regarding further liberalisation of Mode 4 because of broader policy concerns relating to migration in general. Mode 4 is located at an overlap between migration and international trade and therefore raises a number of important and complex issues that go beyond the sphere of trade policy. For example, many fear that national laws and regulations concerning entry, stay, work and social security measures – including regulations concerning minimum wage agreements – could be threatened by further liberalisation of trade in services at the WTO. While trade unions in the EU are in favour of the free movement of labour, their main argument is that Mode 4 liberalisation in its current form has the potential to open the door to unregulated migration, with negative impacts on local employment, wages and social standards. As regards negative implications for labour markets, their concerns mostly relate to the movement of independent and contractual services providers and possible flows of medium- and low-skilled service providers. Trade unions emphasise that negotiations should ensure protection of migrant workers against all forms of discrimination, observance of core international labour standards and national labour law, respect for existing collective agreements covering the sectors concerned, and full involvement of the ILO (ETUC 2005).

Although the division between the opponents and proponents of liberalisation of services has been much more evident between various interest groups across countries, some tension between blocks of countries has also appeared. In relation to Mode 4, the dividing line can be drawn between developed and developing economies, especially in terms of the inclusion of medium- and low-skilled workers. So while the EU has mainly a defensive interest in Mode 4 liberalisation, many developing countries put particular emphasis on further Mode 4 liberalisation and consider it to be a key element in the GATS negotiations within the DDA round. Countries such as India are competitive exporters in computer and engineering services and are interested in liberalisation of the movement of service providers in this category. But it is mostly developing countries that are interested in liberalisation of Mode 4 in low- and medium-skill labour-intensive services such as transport, construction and tourism, care professions and cleaning services. In general, greater market access for temporary service providers from

developing countries is expected to yield economic benefits, directly in terms of payments to workers and remittances, as well as indirectly in terms of other, less tangible benefits, such as the transfer of ideas, technology, facilitating networks, and so on. All these benefits are likely to apply to other types of migrant as well, but greater economic benefits of Mode 4 are expected to accrue from the temporary nature of migration and the scale of migration that liberalisation could potentially ensure. Similarly, for developing countries the temporary nature of Mode 4 is expected to help prevent a 'brain drain' (although for some small nations even temporary loss of skilled personnel could be damaging).

3. Estimates of Mode 4 flows

Measuring Mode 4 trade presents real challenges. First, the available statistics are incomplete and not readily comparable. Since GATS' entry into force in 1995 no comprehensive statistical framework for measurement of the movement of natural persons has been developed, and no systematic data have been collected by regional or international organisations. Moreover, the strong links between services trade through movement of natural persons (Mode 4) and services trade through commercial presence (Mode 3) make it difficult to separate out the value of trade in each of these modes.

Trade in services is usually measured with reference to statistics on balance of payments (BOP). As to Mode 4, BOP statistics capture labour-related flows in three categories:

- (i) wages, salaries and other compensation received by individuals working abroad for less than one year;
- (ii) remittances from workers who stay abroad for a year or longer;
- (iii) migrants' transfers, that is, flow of goods and changes in financial assets associated with international migration (OECD 2003).

Unfortunately, none of these categories in BOP corresponds exactly to the definition of Mode 4. For instance, data on workers' compensation include all temporary workers employed in any economic sector (not only services), which would lead to an overestimation of Mode 4. At the same time, this indicator includes only workers staying abroad for less than one year, while in some offers Mode 4 covers temporary stays of up to five years, therefore leading to an underestimation of Mode 4.

The lack of reliable and comparable international trade statistics on Mode 4 makes it difficult to assess the extent of trade occurring via the movement of natural persons. Nevertheless, few studies have attempted to capture the value of Mode 4 trade. The studies that use compensation for temporary foreign workers as a proxy for Mode 4 trade estimated this service trade at USD 30 billion in 1997, accounting for around 1.4% of trade in services (that is, Modes 1 and 3 together accounted for about 80% of trade in services) (Karsenty 2000). More recent measurements by the WTO Secretariat have also found Mode 4 to account for just over 1% of world services trade (WTO 2002).

The studies that use remittances as a proxy to measure global Mode 4 trade flows show that officially recorded workers' remittances amounted to USD 72.3 billion in 2001 (IOM 2003). In

1997, the OECD study (also based on the data on remittances) estimated the total value of Mode 4 at USD 30 billion (OECD 2003a).

Unfortunately, existing data and empirical studies do not enable us to answer some equally important questions: How many service providers move under Mode 4, in which sector and what are their skill levels? In this case labour market and migration statistics (that is, the share of temporary foreign workers in the receiving country, and so on) could be used to make some observations on temporary labour migration flows. For instance, estimates in the UK based on work permits granted to non-EU workers show that in 2000 services imports through the movement of non-EU temporary workers amounted to nearly USD 2.5 billion, equivalent to 0.2% of UK GDP. Table 1 shows that the number of temporary permits granted in services in the UK increased by 50% between 1995 and 2000, and that most permits were issued in health care, computers and business and financial services. Unfortunately, the reliability of these data for measuring Mode 4 trade is undermined by the fact that they also include temporary movements of workers under both bilateral and multilateral schemes, while self-employed temporary workers are excluded from this category of work permits.

Table 1: UK: Temporary work permits granted in services industry in 1995 and 2000

	Number of permits		Share (%)	
	1995	2000	1995	2000
All services	20 584	59 791	100	100
Health and medical services	1 774	14 516	9	24
Computer services	1 827	12 726	9	21
Administration, business and managerial services	4 041	9 026	20	15
Financial services	3 194	6 997	16	12
Entertainment and leisure services	2 919	4 235	14	7
Education and culture	1 901	3 832	9	6
Telecommunications	458	2 228	2	4
Hotels and restaurants	320	1 751	2	3
Sporting activities	544	989	3	2
Retail and related services	2 826	927	14	2
Law related services	258	881	1	2
Transport	333	780	2	1
Construction and land services	182	751	1	1
Real estate and property services	5	94	0	0
Security and protection services	2	58	0	0

Source: Research, Development and Statistics Directorate, UK Home Office (2001).

The relative importance of Mode 4 varies across service sectors. For example, Mode 4 is especially important for trade in health services and many professional services, in particular consultancy, and computer and related services. For example, UK Home Office data showed a 32 per cent rise in the number of foreign IT staff entering the UK in the past year: some 33,756 visas were issued to overseas IT workers in 2006, up from 25,000 in 2005. Again, how many of these workers fit the GATS classification is anyone's guess. The number has doubled since the technology boom in 2000 (Palmer 2007).

While trade and migration data do not allow us to draw firm conclusions, they do suggest that the actual number of temporary entrants is much higher than the GATS commitments would suggest, and is likely to increase in the future.

4. Possible socio-economic implications for receiving and sending countries

4.1 General remarks

A number of benefits and costs arise due to the increased temporary migration of service providers for both migrant sending and receiving countries. Many possible consequences are similar to the effects analysed in the migration literature, while others are specific to the trade–migration link in GATS and agreements.

Mode 4 trade involves the movement of natural persons. Therefore, its impacts are linked not only to the exports of services, but also to the movement of service provider. This implies that besides trade effects, impacts need to be considered at different levels. The following effects need to be taken into account: effects of removing the worker from the labour market (for example, reduction in overall unemployment rate); effects during the migrant worker’s stay abroad (for example, addition to labour force, increase of potential output in receiving country, flows of remittances, direct investments, and so on); and effects of the migrant’s return to the home country (for example, know-how transfers) (OECD 2002).

Moreover, concerns and impacts relating to liberalisation of Mode 4 are specific to each category of worker and skill level, length of stay and wages that might be paid in host or home country. For example, relatively few concerns are likely to arise about intra-corporate transferees. But liberalisation of contractual service suppliers who are employees of foreign firms or independent professionals who are self-employed, and potential liberalisation of medium- and low-skilled service providers tend to raise important questions and concerns as regards economic gains and losses and implications for labour markets.

Similarly, implications will depend on whether temporary movement of labour is the sole means of delivering a service, whether it complements or facilitates trade in other modes (that is, commercial presence), or whether it can be replaced by other modes of supply (Chandra 1999).

Last but not least, Mode 4 liberalisation will have different impacts on member states as receiving countries, depending not only on the extent of liberalisation and sectoral distributions, but also on the nature of the regulatory regime (‘variety of capitalism’).

In general, it is difficult to assess, either quantitatively or qualitatively, the impacts of temporary movement of service providers on receiving and sending countries due to data limitations, lack of impact assessment, existing scope of liberalisation and also certain unmeasurable aspects of migration. Nevertheless, in what follows some considerations are presented regarding the costs and benefits of temporary movements under Mode 4 from the general EU and from the developing country perspective, which will need to be supplemented by more detailed research at the national level.

4.2 Net welfare impacts

There is little dispute about the fact that global welfare can increase considerably if barriers to the movement of workers across borders are removed. The global net welfare gains are based on the assumption that migrant workers go from areas of low productivity (mainly developing countries) to areas of higher productivity (mainly developed countries), leading to a rise in world output.

Estimates of the economic impact of trade liberalisation suggest that Mode 4 liberalisation would bring positive net effects, accounting for global annual gains of USD 150–200 billion (Winters and Walmsley 2002; Rodrik 2002). The best known and most widely cited research on GATS Mode 4 – by Winters et al. – estimates that if developed countries allowed temporary workers from developing countries to increase by 3 per cent (approximately 8 million skilled and 8.4 million unskilled workers) world net welfare could increase by over USD 150 billion a year (Winters et al. 2003). Some empirical studies also suggest that temporary movements result in significantly higher remittances and, therefore, higher economic gains if compared to permanent migrations, as in the former case almost the entire amount saved abroad is likely to be repatriated (Galor and Stark 1991).

The empirical studies that model net welfare gains show large aggregate gains for several reasons. First, since estimates of service prices and wage differentials between developed and developing countries exceed a ratio of ten, whereas for goods trade the ratio is equal to two, the gains from liberalisation of service trade and therefore of temporary movement of service providers are, in general, expected to be greater than those from further liberalisation of trade in goods (Rodrik 2002). Secondly, the protection levels linked to Mode 4 trade are higher in the service sector than for goods markets, and services make up a large and growing share of world trade. Therefore, removal of restrictions on the movement of service providers is expected to create significant net welfare gains.

Studies that model welfare gains accruing from trade liberalisation are widely quoted by those advocating rapid and extensive liberalisation of the services trade at the WTO. But the models and results of such studies deserve a lot of criticism and need to be used with caution (for more see Taylor and Armin 2006; Stiglitz and Charlton 2006). First, the results of models are sensitive to their assumptions, which in the case of computable general equilibrium (CGE) models are restrictive. The analysis relies on a particular model of the economy, the neo-classical model that assumes full employment, perfect information, rapid adjustment, and so on. Such assumptions are questionable for all countries, but especially for developing ones. Furthermore, analyses based on CGE models tend to gloss over the fact that different countries are likely to be affected differently, and different groups within countries will be affected in different ways. These studies also do not take into consideration the costs that arise due to the implementation of GATS provisions. The limitations briefly discussed here are even more valid for the studies that model welfare gains arising from Mode 4 liberalisation, as the mobility of workers does not lend itself to an easy cost–benefit analysis, in part because of the many unmeasurable aspects of migration.

For the more in-depth view, impacts arising from the increased cross-border mobility of service providers with different skill-levels should also be taken into account.

As regards high-skilled service providers, such movement is in a sense encouraged by developed countries (for example, over 30 per cent of all doctors and nurses in the UK come from foreign countries). This position is reflected in the current GATS offers. While raising few

concerns (that is, documented cases where foreign service providers are paid lower wages than nationals or enter the labour market under GATS Mode 4 as highly qualified service providers but in fact perform less-skilled tasks, and so on), movement of high-skilled workers provides clear economic gains for developed countries. On the other hand, while the movement of high skilled workers can be beneficial for developing countries in the case of increased remittances, increased returns to education, and knowledge spillovers (if migration is temporary), from the perspective of the developing country such emigration is more likely to constitute a 'brain drain', and the loss of skilled local workers will deprive the sending country of various economic and non-economic spillovers, reducing output, diminishing the competence of domestic high-skilled sectors and eroding the tax base (Stiglitz and Charlton 2006).

In case of increased movement of semi- and low-skilled workers, economic gains and losses are different if compared with high-skilled migration. The movement of semi- and low-skilled workers offers the greatest gains for developing countries. Indeed, most model-based studies that attempt to measure the impacts of liberalisation of trade in services and therefore the impacts of Mode 4 show that gains are estimated to accrue for both developed and developing countries, and would mainly come from liberalisation of the movement of less-skilled workers from developing countries (where they are in oversupply) to developed countries, rather than liberalisation of the movement of high-skilled workers. But inflows of unskilled labour remain one of the main causes of concern in developed countries. While net welfare effects are likely to be positive, and likewise in the case of imports of goods, increased imports of services through Mode 4 are likely to lower domestic prices of the relevant services, benefiting consumers and the producers that use the services as an input, but having negative implications for workers in some services (further discussed in section 4.4).

4.3 Trade impacts

Liberalisation of the Mode 4 services trade has implications for trade in services through other modes of supply and trade flows in general. The extent of the impact depends on whether Mode 4 is a substitute for or complement to other modes of supply, or if it is simply the only mode available to deliver the service.

When a service may be provided under several modes of supply, liberalisation of trade under Mode 4 may reduce trade under other modes. But there are important linkages between Mode 4 and other modes of services trade, and increased trade via Mode 4 is more likely to lead to increased trade by other modes of supply (OECD 2003b). Similarly, empirical research on links between immigration and volumes of imports and exports shows that a 10 per cent increase in the migrant population could increase a receiving country's exports by 0.1–2.5 per cent, while the effect on imports ranges from 0.1–3.1 per cent (for more see Dunlevy and Hutchinson 1999 and 2001; Rauch and Trindade 2002).

Likewise, Mode 4 liberalisation could also have indirect effects on trade. It has been discussed in the migration and trade literature that migrants may start to build networks which could be used for new business opportunities, during and after their stay in the receiving country (Jansen, and Piermartini 2005).

Furthermore, temporary workers in the host country consume a portion of their income in the host country and make use of that country's services, so contributing to increased demand for certain services.

Finally, the stay of service providers in a foreign country may also enhance goods trade through increased demand for foreign products.

4.4 Labour market impacts

In both sending and receiving countries, temporary service providers directly affect the functioning of the labour market. In this section, the main implications are pointed out.

Possible impacts on sending countries

Sending temporary labour abroad means removing those workers from the domestic labour market for the length of their stay abroad. Especially in case of developing countries, sending low-skilled workers abroad could be seen as a means of alleviating domestic unemployment caused by labour surpluses. Furthermore, reduction of pressure on the labour market could in some cases help to sustain wage levels in the sectors concerned. But it is important to note that temporary migration under Mode 4 does little to help solve the systematic problems causing the unemployment and therefore, depending on how long the workers are gone, there can be a problem of an increase in unemployment rates when the workers return.

Moreover, having acquired additional skills Mode 4 workers apply them upon return to the home country, therefore contributing to development. But this argument is more valid for movement of highly skilled workers than low-skilled ones. Workers with higher skills have an opportunity to gain new skills, while it is often the case that unskilled workers are more likely to accept jobs abroad that require less skills, leading to downward mobility (Ostrovsky 2004).

Furthermore, if a migrant-sending country faces a shortage of skilled workers (for example, doctors, teachers), increased migration of service providers from developing to developed countries could impose constraints on labour markets (OECD 2002). Indeed, the brain drain is one of the main negative implications for developing countries considering current offers in GATS Mode 4. Since service suppliers moving abroad temporarily are often highly skilled, the negative impacts of their departure can be significant and constitute a loss of human capital greater than that implied by the departure of less-skilled workers. Furthermore, in some cases temporary workers manage, legally or not, to convert their temporary status into a permanent one. Where this happens on a large scale – for example, with nurses from the Philippines and South Africa – a developing country is essentially subsidising or paying in its entirety for training from which a developed country gets the benefits (Waghorne 2003). In terms of unskilled labour, loss of educational investment is less problematic as developing countries rarely invest in the education of unskilled workers, and there is usually a surplus of them.

Possible impacts on the receiving countries

While temporary cross-border migration of Mode 4 workers is unlikely to disrupt the balance of the sending country's labour markets (especially taking into account the current extent of

liberalisation), the effects on the receiving country's labour market are more significant, and some of the main implications are discussed here.

GATS covers only temporary movement of service providers. On the one hand, the temporary nature of the movement of workers under GATS makes it easier to react to labour market shortages in receiving countries. On the other hand, GATS negotiations are structured so as to favour progressive and continuous liberalisation; and the commitments made by members are binding. But migration policy measures are usually taken in response to observed (temporary) needs. Therefore, tensions may arise due to fluctuating labour market needs and the permanence of GATS commitments.

The key issue in evaluating the impacts of increased temporary service provider flows is whether foreign service providers are substitutes for or complements to local workers. Proponents of Mode 4 liberalisation argue that temporary foreign workers are generally more supplements than substitutes, and temporary workers are only brought into sectors where there is a shortage of workers. In this case, liberalisation under Mode 4 could have positive effects on the labour market by relieving labour shortages in certain sectors. Yet the opposite may also be true as service providers that move temporarily under Mode 4 could provide direct competition for service providers in the host country, for whom the occupation in question is permanent. Furthermore, it is possible that the growing number of such temporary stays and the continuous inflows of service providers could create significant competition for local workers. For example, a general shortage of construction workers in a developed country could be met by sourcing construction workers from abroad, each being replaced by another at the end of his contract. Unclear GATS provisions that do not prevent the use of Mode 4 workers on rotation contribute to such fears.

The impact on wages depends on the comparative composition of the skills of foreign and native service providers. No study has yet measured Mode 4 liberalisation impacts on the wages of local workers. But the potential implications of an increase in labour migration for wages in host countries have received a lot of attention in the academic and policy debates. A growing number of studies are trying to measure wage impacts, but the evidence remains inconclusive. For example, Borjas' research on the impact of labour migration on wages in the USA shows that a 10 per cent increase in immigration reduced the earnings of local workers by 3–4 per cent between 1980 and 2000. He estimated the effect to be larger (approximately 7.4 per cent) for local workers without a high school education (Borjas 1987). Longhi et al. in their research on migration's effects on wages in USA, DE, NL and AT find that a 1 percentage point increase in the proportion of immigrants in the labour force reduces wages by only 0.119 per cent (Longhi et al. 2004).

The availability of temporary foreign workers could also undermine pressures to address labour shortages through increased training of nationals or improvements in pay and working conditions. For example, temporary employment of foreign nurses could undermine efforts to improve conditions and wages in this sector and prevent receiving country governments from addressing the root cause of their nursing shortages (International Organisation for Migration 2003). Furthermore, increased demand for domestic services could mean that migration of women is likely to increase. GATS thus has an important gender dimension which needs to be dealt with by researchers.

In the EU offer it is underlined that in all cases of Mode 4 service supply, EU and member states' laws and regulations regarding entry, stay, work and social security measures shall apply,

including regulations concerning period of stay, minimum wages and collective wage agreements. But many trade unions have voiced their concern that Mode 4 liberalisation could become a vehicle for social dumping and a weakening of the hard-won social standards in the EU. One example is that labour legislation or collective agreements may not cover or not fully cover certain categories of workers in the EU offer, notably trainees and self-employed workers (UNI-Europa 2005).

Potential regulatory and enforcement implications of GATS arise in relation to wage parity. Some developing countries argue that the insistence on wage parity between domestic and foreign workers undermines their comparative advantage and that, from an economic point of view, wage gaps can be justified in some cases by differing levels of productivity, skills and education. But trade unions in receiving countries insist on parity of wages and conditions for foreign and national workers (Waghorne 2003). Even where wage parity laws are enforced, it would still be difficult to control wages paid to foreign workers. In line with this, many concerns are raised with regard to the enforcement of labour standards as GATS neither defines nor protects the rights of the employees concerned. Temporary service providers are more likely to be exposed to poorer working conditions than regular workers and could be more willing to accept these conditions since their stay in the receiving country is temporary (Raza 2003). For example, Amicus, the biggest private sector union in the UK, has found that two-thirds of IT work permit holders were paid less than the equivalent of £30,000 a year, compared with the average salary of £32,500 for an IT professional in the UK. Furthermore, the number of foreign IT workers coming to the UK has more than doubled since the 'dotcom' boom when there were acute shortages of IT skills, suggesting that hiring foreign workers is often based on the possibility of paying cheaper wages than on labour shortages (Palmer 2007).

Moreover, trade union representation of temporary foreign service providers is more difficult than with permanent workers given the short-term nature of the stay abroad and the pressure exerted by the employer not to join trade unions. Increased Mode 4 liberalisation and possible use of Mode 4 workers as substitutes for local workers could have a fundamental impact on collective bargaining in the EU given that negotiating power in labour disputes and wage negotiations would shift more in favour of the employer (Raza 2003).

Last but not least, an important element in the debate on Mode 4 liberalisation is the implications for public finances. In general, temporary movement under GATS Mode 4 is expected to exert less pressure on the welfare state in receiving countries than permanent migration (that is, smaller social costs due to the integration of foreign workers and social insurance costs). Temporary service providers are more likely to leave their families in the home country than permanent migrants, therefore making fewer demands on social welfare. But in relation to temporary movement under Mode 4 a number of specific issues arise from the differences between social security systems and contributions from immigrants in receiving and sending countries. For example, where work is subcontracted to a foreign company, social security contributions for project workers are often paid through the foreign company according to the provisions in the foreign company's home country (Winters et al. 2003).

In addition, there is a range of specific migration concerns due to GATS Mode 4, including overstaying, social externalities such as lack of respect of social rights, cultural and integration issues, and security issues. Some argue that a well-run temporary mobility scheme can avert some of the social and political costs of permanent migration because it shows the local population that migration is not intended (Winters 2005). But it could also be true that social adjustment costs are worse for temporary workers as they have no incentive to fit into the host country. A

further related worry is that temporary mobility might be the first step towards permanent migration. But the inclination of a foreign service provider to stay permanently might at least partly depend on the type of work: whether the job is intrinsically time-limited (seasonal jobs, work on construction projects) or of indefinite nature (nurses, computer specialists).

As long as the flows of temporary service providers are not too large, the negative impacts on local labour markets are likely to remain limited. But overall labour market impacts of GATS-induced migration, combined with more general trends towards international outsourcing and use of contract labour could be greater and may pose new and different challenges (for more see Galgóczi, Keune and Watt 2005). Of course, in practice it is difficult to separate these causal chains, and this may lead to 'blame' being wrongly assigned.

5. Conclusions

To date, commitments of the WTO Members in Mode 4 and flows of service providers under this mode have been limited, and mostly restricted to highly-skilled intra-corporate transferees. Nevertheless, in the current DDA Round, liberalisation of services trade through Mode 4 has become an important aspect in negotiations and also subject to controversial debates. For example, developing countries would like to see greater openness in Mode 4, especially in areas of their comparative advantage – semi- and low- skilled service providers. These arguments are also supported by the development economists such as J. Stiglitz (Stiglitz and Charton 2006). At the same time, many multinational companies would like easier intra-corporate movement of their personnel. However, many governments, social partners and some NGOs in the migrant receiving countries are reluctant regarding further liberalisation in Mode 4 (especially for independent service providers and semi- and low-skilled workers) because they fear it will have adverse effects on their ability to regulate immigration and will cause negative effects on local labour markets. Such concerns are primarily due to irreversible GATS commitments, which once made are difficult and costly to reverse.

On the other hand, little movement under GATS Mode 4 does not mean that there is no movement of temporary labour: temporary schemes exist and are being extended and improved; labour mobility for skilled workers, often facilitated by special programs, is also increasing and seems to be concentrated in the services sectors. This may indicate either that there is no demand for a multilateral input on cross-border movement of service providers or that there is demand but GATS, in its current form, cannot satisfy it.

In general there is an agreement that liberalisation of temporary movement of service providers could bring positive net welfare benefits (with significant benefits accruing for developing countries). However, while new forces (i.e. technological developments, increasing tradability of services and growth of cross-border trade and investment in services, together with aging population and rising education levels in the developed countries) push for increasing labour mobility, a great deal of uncertainty remains as to the real consequences, benefits and disadvantages it might bring for sending and receiving countries. Furthermore, while the overall impact of Mode 4 entrants may be minor for a country as a whole, they can be significant in particular sectors or for particular groups of workers. For the developing countries, issue of brain drain is one of the most important issues. The lack of complete statistics and information on the extent and value of this type of trade adds to the controversies surrounding Mode 4.

While the GATS is an agreement to facilitate and enhance trade and it is not an international migration agreement, it certainly has close links with migration. In relation to the GATS Mode 4, it is clear that acceptable temporary movement of service providers needs more than a passive lowering of barriers to cross-border mobility and must be integrated into employment and social policies. The movement of labour should be regulated by labour legislation and social protection legislation, not – and certainly not exclusively – by trade agreements. Some of the issues related to Mode 4 would be better addressed in other forums, such as the ILO. Having the WTO promote labour migration in isolation poses big risks: to the workers and communities concerned as well as to the legitimacy of the WTO itself. The social partners and consultation with the ILO are crucial in this process and those responsible for migration policies have to be involved in Mode 4 liberalisation issues.

It is clear that within GATS, Mode 4 is the most politicised and publicly debated of all the four mode of services supply. But studies using both empirical data and theoretical concepts to explain the impact of GATS Mode 4 in general remain rare. Furthermore, many arguments about GATS, pro and con, lack in-depth knowledge of the issues. This shows a great need for more research on the actual and potential implications of GATS Mode 4 liberalisation at national, local and sectoral levels.

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