

Can WTO-GATS Mode 4 Spur Greater Labor Mobility from the LDCs?

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Central Premise

Liberalization of merchandise trade has brought tremendous benefits to global economy over the decades, but liberalization of trade in services may bring even greater benefits.

WTO Mode 4—temporary presence of natural persons—is one such service area which promises enormous benefits to world economy, but faces formidable barriers in both developed and developing countries.

What Empirical Evidence Says?

In 2008, remittances exceeded 10 percent of GDP in 22, all external capital flows in 36, merchandise exports in 12, and emerged as the largest single export earner in 28 developing countries.

In 2010, worldwide recorded remittance flows, including high income countries, totaled \$440bn—of which \$325bn, more than 70 percent, accrued to developing countries.

What empirical evidence says?

In 2009, remittances emerged as the the second biggest source of external finance outpacing flows of FDI and/or ODA.

Remittance flows to developing countries proved to be resilient even during the global financial crisis and political crisis in Middle East—and despite regional differences, projected to grow at sustainable rates of 7-8 percent annually during 2011-13 to reach \$404bn by 2013.

What empirical evidence says?

Many in developing countries wish to leave their countries, evidenced by queues of applicants in embassies, rise in illegal immigration, increase in asylum seekers, and increase in the fees paid by recruiters and people smugglers.

Is there economic rationale for cross-border labor mobility?

Hamilton and Whalley (1984) estimated that eliminating all barriers to migration could as much double world GDP.

More recently, Moses and Latnes (2004) estimated the gains at around 10 percent of world GDP (\$3,390 billion in 1998 dollars).

Winter (2003) estimates that a transfer of labor from developing countries to the OECD countries equivalent to 3 percent of its existing labor force will result in a total gain of 0.6 percent of world income (\$156 billion in 1997 prices), which is comparable to removing all remaining restrictions on trade.

Economic rationale ---

World Bank (2006) estimates that the extra 3 percent gain in high-income countries' workforce, represents a loss of merely 0.4 percent to the developing countries' workforce, and even in the developing countries' skilled category it represents only 1.7 percent loss of workers.

Anderson and Winters (2008) estimate that if the extent of increased migration was only 0.5 instead of 3.0 percent increase in the recipient countries' labor force by 2025, it could generate the same proportional comparative static gain as the Doha Round might achieve via goods trade liberalization.

“Push Factors” for Greater Migration

For developing countries, migrants’ savings and remittances have emerged as central pillars, giving them clear interest in promoting labor export. Demography, poverty and political instability also provide a heady cocktail of “push factors.”

Environmental factors also come to play a role. For example, the ability of agriculture to provide livelihoods will be diminished, and droughts, rise in sea levels, and such ecological factors will create “ecological refugees.”

Emigrants usually remit an important part of the income they earn abroad, foster accumulation of human capital in source country, and thus, contribute to growth-inducing innovation process, and may function as a dynamic force promoting economic growth and national development in source country.

“Pull Factors” for Greater Migration

Shortage of low-skilled workers, coupled with aging population and low-birth rates, in high-income countries, there is a compelling case for them to expand their quotas on immigrants from developing countries.

Other “Pull Factors” include: efficient allocation of labor resources, reduce unemployment in developing countries, concerns for rising inequality across nations, and redressing the labor shortage and reduce production costs in developed countries.

Problematic of cross-border labor migration— Labor-sending Developing Countries

First, the issue of “Brain Drain”-- impact of relatively skilled worker emigration on labor-sending developing countries. Considerable empirical evidence and theoretical findings show that the propensity to emigrate increases with "skills.”

Second, emigration has direct "short-run" adverse consequences on per capita income in the country of origin. As the most skilled workers are generally among the richest taxpayers, the sending economy loses a substantial source of income which could be taxed and redistributed.

Third, as economic growth partly comes from human capital accumulation, the loss in human capital induced by the emigration of relatively skilled workers reduces productivity and income per capita, and slows down growth in the labor-sending economy.

Problematic—labor-receiving developed countries

First, developed countries are concerned with cultural identity, problems of assimilation, and the drain of public purses.

Second, there is a dichotomy of trade in merchandise and trade in labor as the former is based on comparative advantage, but latter is based on absolute advantage. The scope of reciprocity in labor trade seems to be extremely limited.

Third, Western countries have a substantial hidden labor supply, which obviates the need for more labor migration.

Major losses in manufacturing jobs, continuing decline in primary employment, and major growth in the service sector led to major changes in the nature of demand and working practices: more non-manual jobs, more women in the labor force, more part-time and casual working, and more self-employment..

Problematic—labor-receiving developed countries

Some demand for low-skilled workers still remains in developed countries, but mostly in labor intensive and low-paying service industries, especially in caring occupations and personal services, such as healthcare, cleaning, and catering.

GATS Mode 4—as Window of Opportunity

First, among the possible forms of emigration, such as permanent or guest-worker—GATS Mode 4—temporary movement of natural persons as service providers—should come as the least contentious of all as fears of cultural identity, problems of assimilation, and the drain of public purses are hardly relevant to this mode.

Second, GATS Mode 4 does not apply to measures affecting individuals seeking access to labor market of a member country, or to measures regarding citizenship, residence, or employment on a permanent basis. It only covers temporary movement of persons across member countries.

GATS Mode 4—as Window of Opportunity

Third, economic evidence suggests that there is a basic convergence of economic interests between the developed and the developing worlds for liberalizing Mode 4. The basis of international trade is comparative advantage—exploiting differences—the larger the difference, the larger are the potential gains.

For Mode 4, potentially large gains would be possible if medium and less skilled workers, who are relatively abundant in less developed countries, and for whom the gap between home and host country wages is greatest, were allowed to move and provide their services in developed countries.

GATS Mode 4—as Window of Opportunity

Fourth, Winters and Walmsley (2006) show that restrictions on temporary labor migration are inducing costs to developed and developing countries alike in the range of about US\$150 billion annually. Temporary movements, like permanent movements, would reduce transaction costs for merchandise trade, and thus, create additional trade.

Yet the multilateral trading system has not facilitated greater worker mobility between the labor-surplus and labor-scarce countries. **Is there any economic logic as to why cross-border movements of workers have not followed the pattern predicted by international trade theory?**

Barriers to GATS Mode 4

While the scope of GATT is confined to one mode of supply (cross-border trade) and one negotiable type of restriction (tariffs), the WTO-GATS covers three additional modes, including consumer movements and factor flows (capital and labor), and permits a variety of negotiable restrictions that apply to the treatment of products (services) and/or their suppliers.

Barriers to GATS Mode 4

Then there are technical, economic, political and legal frictions that render service negotiations more complicated, time-consuming and resource-intensive.

GATS is color/race/culture blind—but human mobility is not.

Policy bindings are certainly more difficult to trace in services than they already are in merchandize.

Barriers to GATS Mode 4

GATS Mode 4 is “not winning the argument” by reiterating in a louder voice that it is about trade and not about migration as it entails many non-trade dimensions, such as national security, access to national or public goods, and acceptance of civic duties.

Barriers to GATS Mode 4

There has been virtually no liberalization under the GATS to date. Most existing commitments are confined to guaranteeing the levels of access that existed in the mid-1990s, when GATS came into force.

Barriers to GATS Mode 4

Most WTO members' Mode 4 commitments generally do not reflect prevailing entry conditions for natural persons, as they have committed less than the access granted in practice.

What is more striking is that no significant differences exist between the commitments of developed and developing countries—both groups have been hesitant in undertaking liberal commitments in respect to Mode 4.

Barriers to GATS Mode 4

Actual trade under Mode 4—temporary entry—is, however, increasing for several countries, but directed to high –skilled people—tertiary education (Australia, Canada, France, Germany, UK).

Also, preferential agreements among countries enjoying geographic proximity and similar-levels of development (such as EU, EFTA, EEA) have a more liberal approach to labor mobility compared with agreements among geographically distant members (such as APEC, NAFTA) with differing levels of development

Technical Barriers to GATS Mode 4

Visa formalities—not part of international trade policy, but of immigration legislation and labor market policy.

Prohibitions and quotas—requirements of recruiting and retaining sufficient national workers before filing work permit or visa application (economic needs tests)

Technical Barriers to GATS Mode 4

Wage-parity conditions—wages paid to foreign workers to be similar with wages paid to national workers—that erodes the cost advantage of hiring foreign workers.

Discriminatory treatment—residency or citizenship requirements, social security tax payments, preferences to domestic workers.

Non-recognition of professional qualifications and burdensome licensing requirements.

THE DOHA ROUND

One of the contentious issues of the Doha Round, as far as GATS is concerned, is that developing countries are seeking greater openness in this area (as they have comparative advantage in it). Multinational corporations are also seeking more scope for international movement of their personnel, and thus, “a shared or coincidence of interest” emerged.

THE DOHA ROUND

At the same time, the demand for Mode 4—temporary presence of natural persons—is expected to increase over time as for a range of services (such as caring occupations, personal services), the movement of service-supplying personnel remains crucial (electronic delivery may not be sufficient).

Over the next decade, developing countries will generate 700 million young members of the labor force, and these young people, if unemployed, are vulnerable to recruitment to violent and illegal activities, such as terrorism and organized crime. With cross-border labor mobility this manpower could provide gigantic development potential.

THE MODEL SCHEDULE

Part one of Model Schedule deals with market access and national treatment commitments—and envisages commitments for natural persons with professional skills on short-term, intra-company visits (category 1) and short-term visits to fulfill contracts (categories 2 and 3), and short term is defined as less than a year. The Schedule proposes a Service Provider Visa (SPV) for these categories.

THE MODEL SCHEDULE

The second part of Schedule calls for additional commitments to be made under Article XVIII of GATS—encompassing domestic regulatory obligations, transparency procedures and limiting the trade-impeding impacts.

The Schedule emphasizes broad horizontal commitments assuring basic minimum level of access across all sectors, supplemented by sector specific commitments where deeper liberalization is possible.

Concerns with the Proposal

The category of professionals is politically convenient—the largest global benefits will arise precisely from the greater movement of unskilled workers. Unless the movement of unskilled and semiskilled workers is given parity of consideration along with persons of professional qualifications, many developing countries will be deprived of an opportunity to participate in global provision of services, and will have less interest in these negotiations.

Second concern has to do with GATS insistence on non-discrimination and binding commitments, which inhibit greater willingness to liberalize on a regional, preferential and cyclical basis. Dowlah/Seattle/2011

Concerns with the Proposal....

Under the current “horizontal” restrictions, which apply to all service sectors, developed countries generally refuse to commit Mode 4 liberalization, except for the movement of intra-corporate transferees between parent companies and their foreign subsidiaries, and corporate executives and managers—which mostly concern developed countries’ own economic interests.

This narrow exception accounts for nearly 90 percent of current commitments in GATS 4 (World Bank 2003). As a result, providers of low skilled services from developing countries never get access to potentially lucrative markets in developed countries under the current GATS regime.

Current concerns

Current immigration policies are also very strict, such that labor flows are much less significant across borders than flows of goods, other services and financial capital.

The actual implementation of GATS Visa—temporary 2-4 weeks—entails several problems.

Current concerns

First of all, problem of overstaying always exists.

Second, once bound, a host country must issue GATS Visa as a matter of obligation. Each country seeks to balance its immigration policy in tandem with domestic labor markets. A bound system will take away that discretion and flexibility.

Third, GATS Visa will be of little use unless host countries significantly expand their current levels of commitments

What Conclusions can be drawn?

Convergence of economic interests of labor-sending and labor-receiving countries is well-documented.

Aging population in high-income countries makes a compelling case for them to expand their quotas on immigrants from developing countries.

What Conclusions can be drawn?

Several powerful “Push Factors” are forcing workers of developing countries to migrate, while several “backlash” factors are emerging as deterrents.

LDCs have export interest in migration of semi-skilled people, as opposed to skilled professionals, but their concerns are yet to be accommodated.

What Conclusions can be drawn?

Freeing up of temporary international flows of workers appears to have little prospect of being adopted multilaterally in this current round of negotiations.

Overall, services negotiations made little progress under the Doha Round mainly because of a decision that services talks would commence in full force only after a deal on agricultural and nonagricultural market access modalities was concluded.

Conclusions

Liberalization of cross-border mobility of natural persons has been stalled mainly because of social and political and legal resistance, ranging from labor unions' opposition to national security concerns, controversies over 'brain drain' to 'brain circulation,' debates over welfare benefits to developed world or development gains for developing countries.

Success of the Doha Round appears to be very slim.