

# GATS Mode 4

## How Trade in Services Can Help Developing Countries

### Summary of Key Issues

The temporary movement of people for work has gained increasing attention from policymakers in recent years and a key aspect of the debate is focused on the trade negotiations that cover the movement of people – GATS Mode 4. Much of the attention on GATS Mode 4 results from the potential of the negotiations rather than their concrete achievements. It is expected that a liberalisation of labour migration could provide global welfare benefits of \$300bn, dwarfing aid or FDI.

This Briefing reviews the progress of GATS Mode 4 and looks at its advantages and disadvantages. It summarises some of the arguments in the field and highlights recent work carried out by researchers at the Development Research Centre on Migration, Globalisation and Poverty at the University of Sussex.

### What is GATS Mode 4?

The 'General Agreement on Trade in Services' (GATS) was negotiated in the Uruguay Round of global trade talks and came into force in 1995. It emerged in response to the huge growth in the services economy. The services sector is the fastest growing part of the global economy and accounts for 60% of global output, 30% of employment and nearly 20% of global trade. GATS is the natural counterpart to the long-standing GATT (now also under the WTO) covering trade in goods.

The GATS covers all internationally-traded services except services provided to the public in the exercise of governmental authority and, in the air transport sector, traffic rights and all services directly related to the exercise of traffic rights. The GATS defines four ways in which a service can be traded, known as "modes of supply":

- Mode 1 - services supplied from one country to another (e.g. international telephone calls), officially known as "cross-border supply";
- Mode 2 - consumers from one country making use of a service in another country (e.g. tourism), officially known as "consumption abroad";
- Mode 3 - a company from one country setting up subsidiaries or branches to provide services in another country (e.g. a bank from one country setting up operations in another country), officially known as "commercial presence"; and

- Mode 4 - individuals travelling from their own country to supply services in another (e.g. an actress or construction worker), officially known as "movement of natural persons".

### Definitions

- GATS Mode 4 only covers people moving temporarily, although there is no definition of temporary. In effect the length of stay allowed by GATS Mode 4 is identified by the offers and agreements made in countries' negotiating positions and varies from a few months to a few years (renewable) depending on the type of work (and usually level of skill). Business visitors can usually stay for up to 3 months, while intra-corporate transfers are usually for 2-5 years.
- It can cover the self-employed moving to offer a service or those employed by others on whose behalf they travel to offer a service. There is some dispute over whether foreigners employed by local firms also fall under Mode 4.
- Mode 4 does not cover people seeking access to a labour market in general (they must have a specific sectoral role) or those looking for citizenship, asylum or permanent residence.

### Definition of Mode 4—Article 1.2(d)

***'The supply of a service...by a service supplier of one Member, through presence of natural persons of a Member in the territory of another Member'***

## Measuring the Global Impact of Liberalising the Movement of Labour

DRC researchers have incorporated new estimates of bilateral migration flows into a global applied general equilibrium model to examine the impact of liberalising the temporary movement of 'natural persons'. This enabled us to examine what might happen if the labour force of developed countries is increased by 3% as a result of movement of skilled and unskilled workers from developing countries.

The results confirm benefits for nearly all countries from relaxing restrictions on the movement of natural persons, with greater benefits from the movement of unskilled labour. In developed economies, real incomes (income divided by prices) of permanent residents could increase by an average of \$200 per person, with over half of the increase (\$126.50) coming from lifting quotas on unskilled labour. Permanent residents of developing countries also gain by \$24 per person in real income from sending unskilled labour, but only \$4 per person from skilled labour.

While results differ across developing economies, most gain as a result of higher remittances sent home. New skilled and unskilled migrants themselves gain in real terms by \$9,200 and \$9,400 per person, respectively. Workers in developing countries also gain as real wages rise with the reduced labour supply. However, existing migrants in developed economies lose in terms of real incomes as real wages fall slightly with the increased labour supply (Walmsley, Winters, Parsons and Ahmed 2005).

- There is no specific definition of the types of movement that Mode 4 can apply to. It covers all international temporary movements to provide services, whether developing to developed countries, developed to developing, or between developed or developing countries and including highly skilled, less skilled or unskilled.
- Mode 4 does not cover all elements of temporary mobility but the boundaries are sometimes blurred. The definition of a service makes it difficult to know, for example, if a temporary agricultural worker is providing an agricultural service (covered) or seeking temporary employment in agriculture (not covered). Similar interpretation is required for businesses producing goods on their own behalf or as a client of another company. There is a 'sectoral classification' list provided by WTO but this is itself open to interpretation.

Greater market access for developing country citizens should yield economic benefits directly in terms of payments to workers and remittances as well as other, less tangible, benefits on return. In addition temporary workers abroad may bolster the productivity of those who remain behind through the transfer of ideas, technology, facilitating entry to markets, networks and so on. All these apply to other types of migrants as well, but the 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 the temporary nature of Mode 4 movement is expected to help prevent the phenomenon of 'brain drain' (although for some small nations even temporary loss of skilled personnel could be damaging). To date few less developed countries have made bold requests of Mode 4 in the area of unskilled or less skilled personnel, where it may be to their advantage.

### • Benefits For Developed Countries

In the richer nations there is concern that ageing populations with a more skilled and educated workforce will face an increasing scarcity of less skilled labour. In some sectors there is little alternative to using people, rather than technology (for example household services or caring), and as a result some demographers and economists see Mode 4 as an increasingly necessary way to plug this gap.

Although much interest has been shown early on in the benefits that can accrue to each type of nation from the migration of unskilled or less skilled labour, in practice most progress on Mode 4 has so far been made in the areas of skilled and intra-corporate movement as it is easier to handle both politically and socially and there is a powerful constituency at national and international levels pressing for it.

### • Potential of Mode 4

Available statistics show that Mode 4 trade accounts for a very small fraction of total trade in services (1%). This is not considered to be a reflection of the potential for Mode 4 but a reflection of the existing limits and restrictions imposed on the movement of people.

## Why is Mode 4 Important?

Much of the negotiation around the emergence of GATS was about the relative benefits of trade in services to developed and developing countries. It was felt that Mode 3 (commercial presence) would benefit developed countries disproportionately but that Mode 4 could benefit developing countries in recompense.

Those economists in favour of liberalising the temporary movement of labour see a huge financial benefit, but are less engaged with the potential negative social effects of temporary migration including social exclusion of migrants in receiving countries and the break up of family units when working family members move independently of the rest of the family.

### • Benefits for Developing Countries

The reason many commentators see GATS Mode 4 as a boon for developing countries is that it allows them to exploit a relative abundance of medium and less skilled workers.

## Limitations to GATS Mode 4 Offers

Progress in GATS negotiations is made through requests and offers in response to those requests. These are usually made between existing trading partners and are commitments to minimum treatment between WTO members, but they are also open to suppliers from all WTO members (under the Most Favoured Nation or MFN terms). As a result, countries can negotiate on offers not made directly to them and without making any requests themselves. Offers are made on a horizontal basis (i.e. across all sectors) and a sectoral basis, and are binding. Commitments are not necessarily made public so it is not easy to assess progress but most commentators believe that initial offers are limited.

- Few countries have made offers on Mode 4
- Offers limited to senior and skilled intra-corporate transferees
- Further limited to 'key' workers for intra-corporate movement
- Very few requests targeted at movement of low skilled workers
- Some economic needs tests are specified but most do not provide criteria
- Some quantitative limits on foreign employment are in place
- Some have other requirements such as associated training of local staff
- Some specify restrictions on movement, either geographic or between firms
- Tend to be horizontal rather than sectoral
- Varying periods of stay stated but most do not specify
- Varying qualification levels required
- Some make exemptions to the MFN requirement

## Can Mode 4 Reach its Potential?

In spite of the apparent commonality of interest between developing and developed countries, progress on liberalising Mode 4 in terms of unskilled workers is politically fraught.

- There are abiding concerns about temporariness (cultural identity, assimilation and drains on public purse) but these are considered to be mitigated in the instance of Mode 4 as GATS does not provide a definition of temporariness and members may specify their own limits because it proved impossible to agree common definitions.
- There are concerns about the competitive challenge to local less skilled workers. This is particularly true in countries with comparatively high unemployment. It may become less of an issue as demographics make workers more scarce. It is also possible to introduce policies to ease the transition, as happened with trade in goods.
- There are political concerns about the effects of trade liberalisation related to anti-globalisation. There is a view that trade reform is re-distributional and so in the long term will benefit nearly everyone, but there can be adverse effects in the shorter term. As a result policies are needed to counteract these – this will also be the same with the evolution of Mode 4, so Mode 4 actors should learn the lessons of wider trade reform.
- There are also concerns that Mode 4 will leave migrants out of domestic legislation covering wage levels and basic rights and some organisations are lobbying the WTO to ensure that ILO standards are met.

## How to Move Forward

- Transparency  
There are concerns about imprecise definitions in Mode 4 which makes countries cautious of committing themselves. A number of countries who are interested in promoting the liberalisation of Mode 4 have made public declarations about the importance of clarity. In summer 2005 Canada proposed a model to present information and to provide more detail in a comparable format.
- Establishment of multilateral norms  
In a communication by India and a further joint statement by 14 developing countries, a number of points have been raised aimed at tackling some outstanding issues. Three key areas that are obstacles to the liberalisation of GATS Mode 4 are identified:

## Global Database of Migration

Researchers at the Migration DRC at the University of Sussex have developed the first database to provide bilateral migration stocks for all countries of the world. Five versions of the 226x226 matrix have been created. The first version contains as much data as could be collated at the time of writing, but also contains gaps. The later versions progressively employ a variety of techniques to estimate the missing data. The final matrix, comprising only the foreign-born, attempts to reconcile all of the available information to provide the researcher with a single and complete matrix of international bilateral migrant stocks. Although originally created to supplement the GMig model (Walmsley and Winters 2005) it is hoped that the data will be found useful in a wide range of applications both in economics and in other disciplines.

Development of the database is expected to be an iterative process and researchers are invited to examine, appraise and add to the data. For more on this see the DRC website at [http://www.migrationdrc.org/publications/working\\_papers.html](http://www.migrationdrc.org/publications/working_papers.html) (Parsons, Skeldon, Walmsley & Winters 2005).

## *Economic Needs Tests (ENTs)*

These are a barrier to implementation of Mode 4 and in addition are ill-defined and have unclear specifications so there is a fear they can be used at a government's own discretion to exclude people. In addition the uncertainty they cause about commitments leads to further caution. The suggestion is that ENTs be removed entirely for certain categories of worker, although these are likely to be skilled, professional and business categories.

## *Visas and Work Permits*

Concern about national visa and work-permit regulations stems partly from issues of transparency but also from concerns about administrative hurdles and delays. It is felt that governments should separate the temporary movement of people under GATS from other types of migration and therefore a universally applicable visa specific to GATS should be implemented.

## *Recognition of Qualifications*

Each country has different licensing requirements for people providing services and particular methods for, or barriers to, recognising qualifications acquired abroad. A multilateral framework for recognising qualifications would increase transparency and aim to reduce the domestic regulatory burden.

A further threat to the progress of Mode 4 negotiations is whether existing (and still developing) bilateral and regional agreements could be 'better' at liberalising international movement for unskilled and less skilled workers, while Mode 4 be dedicated to liberalising the movement of professionals within developed countries and with faster developing countries. The bilateral and regional agreements that are proliferating to the benefit of both developed and developing countries tackle flexibility issues and cultural concerns in particular. For the foreseeable future any liberalisation of movement is likely to be made through bilateral agreements.

## Further Reading

Chaudhuri, S., Mattoo, A. and Self, R. (2004) 'Moving People to Deliver Services: How Can the WTO Help?' Policy Research Working Paper, No. 3238. Washington DC: The World Bank

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Walmsley, T., Ahmed, S. A. and Parsons, C. (2005) 'The Impact of Liberalizing Labor Mobility in the Pacific Region'. GTAP Working Paper No. 32, Center for Global Trade Analysis, Purdue University, IN, USA

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Winters, L. A. (2005) 'Developing Country Proposals for the Liberalization of Movements of Natural Service Suppliers', Migration DRC Working Paper T8, [http://www.migrationdrc.org/publications/working\\_papers/WP-T8.pdf](http://www.migrationdrc.org/publications/working_papers/WP-T8.pdf)

## Development Research Centre on Migration, Globalisation and Poverty

The Migration DRC aims to promote new policy approaches that will help to maximize the potential benefits of migration for poor people, whilst minimising its risks and costs. It is undertaking a programme of research, capacity-building, training and promotion of dialogue to provide the strong evidential and conceptual base needed for such new policy approaches. This knowledge base will also be shared with poor migrants, contributing both directly and indirectly to the elimination of poverty.

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