

The Case for Mode 4:

Recognizing the Gains and Addressing the Challenges

by

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Outline

- Why mode 4?
- Gains from mode 4
- Challenges and risks
- Way forward

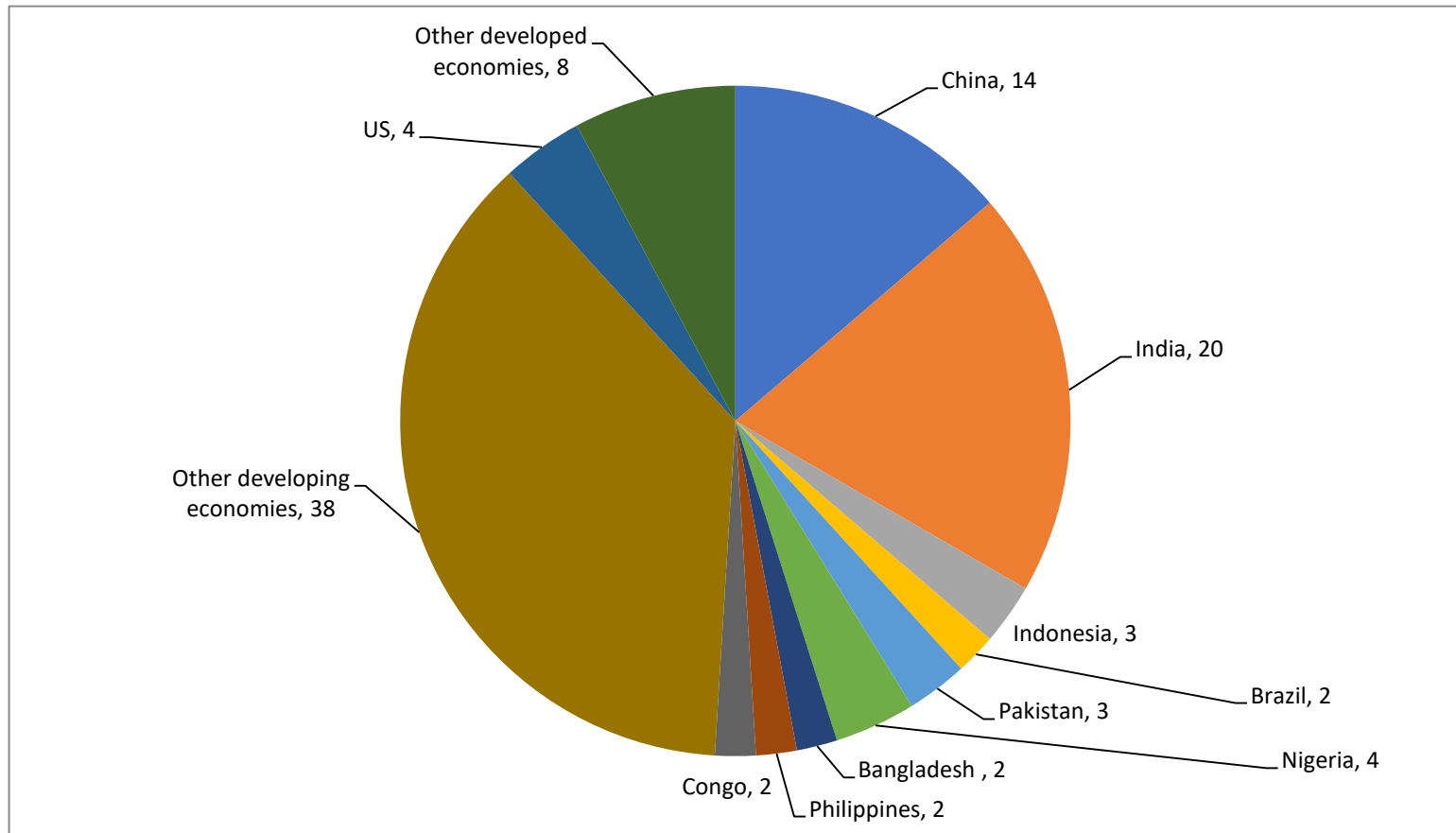
Why Mode 4?

- Trade involves exploiting comparative advantage in skills, technologies, resources
- Mode 4 trade is shaped by many drivers
 - Demographics and labour markets
 - Intersectoral and intermodal linkages

Demographics and Labour Markets

- Large demographic imbalances between countries
- Shortages due to ageing populations, declining fertility rates, fewer people entering the workforce
 - Net workforce shortfall of 32-39 mn 2020 in developed countries (US Census, OECD)
 - 8.2-14.3 mn for US (McKinsey Global Institute)
 - Japan- decline of 600,000 workers/year over next 20 years (OECD)
 - Korea- decline of 135,000 workers/year between 2015-20 (Ducanes, 2013)
- Projected labour surplus of few mn to 47 mn in developing countries
- Healthcare, IT, engineering, construction, miscellaneous services, catering

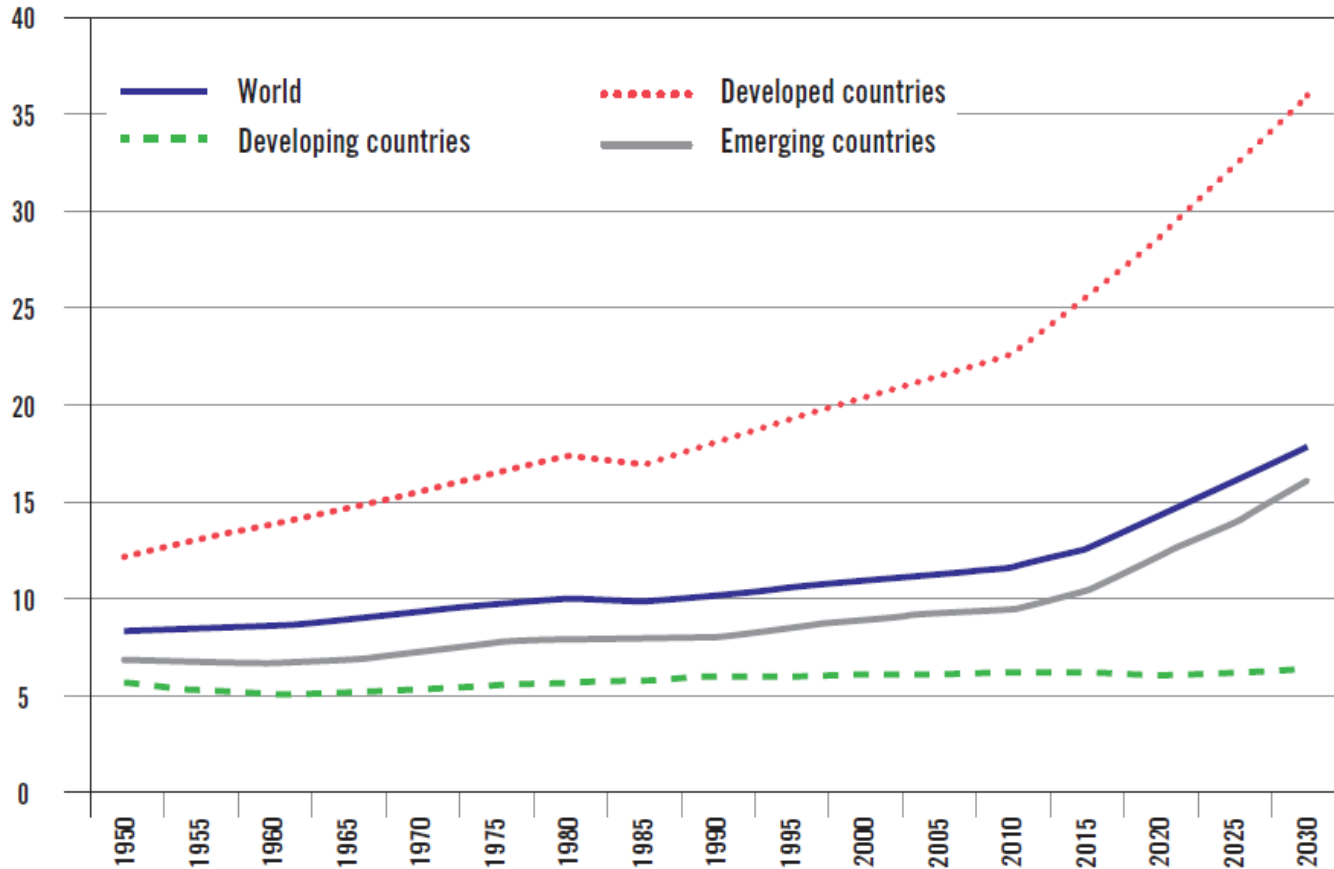
Share of world population by country group, 2050 (%)



Source: WTO (2013), Figure C.5, p. 116. Based on United Nations Population Division, World Population Prospects: The 2010 Revision database

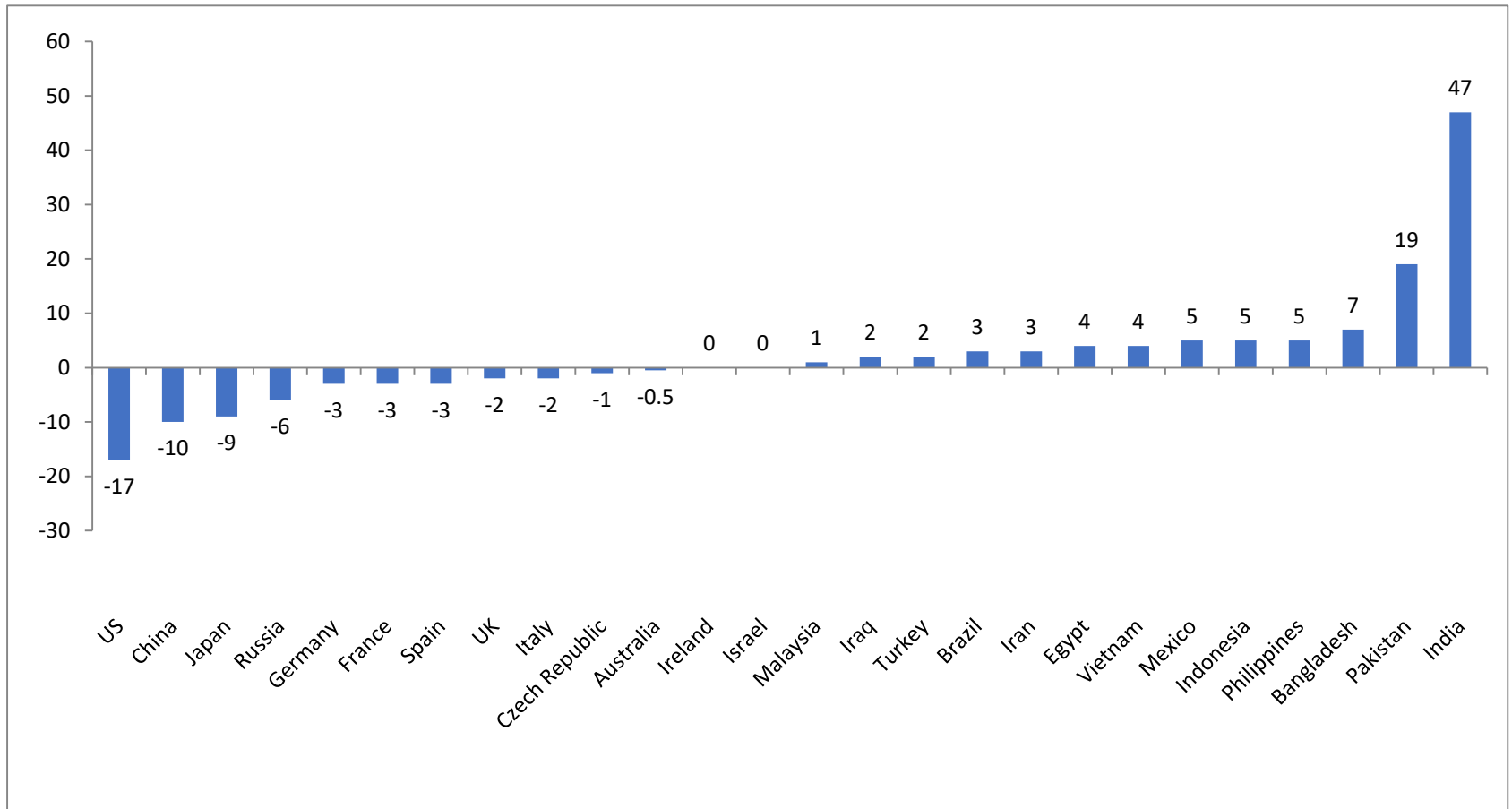
Old-Age Dependency Ratio

(% of population aged 65+ to the working age population (15-64))



Source: ILO (calculations based on UN World Population Prospects, 2017 revision)

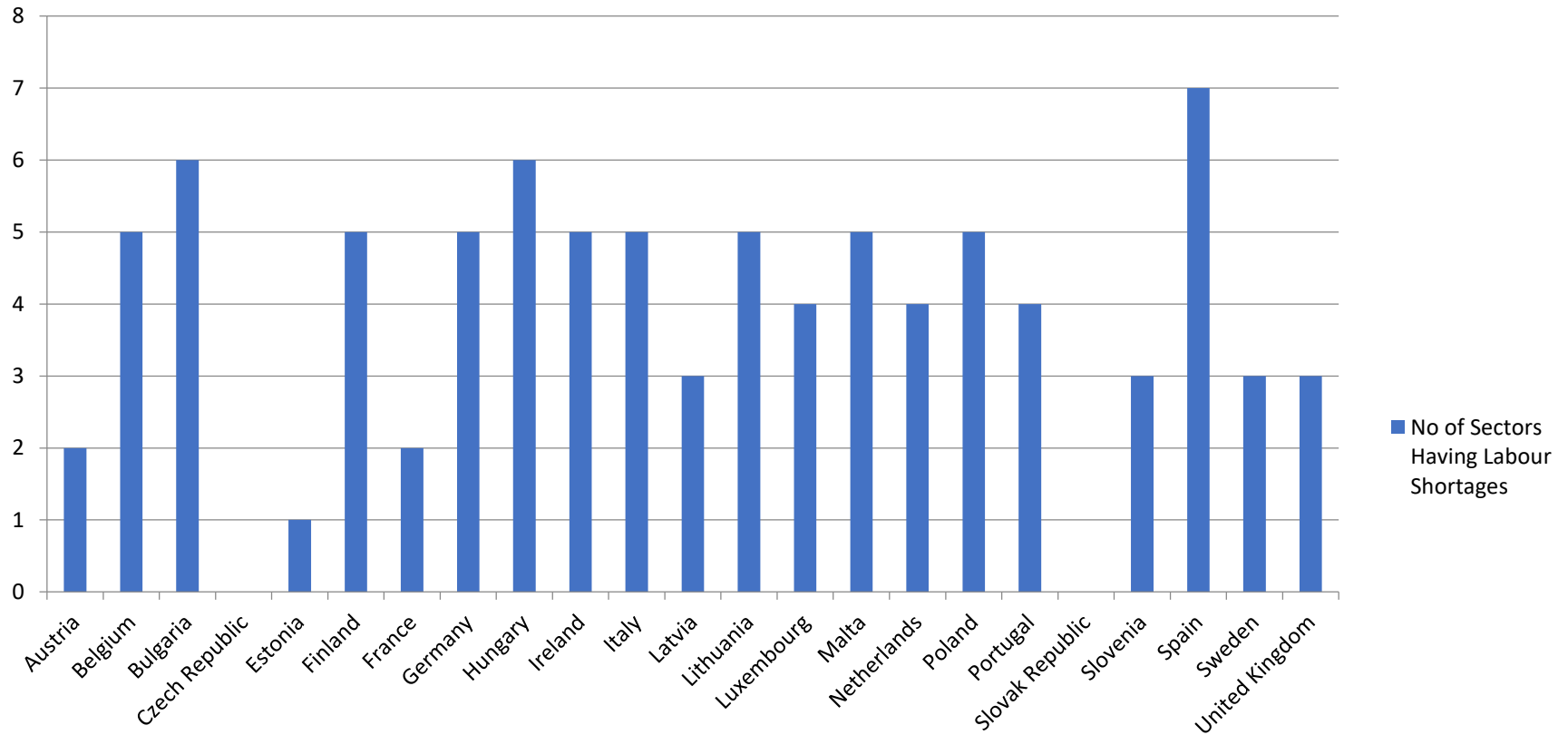
Potential Deficit and Surplus Population in Working Age Group- 2020 (mn)



Source: US Census Bureau, BCG Reports

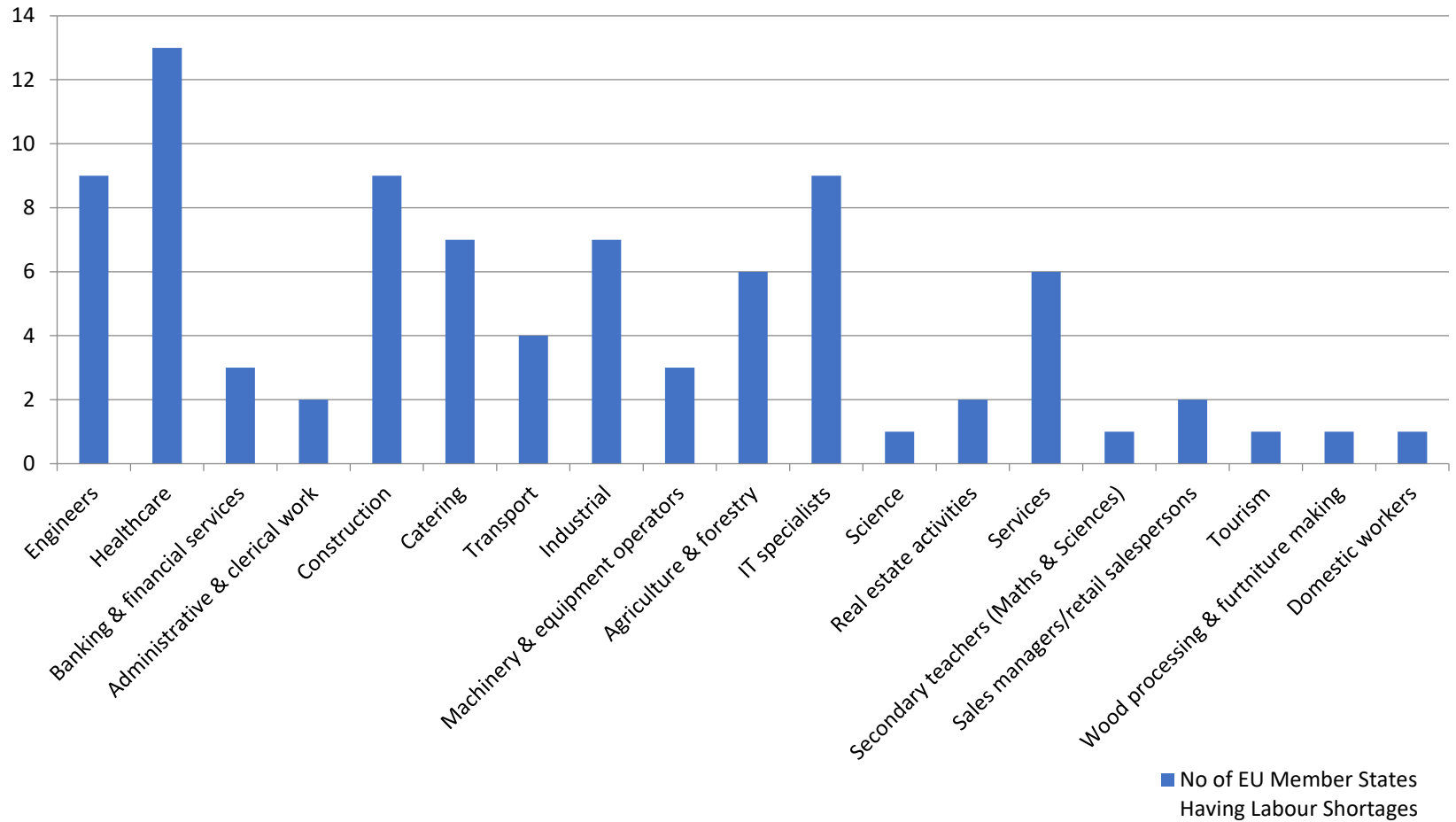
Note: Potential surplus is calculated keeping the ratio of working population (age group 15-59) to total population constant

Number of sectors with labour shortage in EU member states



Source: Based on European Migration Network Report (2011)

Number of EU Member States with Labour Shortages in Selected Occupations



Source: Based on European Migration Network Report (2011)

- Various measures taken to address these workforce shortages
 - Delay retirement
 - Increase workforce participation
 - Increase productivity through automation and skilling
 - Invest in education and training
 - Outsourcing
 - Selective immigration policies
 - Bilateral labour agreements
 - Foreign students, absorption in labour market

- But such measures have their limitations
 - Many services require proximity of the service provider and consumer
 - Part of shortage is voluntary
 - Education and training policies require time
 - Many services require specialized skills and tacit knowledge, cannot be standardized and automated

Intersectoral and intermodal linkages

- Modes of supply and sectors often bundled
 - Mode 4 supports other modes
 - Services trade through mode 4 embedded within manufacturing output and exports
- Mode 4 facilitation required for services trade and competitiveness in other sectors

Example

Phased relationship between mode 1 and mode 4 for executing outsourced contracts

Planning phase-

Contract specifications worked out, technical requirements assessed, process copied from overseas client to IT firm
Involves temporary movement of high-level personnel (ICTs, specialists, BVs) to client site

Transition phase-

Knowledge sharing between client company and IT firm
Involves temporary mobility of middle level personnel (programmers, developers)

Steady state phase

Entire process transferred to executing firm in the exporting country
Involves some mode 4 on a periodic basis (executive and managerial)

Gains from Mode 4

- Mode 4 offers win-win possibility for receiving and supplier countries
 - Address workforce deficits which hurt economic growth, raise labour costs, hurt competitiveness, create fiscal pressures
 - Opportunity for supplier countries to augment exports, create employment, receive remittances, gain from transfer of skills, knowledge, technologies

- Walmsley and Winters (2002) highlight gains from liberalizing mode 4
 - Increase in quotas by industrial countries on inflows of skilled and unskilled temporary workers of 3% of their workforce could yield estimated welfare gain of over \$150 bn/ year
- Studies specific to professional services estimate consumer gains of \$160 to \$270 bn/year from 15% increase in supply of 4 types of professionals- doctors, dentists, lawyers and accountants in the US
- Economy-wide efficiency gains ranging from \$12 to \$20 bn/ year from inflow of foreign professionals into the US

Challenges and Risks

Recipient countries

- Border and non-border measures on entry and presence of service suppliers
- Cumbersome, non-transparent, time-consuming, costly, discretionary
 - administrative regulations and procedures concerning eligibility
 - recognition and qualification related procedures and requirements
 - wage parity requirements
 - necessity tests
 - investment-linked conditions
 - nationality or residency conditions
 - discriminatory policies
 - subjective interpretation of visa/work permit terms and conditions
 - prior employment with company (CRS)



Typical application for temporary entry as an IT worker to a developed country requires exhaustive details about the employer, job, local search, evidence of failure to do so, details of experience, skills, and training, and verification of other personal details

Filing and processing of information may take two weeks to over two months, or longer, at times almost a year, due to the cumbersome nature of the application requirements

Economic needs tests in the form of pre and post-admission checks may take a long time, characterized by lack of clearly established criteria and procedures

Quantitative caps on entry of temporary workers and the problem is further aggravated by discretionary changes and uncertainty regarding these quotas.

Inherent skill and functional bias in mode 4 regulations not conducive to entry of low and semi-skilled activities such as construction, nursing, home care and hospitality

- Lack of recognition of educational qualifications and accreditation related regulations a major barrier to mode 4 in certified and licensed professions
- While de jure justified on public policy grounds de facto problematic

Requirement to register with local bodies or association

Registration contingent on passing certification exam, residency/nationality conditions

Sub-federal and provincial requirements in receiving country

Costs for applications, accreditation, licensing, registration, preparation, training, travel, stay, visas, uncertainty ranged from \$3-\$6 thousand for health, accountancy and architectural services

Average income foregone per professional estimated at \$25- to \$100,000 for 1995-2000 period

Source countries

- Lack requisite quantity, quality, skill sets, investment in education and training, institutional frameworks
- Supply side constraints in projected large labour surplus countries for skilled, experienced, educated manpower
 - India could face a shortage of 13 mn medium skilled workers in 2020 (McKinsey Global)
 - Construction, banking and financial services, IT and engineering services, sectors which will also experience labour shortages globally
 - More acute shortage at sub-national level in India

- Bangladesh could potentially receive \$8.5 billion in remittances per year if it were to supply 200,000 nurses to overseas markets
- Lacks capacity and quality due to inadequate training infrastructure, nursing faculty, outdated curricula, lack of specialized training
- Mode 4 could aggravate supply and quality constraints in developing countries
- Risk over dependence on mode 4

Dynamics of technology

- Industry 4.0- new wave of automation of jobs, of entire manufacturing value chain
 - Big Data, 3-D printing, AI, robotics are transforming the nature work



Could cause an unprecedented rise in productivity growth, stronger job-replacement effects than in the past

But complementarities between technology and work could increase fragmentation of tasks, demand for specialized services

- New robots, smart machines need to be developed, designed, built, maintained and repaired
- New infrastructure, equipment, complex software will need to be constructed
- New product and process innovations, with manufacturing-cum-service business models

- Brown, Lauder and Ashton (2011) foresee a process of “digital Taylorism”
 - enterprises will divide office services into specialized tasks with digitalization allowing relocation to developing countries, including complex service tasks
- Outcome for mode 4 will depend on many factors
 - Complementarities between this fragmentation and associated mobility
 - How prepared countries are to leverage dynamics
 - Nature of tasks created
 - Recognition of skills under MRAs
 - Linking of skill sets to new tasks in global labour market
 - Evolution of labour mobility arrangements
 - Global coordination and governance of mobility



Way Forward

- Several issues to be addressed to facilitate mode 4
- Augment supply capacity and quality in sending countries
- Skill development and training frameworks
- Development of national qualification systems
- Certification and accreditation systems
- Mutual cooperation in labour mobility, skilling, training and accreditation arrangements
- Countries have entered into intergovernmental agreements to facilitate services delivery by foreign workers

Multilateral framework

- Key obstacle to mode 4 is that immigration regimes do not distinguish between temporary and permanent movement of labour
 - Temporary schemes such as H1 B allow service suppliers to switch employers, get access to permanent residence and citizenship
 - More aligned to screening foreign workers for permanent admission
- GATS visa discussions must be reinvigorated

GATS Visa

- Could be made applicable to service providers covered by commitments
- Need multilaterally accepted guidelines on:

- Time frame from filing to receipt of the visa
- Administrative procedures involved
- Documentation requirements,
- Verification norms
- Eligibility conditions
- Enquiry point

- Fees and charges
- Appeal in case of rejection
- Renewal procedures
- Tax treatment
- Tracking mechanism
- Notification of delays
- Redressal mechanisms
- Fast track mechanisms

- Demographics, technological change, emergence of integrated value chains between services and manufacturing necessitate development of a multilateral framework
- Governments must be convinced that GATS visa is a win-win, addresses labour market requirements and migration concerns
- Inaction on mode 4 can have adverse implications for productivity, growth, fiscal revenues, savings, knowledge creation and sharing
- *Are countries willing and ready to engage?*

Thank You