

Liberalising Temporary Movement of Natural Persons: An Agenda for the Development Round

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This article is based on a longer report prepared by the same authors for the Commonwealth Secretariat “**Liberalising Labour Mobility under the GATS**”. Its views and opinions are the authors' and should in no way be attributed to the Commonwealth Secretariat or its members.

1. Introduction

The Uruguay Round started the first multilateral service negotiations and resulted in an agreement - The General Agreement on Trade in Services (GATS). The GATS recognises four modes of service delivery - Mode 1 cross border supply; Mode 2 consumption abroad; Mode 3 commercial presence and Mode 4 presence of natural persons. Mode 4 is by far the smallest mode of service delivery in terms of both trade flows and the volume of scheduled concessions recorded under the GATS. The limited commitments that have been made under the Mode 4 refer almost exclusively to higher-level personnel, especially to intra-corporate transferees, whose mobility is also related to Mode 3 (foreign direct investment). Thus most existing concessions have limited significance for developing countries since their comparative advantage lies in medium and low-skilled labour intensive services.

This paper discusses the issues, difficulties and routes to further liberalising Mode 4 under the GATS, particularly the movement of medium and low skilled service providers between developing and developed countries¹. It starts with the question of why labour mobility matters. The very heart of international trade, be it in goods or in factors, lies in exploiting differences. The larger the differences, the larger the potential gains from opening up international trade. In the case of Temporary Movement of Natural Persons (TMNP), potentially large returns would be feasible if medium and less skilled workers, which are relatively abundant in developing countries, were allowed to move and provide their services in developed countries. Many empirical studies of factor mobility (e.g. Hamilton and Whalley 1984, Tang and Wood 1999) show large potential economic gains from increased labour mobility, and the new estimates conducted in this paper, combining various existing methodologies draw the same conclusion. We develop a computable general equilibrium model to examine the effects of an increase in the temporary labour force in developed countries. We assume an increase of inward movements of equivalent to 3% of developed countries' skilled and unskilled work forces. It would generate an estimated increase in the world welfare by \$US156 billion, shared fairly equally

¹ It is based on a detailed study of these issues by Winters et al (2002).

between developing and developed countries.

Given the large economic gains, why are in a certain part of the western world so hostile towards the movement of labour, in particular less skilled workers? It is because the mass migration of less skilled workers brings fears for cultural identity, problems of assimilation and the drain on the public purse. However, these fears are hardly relevant to TMNP. The biggest economic concern that TMNP raises is the competitive challenge to local less skilled workers². This is neither more nor less than the challenge posed to such workers by imports of labour intensive goods from developing countries, which has been gradually overcome by the weight of economic gain that trade could deliver and by policies to ease adjustment. Applied with the same sensitivity and the same sorts of policies as trade policy reform in goods has received in the past, the temporary movement of less skilled workers between countries would offer the chance to reap some very large gains from trade.

As populations age and the average levels of training and education rise in developed countries, they will face an increasing scarcity of less skilled labour. Given the fact that, at least in some occupations, there is no substitute for human labour, the demand for and benefits of allowing TMNP will increase through time. Recognising the formidable political challenges it poses, TMNP actually offers a strong communality of interest between developing and developed countries.

How can we move forward in terms of further liberalisation of Mode 4 under the GATS in the area of medium and less skilled services providers? First, we look at what the GATS says about TMNP and the commitments that have been made. We find an important ambiguity in the definition of Mode 4 and seek to clarify it. We caution, however, that no matter where one stands on the legal debate about the definition of Mode 4, it is necessary to think whether it is worth trying to use GATS as an instrument to liberalise access of foreign employees to domestic service firms. Such access is viewed politically as an employment not a trade matter and it is not clear whether the WTO currently has the political and popular standing to prevail in such a debate.

² We recognise that TMNP could also raise security concerns.

Next, to characterise the current position over TMNP, we review a range of official proposals for the ongoing talks and several countries' existing schemes for the temporary movement of foreign workers. The most comprehensive proposal on Mode 4 is from India, providing not only concrete suggestions for areas of further liberalisation in Mode 4, but also detailed administrative procedures³. The developed countries' proposals, however, are mainly concerned with the clarification of the disciplines in the existing commitments and the further deepening of commitments on the movement of professionals. TMNP may be new to the institutions of the multilateral trading system, but temporary flows of labour across borders have been common in many countries for a long time. Many countries have bilateral foreign worker programmes, and many regional integration agreements provide liberal and flexible foreign worker schemes. Examining the existing schemes helps us to obtain a view of where further liberalising TMNP is feasible. It may also offer illustrations of and, sometimes, solutions to developed countries' concerns.

Our proposals seek to balance the promotion of economic welfare in developing countries with the corresponding benefits to developed countries and a practical view of what the latter will concede in negotiations. We recognise that a balance has to be struck between national security, practical difficulties of tracking and implementing the schemes, political sensitivity about the threat of unintended permanent immigration, and economic wellbeing. We argue, however that the trade-offs required must be properly understood and efficiently made.

The rest of the paper is organised as follows. Section 2 asks the question of why labour mobility matters. Section 3 estimates the gains of further liberalisation of Mode 4. Section 4 examines the GATS. Section 5 reviews the existing schemes of temporary movement of foreign workers. Section 6 outlines our proposals and Section 7 concludes.

2. Why Labour Mobility Matters

³ Much of the Indian proposal is based on Chanda's excellent paper.

The case for liberalising TMNP is plain in two related strands of analysis – international trade and factor mobility.

At its simplest, trade in services is no different from trade in goods, for which there is now widespread acceptance of the benefits of a relatively liberal trading regime. In fact, one could expect greater gains from further trade liberalisation in the services sectors than in goods. Barriers are generally held to be greater in services than in goods; some services pervade the economy and facilitate greater efficiency and competition in many other sectors; services as a whole account for a greater share of income (and, frequently, employment) than industry and agriculture together. For example, Hertel et al (1999) suggest that, while 40% liberalisations in agriculture and manufacturing will each raise global welfare by about \$70 billion p.a., a similar liberalisation in services could contribute over \$300 billion. One might think that, since TMNP currently accounts for only 1.4% of the value of services trade (Karsenty, 2000), it has little promise for large gains. We believe that it shows the very opposite: the low figure arises from the very high barriers, and so offers great potential returns to liberalisation.

None of this argues for wholly unregulated international trade in services. Governments will always have a fiduciary role in regulating many services, to counter the problems that arise from market failures. Services trade liberalisation - including that of Mode 4 - calls for ensuring that such regulations are geared to solving market failures rather than to protection, and that they enhance competition (Mattoo, 2000).

The incentive for international trade arises from differences in countries' relative costs of producing different goods, which, in turn, arise from differences in the countries' endowments of various factors of production. These endowments are assumed to be immobile between countries but mobile between sectors within any country. In its purest form, the theory generates the remarkable prediction that free (costless) trade in goods between countries whose endowments are 'not too different' is sufficient to ensure that their factor prices are equalised – the so-called Factor Price Equalisation (FPE) Theorem of Samuelson (1949). If this were true, trade in goods and the movement of factors of production would be substitutes.

The basic idea of FPE is a powerful motivator of trade policies in the real world. For example, NAFTA, the EU-Mediterranean and the EU-Central Europe Agreements were all promoted partly as solutions to migration pressures. However, the casual evidence against FPE is just overwhelming even in the absence of barriers to mobility such as within the European Union. Moreover, once we move beyond the strictly neo-classical theory, to allow trade to be determined by things such as technology differences or tax structures, trade and migration become complements rather than substitutes, and wage differences can persist indefinitely in the absence of factor movements (Markusen, 1983).

Turning to the migration perspective, it is important to stress that TMNP is *NOT* international migration. It has none of cultural, social or political dimensions that are associated with international migration because it explicitly does not entail shifts in residence. However, its direct economic consequences are essentially those of migration. Workers enter a country temporarily to carry out particular jobs and thus labour inputs in one economy are reduced while those in another are increased.

Hamilton and Whalley (1984) explore the case in which workers from different countries are identical and productivity is purely a function of location-specific characteristics. They suggest that if labour were able to move between regions sufficiently to equalise wages around the world, world income would increase by around 150% or more. Varying the assumptions – e.g. to reflect higher dependency ratios in developing countries, different costs of living, or incomplete wage equalisation – would still allow huge gains, far exceeding anything observed in the international trade literature.

Within the general heading of labour mobility, we discuss three particular dimensions below. There are flows between pairs of developing countries and between pairs of developed countries, but they are not ‘South-North’ movements that are the concern of this paper.

➤ *Developed to Developing Country Labour Flows*

The main issue here is the ability of developed country firms to send their specialists to their plants in developing countries. In some cases, it is highly skilled technical workers who are required, often at short notice and for short periods. In others, the interest is in the mobility of managers. Firms already see these various flows as a means of increasing local efficiency and of integrating their operations on a global scale.

Tang and Wood (1999) have shown in a simple model that, as with most migration driven by differences, business mobility increases world output and narrows the skills gap in the developing host countries (unskilled wages rise) while widening it in developed countries. In the latter, home country unskilled workers suffer from having fewer skilled workers to work with and from the competition from cheaper unskilled labour abroad. In the developing country, output increases, and although part of it accrues to the mobile skilled workers who are domiciled in the developed country, part accrues at home in terms of higher unskilled wages and tax revenues.

➤ *Developing to Developed Country Flows: Skilled Labour*

Developed countries are now actively seeking to recruit skilled workers from abroad to work in IT, education and health sectors. One immediate reaction is that if the advanced economies gain, the developing countries from which these skilled workers emigrate must necessarily lose. The loss of the services of skilled people, even temporarily, reduces total output, and hence the taxes base. Depending on the extent of the skilled workers' absences, it could also reduce an economy's entrepreneurship, the ability to absorb new technologies, and various positive spillovers from skilled to other workers and society in general. But straight loss is far from inevitable, and is much less likely with TMNP than permanent migration. For example, skilled workers from developing countries are likely to be more productive and have higher earnings in advanced economies, and the earnings that they bring home may more than fully offset their loss locally. This is particularly true if the developing country had not been able to make optimal use of its skilled labour initially. Temporary workers abroad are likely to be a source of ideas, technology, markets or networks for those who remain, increasing their productivity and market

opportunities.⁴ This, of course, is particularly likely if the workers spend significant amounts of time in their home economies. Under these circumstances TMNP will boost local productivity as returning skilled workers instruct or inspire local colleagues. Another possibility is that TMNP increases the returns to education, therefore resulting increase in the supply of skills exceeds the actual loss of skilled inputs through TMNP, leaving the domestic economy in the developing country a net gainer of skills. Commander, Kangesniemi and Winters (2002) analyse these arguments in some detail and find them quite plausible and uncover several reasons why TMNP offers greater scope for gains than does permanent migration.

➤ *Developing to Developed Country Flows: The less skilled*

While not entirely frictionless, flows of skilled workers are much easier for developed countries to handle politically than general migration. But the real gains from trade come from exploiting *differences*. It is the flow of less skilled workers from developing to developed countries that promises the larger returns. There are formidable political problems associated with large-scale permanent unskilled migration – fears of cultural and integration problems, drains on the public purse, replacement of local unskilled workers. TMNP, however, offers a way out of this dilemma. Although it will clearly deliver only some of the economic benefits available from straight migration in terms of output and income, it avoids most of the latter’s political costs. Temporary movers hardly pose any cultural or integration threats and make virtually no call on public services. Thus, in a sense, the only challenge posed by well-run TMNP schemes is their market threat to indigenous low-skill workers. This is neither more nor less than the challenge posed by imports of labour intensive goods. Formidable though it has been, this has been significantly overcome in the past by the weight of economic gain that trade could deliver and by policies to ease adjustment among the local unskilled.

3. Estimating the Gains from Temporary Movement

Who would benefit from liberalising the restrictions on TMNP and by how much? This section summarises some recent modelling results derived from a global

⁴ Although TMNP may be less effective at building up foreign networks than permanent migration

applied general equilibrium model of South-North temporary movement of labour. We fit a computable model to data from a base year (1997) and then asks how the outcome would have differed if there had been greater labour mobility in that year⁵. Thus the results are not unconditional predictions of the effects of future policy changes, but rather quantitative experiments to suggest possible orders of magnitude.

In the absence of quantifiable data on restrictions to services trade *per se*, we model TMNP merely in terms of the movement of workers from one country to another. This clearly overlooks a huge array of institutional details in actual and potential schemes for the temporary mobility of labour. However, as we have argued above, we believe that in terms of the effects on narrowly economic variables, it is not seriously misleading; we see it as ‘revolving’ mobility – the jobs are permanent the workers not. Ultimately TMNP means that fewer workers work at home and more do so in the host country. Our estimates suggest that increased mobility equivalent to 3% of the receiving countries’ work forces would generate \$156 billion per year in economic welfare. These gains are shared between developing and developed countries and owe more to unskilled than to skilled labour mobility.

The Model

The model and data are based on the GTAP model and database developed by Hertel (1997). GTAP is a standard applied general equilibrium model which assumes perfect competition; consequentially this exercise contains none of the scale or clustering effects which often figure in the skilled migration literature. In each of several regions, a single household is assumed to allocate income across private and government consumption and saving in fixed proportions. Demand for domestic and imported goods depends on income and relative prices. Firms minimise the costs of production. They combine intermediate inputs, from domestic and imported sources, with primary factors to produce commodities for the domestic and export markets. Demand for factors of production (land, skilled and unskilled labour, capital and natural resources) depend on output and relative prices. Prices adjust to ensure that demand equals supply in every market.

⁵ Details are available in Walmsley and Winters (2002)

To modify the standard GTAP model to incorporate the movement of natural persons, we first distinguish temporary migrants from temporary workers - a temporary migrant leaves his or her home region to become a temporary worker in a host region. Given that there is little bilateral information, we can say nothing about where temporary migrants from a given home region become temporary workers, so we postulate a global labour pool, which collects up the temporary migrants from all home regions and then allocates them across host regions. The temporary workers add to the supply of labour in the host region and are allocated across sectors within the region according to labour demand. In the host country temporary workers earn a wage for their labour, related to their productivity. Part of this wage is then sent back to the home region via the global pool as remittances. Within a country, the remaining income of temporary and permanent residents plus net remittances received is then allocated across consumption, saving and government spending to maximise utility.

We characterise changes in policies towards TMNP as increases in developed countries' quotas on inflows of temporary workers. Assuming the quotas are always binding, i.e. that there is excess demand for places in the host countries, we can do this exogenously without having to model the incentives to move. We then assume that the new migrants are drawn from various home countries (mostly developing) according to the latter's labour force shares

Having determined the number of temporary migrants leaving the home regions and the number of temporary workers entering the host regions, we need to calculate how these changes affect the effective supply of skilled and unskilled labour in terms of productivity units. We assume that the productivity of a temporary worker in the host equals the average productivity of a temporary migrant in the pool plus half the difference between that and the host region's productivity. The temporary migrants/workers are allocated across all sectors in both countries. As in the standard GTAP model, labour moves freely between sectors until wages are equalised across sectors for each type of worker; hence, although Mode 4 inflows are only into services sectors, all sectors can benefit from the increase in labour supply. In the host regions, where the supply of labour has increased, wages are expected to decline, whereas in the home (sending) regions, they will rise. Unfortunately, we can make no

allowance for returnees to return with higher productivity as a result of their experience abroad.

In standard GTAP model, domestic income includes all factor incomes (skilled and unskilled labour, land, capital and natural resources) net of depreciation and taxes. In our model factor incomes have to reflect the distinction between the incomes of temporary and permanent labour, and be adjusted for the former's remittances to their home countries. All other income (including that on land, capital etc, taxes and remittances received) is assumed to be earned by permanent labour alone. Since we do not have data on bilateral remittances, we base remittances received on base year totals by country updated by a common percentage reflecting the average increase in payments across all remitting countries.

Changes in the economic welfare of permanent and temporary workers are related to their income flows deflated by prices in their place of residence (work).⁶ The welfare of temporary migrants is found by summing the welfare changes of temporary workers across host countries and sharing it out over the various home countries, according to their shares in total TMNP. Once the welfare changes of temporary migrants are determined, welfare by home region, regardless of temporary residence, can also be calculated by simply summing the changes for permanent residents and temporary migrants.

The Experiments

In our main simulation quotas on the movement of natural persons are assumed to increase in a number of traditionally labour importing regions, supplied by temporary migrants from a number of labour exporting countries according to their labour force shares. The quotas are increased by an amount which would allow the labour forces in the host (OECD) countries to increase by 3%⁷. This amounts to about 8 million skilled and 8.4 million unskilled workers at any one time.

⁶ Technically, we use Hicksian Equivalent Variation to measure changes in economic welfare.

Increasing developed countries' quotas on both skilled and unskilled temporary workers increases world welfare by an estimated \$US156 billion – about 0.6% of initial world income. In aggregate terms the main gainers from liberalising Mode 4 are the initial residents of the developing (labour exporting) economies, as we can see from Column V in Table 1. Most of this increase is the result of the higher incomes earned by the people who can become temporary migrants as a result of the relaxation in quotas (Column III in Table 1). They are now able to earn higher wages in the developed countries.⁸ Despite the remittances they receive, permanent residents in the developing countries generally lose from the outflow of temporary migrants (Column IV in Table 1) because the decrease in labour supply reduces the returns to capital and other factors of production (Column IV in Table 2). Combining the results for permanent residents and (the few) temporary workers already located there gives the outcomes for developing countries as host countries (Column VI of Table 1); in general these economies record losses, but recall that this excludes the benefits experienced by the temporary migrants who are working abroad. The loss of labour reduces aggregate output, real GDP, in labour exporting countries (Column V in Table 2), and because the outflow of labour is biased towards skilled labour, skilled workers' real wages rise in developing countries (Column II in Table 2)⁹. Developing economies generally experience improvements in their terms of trade as the fall in their GDP reduces the supply of the varieties of goods that they produce and so drives up their prices.

While the developing countries are the main beneficiaries of the increase in quotas, the initial residents in most of the developed countries also experience increases in welfare from the higher returns to capital and the increase in taxes collected. Real GDP increases substantially in the developed economies (Column V in Table 2), but in most cases the terms of trade decline as higher output drives down the prices of exports relative to imports. These small increases for developed countries residents are commensurate with Borjas's (1995) estimates for the effects of

⁷ By this we mean the number of workers (actual bodies) increases by 3% of the labour force. Because relative productivities differ this does not mean that the labour force increases by 3%, since the labour force increases by the number of equivalent workers.

⁸ Recall that each mobile worker is both a 'temporary worker and a temporary migrant' so columns II and III report the welfare of the same set of people allocated once by residence and once by nationality.

⁹ By assumption, the relaxation of quotas reflects the skills mix of developed countries and so is substantially more skill-intensive than the typical developing country's labour force endowment.

permanent migration into the USA, but more optimistic than Davies and Weintin's (2002). The latter analyse an inflow of all factors of production exactly proportional to the USA's existing endowments. Consequently there are no benefits from changing factor mixes but the losses via the terms of trade remain.

Table 3 considers the effects of relaxing the skilled and unskilled quotas separately. Notably, both the developed and developing countries would benefit more from the liberalisation of restrictions on unskilled labour than on skilled labour. For developing (labour exporting) countries, the reason is that, while skilled temporary migrants can greatly increase their earnings by moving, the negative effect of their loss on their home economies is considerable. For temporary unskilled migrants, on the other hand, their remittances more than offset their original (low) contribution to home output, so that the welfare of those who remain behind also rises. For the developed (labour importing) regions, higher quotas on unskilled labour are also more beneficial in terms of welfare than are those on skilled workers, although most of the effect comes from the welfare of developed countries' existing temporary migrants who see their wages abroad rise, an effect which is not completely convincingly modelled – see Walmsley and Winters (2002). The increases in supplies of unskilled labour reduce unskilled wages and stimulate most sectors (agricultural, manufactures and some services), whereas the benefits of increased supplies of skilled labour are concentrated in just a few services sectors. The main effect, however, is again on their existing migrants.

Walmsley and Winters (2002) also provide some alternative estimations. They confirm that the precise details of the experiment do not undermine the basic results of this paper – viz. that Mode 4 offers potentially huge gains to liberalisation. One should not take these modelling estimates too literally - they are mere orders of magnitude. However, it is difficult to deny that very serious amounts of economic welfare are at stake. Indeed, they suggest that the exercises here offer greater gains than the removal of all restrictions on goods trade!

4. What the GATS Says

The over-riding impression left in the GATS, especially in the area of Mode 4, is one of imprecision. This starts at the definition of the phenomenon itself and continues through to the details of the concessions made. Developing concrete proposals for negotiating TMNP is affected by the architecture of the GATS. First, the GATS confines the agenda for negotiation. Architectural or constitutional changes are substantially more difficult to achieve than is the mere scheduling of new commitments. Second, GATS wording defines the vocabulary of negotiation and may constrain the concessions that can be sought, given or believed. Third, experience with GATS has revealed technical weaknesses that many parties could agree need to be resolved. They potentially represent an early harvest or confidence building issues for negotiation. Fourth, the content of the GATS and the existing schedules reveal a good deal about the objectives of the various parties to the negotiations – they allow us to think about the dynamics of negotiation.

The GATS defines 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 Members’ (Article I 2(d))¹⁰. This definition focuses on the ability of a service provider to cross the border in order to provide a service rather than the conditions under which that movement takes place. The latter is the business of negotiation and of the specific commitments which member countries schedule under the GATS. However, the Annex on Movement of Natural Persons Supplying Services under the Agreement, which is an integral part of the GATS, states clearly that the GATS does not apply to measures affecting access to the employment market of a Member or to measures regarding citizenship, residence or employment on a permanent basis.¹¹ This seems pretty unambiguous, but unfortunately the Annex has previously stated that it applies to two categories of measures: (a) those affecting natural persons who are "service suppliers of a Member, and (b) natural persons of a Member who are employed by a service supplier of a Member in respect of the supply of a service". Both of these latter categories raise ambiguity when combined with Article I 2(d). It is just unclear

¹⁰Supply of a service is qualified in Article XXVIII(b) to include ‘the production, distribution, marketing, sales and delivery of a service’.

¹¹It also states that Members are free to regulate the entry and stay of individuals in their territory provided that regulations do not “nullify or impair the benefits accruing to any Member under the terms of a specific commitment”.

whether the GATS must, can, or cannot cover the employment of foreign nationals by domestic firms.

Whatever the legal situation, however, we caution that the political risks of bringing the WTO into domestic employment law are high. Tactically, revising the structure of the GATS is a ‘constitutional’ issue which *de facto* requires the assent of the all WTO members and *de jure* the assent of substantial majority of them. Scheduling concessions, on the other hand, is a matter merely for those countries who wish to take part in a round or act unilaterally - a very much less demanding quorum to achieve.

Trade specialists tend to see the temporary movement of natural persons as a technical issue of economic efficiency – as a means of increasing world income significantly which should be debated in terms of outcomes rather than structures and legalities. Immigration and labour market officials, on the other hand, see it in terms of labour standards, culture, internal security and citizenship, and fear that it could unleash potentially overwhelming forces on societies unless it is carefully managed. Overall, whether the GATS is used as a way of liberalising employment markets could have profound political implications as well as being an important tactical consideration for those seeking to promote efficiency and economic development.

Regarding other technical and procedural issues in Mode 4, first, the lack of transparency in regulations, licensing and work permit measures constitutes an important barrier to the movement of natural persons. Article VI.4 of the GATS is designed to allow members simultaneously to maintain domestic regulatory policies regarding qualification requirements and procedures, technical standards and licensing requirements and to ensure that the trade distortion effects of those policies are kept to a minimum. Domestic regulatory policies are not scheduled in the GATS, unless members make additional commitments in that forum, and so far, no single member country has done so. While GATS disciplines on recognition are relatively weak, the need to develop common international standards in relevant service trades and professions is broadly accepted in principle.

Second, the GATS does not provide help on defining the terms in which concessions can be expressed in the schedules. For example, ‘temporary’ or ‘non-permanent’ status may be interpreted differently by each member state and might differ for different categories of person. Thus even when a sector has been scheduled under the GATS, the myriad forms in which commitments may be phrased and the imprecision of the terms used allow member countries huge latitude. As a result, without huge amounts of case-specific investigation it is difficult to understand the extent of commitments that have been made or to assess their overall degree of liberality. This poses difficulties not only for scholars but also for policy-makers, who are charged with assessing partners’ offers and for politicians assessing the overall degree of balance (reciprocity) in a package. We know from other experience (NTBs, agriculture) that such difficulties undermine the will to negotiate and to reduce the extent of scheduling and liberalisation in a sector.

Third, the list of service sectors developed for the GATS in general is not organised according to skill level or type of job. Hence at present, Mode 4 liberalisation, either horizontally or sectorally, is connected less to the job being performed, than to the service being provided, and GATS rules are based on how service is delivered, rather on what a service is¹². It would be useful, therefore, to develop a parallel list for Mode 4 that identifies service occupations relevant to temporary service delivery overseas and to use this to define scheduled commitments.

5. Current Policies on Temporary Movement of Foreign Workers

Many countries have bilateral temporary foreign worker programmes, and many regional integration agreements provide liberal and flexible foreign worker schemes. The *Financial Times July 23 2002* reports that in 1999 foreign or foreign born labour force accounted for about 25% of the total labour force in Australia, 12% in USA, 8% in Germany and 4% in Britain. Reviewing some of the existing schemes may show us that TMNP is feasible and offer illustrations of and, sometimes, solutions to the fundamental question of how to ensure that movement temporary and

¹² The argument is that it is in the delivery that international trade in services occurs (Young, 2000).

not just one way. They can also show why further liberalising TMNP under the GATS may not attract support even from net-sending countries.

In Britain, there are a number of foreign worker programs contained within the general immigration policy. In general, foreigners (non-EU member citizens) need to apply for work permits from the Home Office in order to work in Britain. In 1999, there were 80,000 applications almost exclusively professionals, of which 90% were approved. There are, however, a number of schemes that do not require work permits. The working-holidays programme is provided for young people aged between 17-27 from Commonwealth countries. They are allowed to work in non-professional jobs for up to two years. The seasonal agricultural workers scheme originally intended primarily to promote cultural interchange for young people from Eastern Europe allows a small number of workers, currently 10,000. Now the programme is driven by agricultural demand for labour. There is no work permit requirement for the au pair scheme. Au pairs must be single, aged 17 to 27, from a limited set of countries, and the maximum stay is two years. There are also a number of business related categories that do not require work permits: investing significant amounts in U.K.; entrepreneurs and skilled workers with innovative ideas to enter the UK to establish a new company and work in the areas of science and technology and e-commerce.

Germany has a long history of using foreign guest worker schemes to fill gaps in the domestic labour market. The first bilateral recruitment agreement was reached with Italy in 1955. The guest-workers program, based upon bilateral government agreements, was intended to provide a rotation of workers entering and working in Germany temporarily. The early guest-workers programme, not only filled the gap of labour market, but also led to a good deal of permanent immigration. After the first oil crisis in 1973/4, Germany stopped recruiting foreign guest-workers and started to develop a series of migrant worker programs. These programmes were more carefully designed to prevent workers from settling down in Germany.

One of these migrant worker programs, which could be modified and adapted to the needs of Mode 4, was subcontracting agreements. These agreements, between German and foreign firms, were initiated in the early 1980s but were mostly active in 1990s. For example, a Czech or Polish firm would agree to do the brickwork on a

German building, and would supply both the construction workers and the supervisory engineers to direct their work. The foreign company providing services retained the rights to give instructions to its employees working on the customer's premises. Draft subcontracting agreements had to be submitted for approval to the German Employment Service, which verified that the agreement provided for the payment of prevailing wages, the provision of acceptable working conditions, and that the foreign firm actually paid its workforce the agreed amounts. Social security contributions for the project workers were paid through the foreign company according to the provisions in its home country. In case of non-compliance, including workers who stayed on after the contract expires, fines were imposed on the German *domestic* (hiring) company, hence internalising much of the enforcement burden. Foreign firms could be excluded from the bilateral agreements if they exceeded the job quotas allocated to them, employed workers without a proper work permit or paid wages below agreed level. In order to prevent illegal employment, employment officers carried out strict check-ups without notice on the construction sites. Foreign workers, were required to come to Germany without their families, and could stay only for a maximum of two years. They were paid partly in German marks and partly in their home currencies and some of their wages remained with their employing firms (i.e. the subcontractors) until they returned home. There were no firm-specific quotas allocated to German companies on the number of subcontracted foreign workers, but there were industry-by-industry quotas and a countrywide quota, of 100,000 in 1992.

The USA operates schemes to allow middle and low skilled workers to come and work temporarily, although the barriers to the unskilled are much greater¹³, including a long certification procedure, a requirement that the job itself be temporary and difficult bureaucratic requirements. Non-immigrant low and unskilled labour inflows have not increased as rapidly as have skilled inflows. Nonetheless, some foreign low skilled workers enter and work temporarily. For example, the H-2 visa programme is associated with eastern agricultural needs, primarily harvesting sugar cane in Florida and picking apples in Virginia and West Virginia. The H-2B visa for non-agricultural workers requires that not only the stay but also the job itself be

temporary. The H-1A visa scheme is designed for registered nurses to work in the U.S., subject, effectively, to a rigorous economic needs test. H-1B visas are for ‘other professionals’. O visas for persons of outstanding ability in the sciences, arts and business, and P visas for athletes and entertainers, all require labour union or peer group clearance before submission of the visa petition to the Immigration and Naturalisation Services.

Regarding regional arrangements, the European Union’s free movement of labour between member states is the ultimate model for labour mobility, but it is clearly not appropriate to countries with weaker aspirations to integrate their economies. NAFTA may be a better model. It provides for more liberal and flexible movement of business persons and professionals between member countries than does the GATS. There are various categories of temporary entry for business persons among the NAFTA member states. The basic principles are transparent criteria and procedures, reciprocity, and recognising the preferential trading relationship. There are no conditions - such as labour certification tests, prior approval procedures, petition, or other procedures of similar effect - and with one broad exception no numerical quota restrictions.¹⁴

6. Ways Forward on Less Skilled Workers

One can envisage two components of a negotiation – the development of general rules or disciplines and the negotiation of specific concessions. Concrete progress will tend to come only with the latter: Mode 4 is too complex and poorly measured to permit formula liberalisations. However, the former are important in making the specific concessions feasible and practical and in defining the environment sufficiently precisely so that negotiators know what they are giving and getting. Most of our discussion here involves the general rules and approach.

¹³ Of course the USA also allows significant permanent unskilled immigration under its family re-union laws and via the Green Card lotteries, but this is a quite different issue from TMNP.

¹⁴ NAFTA permits a party to establish an annual numerical limit under the category of professionals, e.g. US-Mexico.

In this section we consider the pros and cons of a number of ways of advancing the TMNP of less skilled workers. We seek to balance the promotion of economic welfare in developing countries with the corresponding benefits to developed countries and a practical view of what the latter will concede in negotiations. There is no virtue in radical schemes that stand no chance of success: not only will they fail, but they could also undermine progress in other areas of negotiation. To enhance the practicality of our proposals we seek to base them as far as possible on existing schemes for TMNP.

Employment vs. Service Provision Section 4 showed that it is not clear whether or not the GATS covers the employment of non-nationals by domestic firms to supply services domestically. Opening up to employment-based service delivery would greatly enlarge the set of transactions to which GATS liberalisation could be applied, with correspondingly larger economic benefits. Against extending the GATS to employment-based relationships is that doing so grants foreign workers effective access to domestic labour markets, albeit temporarily and conditionally, and, via that route, possibly also to citizenship and residence. Even if one might feel that this is not bad *per se*, one has to recognise its great sensitivity in most societies.

One step towards including employment under the GATS would be to include existing foreign worker schemes under the GATS by scheduling them and then, as appropriate, rationalising and extending them. If current foreign worker schemes were scheduled, they would have to be bound, making them much less flexible for host governments. Given the absence of a safeguards mechanism in the GATS (and the likelihood that any safeguard would be essentially commercial in nature), and given that the general exceptions in the GATS do not mention internal security or social policy, this could be viewed as a profound political disadvantage. Some foreign worker schemes have an economic needs test as a sort of safeguard for labour market reasons and this could be added in other cases. Doing this, however, would be a step backwards, for it would introduce detailed administrative controls where none previously existed. All foreign worker schemes have quantitative limits but these would not be a major political problem in the current GATS; scheduling them would be straight-forward and would provide a very natural specie in which to conduct future negotiations.

With one exception, subjecting foreign workers to national treatment would not be particularly demanding. The exception is that governments would probably wish to place additional regulations on foreign workers to guarantee their temporariness. Thus, for example, rules requiring some of their pay to be deferred until they leave, or even excluding them from social security/insurance systems may have to be registered as exceptions to national treatment.

A much greater challenge in integrating foreign worker schemes into the GATS is the most favoured nation (MFN) rule. Many foreign worker schemes are bilateral and in many cases, the bilateral nature of the agreements reflects broad political or cultural objectives. Extending them would probably encounter resistance not only from the currently preferred sending countries, but also within the host countries¹⁵. Given the large pools of population outside the preferred regions, one could certainly anticipate strong changes in the sourcing of temporary workers if they were switched to a MFN basis.

Bringing existing schemes under the GATS could in the short-run, result in a lot of activity but no effective liberalisation. By obliging countries to be more explicit and less discriminatory in their barriers to trade, there is a serious danger of making their formal (bound) position less rather than more liberal than the pre-existing regime as the agricultural negotiation shown in the Uruguay Round. One of the developing countries' clear objectives in any Mode 4 agreement is additionality – i.e. a positive increment in the amount of mobility achieved.

There are many arguments for incorporating current foreign worker schemes into the GATS. First, the nature and conditions of foreign short-term workers schemes satisfy the substantive criteria for coverage by GATS. Second, being already in existence, the formalising of current schemes could not be argued to threaten labour market stability or to represent fundamental challenges to the right of a country to determine who can enter it. It does not require new concessions to be formulated.

¹⁵ Of course the same arguments applied over pre-GATT preferential trading arrangements in goods, and gave rise to the exceptions for customs unions permitted by the GATT's Article XXIV. However, the cultural argument was less powerful among host country residents in that case.

Instead of posting jobs and targeting potential short-term employees in specific countries, the opportunities would be open to all WTO members. National law and regulations governing the nature of work and the conditions applied to it – for example, its short-duration, the explicit commitment on arrival to return to the country of origin, the ban on changing employer, the numerical quotas etc. – do not need to be changed. Third, most of these programmes are not reciprocal. Many industrial countries, by agreeing to apply MFN to their existing short-term temporary foreign workers programmes, can expect concessions from other members of the WTO, who do not have similar programmes, at almost no mercantilist ‘cost’ to themselves. Despite these advantages, our suggestion is not to make integrating existing schemes a priority for GATS.

Sub-contracting schemes Sub-contracting schemes appear to us to offer considerable scope for inclusion and extension in Mode 4 negotiations, and our recommendation is initially to focus negotiating effort in this area so far as lower-skilled workers are concerned. First, there is no dispute about its inclusion in the GATS and appropriateness for negotiation. Second, with well-defined parties on both sides of the transaction – incorporated firms – the enforcement of the conditions imposed for mobility is much easier than it is for individual workers. The principal disadvantages of sub-contracting are that it is not appropriate for many service transactions, and by restricting itself to incorporated firms it restricts the potential set of services providers even further. Moreover, even if it is possible to provide a service by sub-contracting, doing so might be less efficient than other means of delivery; restricting mobility to firms would fail to exploit the full benefits available from services liberalisation. The appropriateness of sub-contracting depends on the definition of sub-contracting – specifically, we argue that sub-contracted labour should be able to be managed and directed by host country managers.

On the con side, sub-contracting can be an inflexible way of providing services even where it is feasible. The sub-contracting firm has to be approved by the host authorities, and if approval is conditional, any change in its operations will need approval. This is a bureaucratic burden, but much more important, it reduces the contestability of markets. One common condition for sub-contracting is prior employment with the sub-contracting firm. This pre-employment requirement is

intended to ensure that the individuals concerned are genuinely attached to a well-defined undertaking to which they can return and which, if necessary, can guarantee their return after the completion of the project. Pre-employment requirements also apply to intra-corporate transferees and so there is some existing well-defined practice in this area. However, certainly pre-employment would be a major burden for firms set up largely for the purpose of exporting, for it would involve periods of low or zero productivity home.

Despite its flaws, concentrating on sub-contracting as a means of effecting Mode 4 concessions could offer substantial economic benefits to developing country exporters. It offers the greatest chance of extending Mode 4 to lower-skilled workers: it responds to most of the developed countries' concerns about ensuring the exit of temporary workers at the end of their terms of service provision. Overall, we judge that it is best to follow this line of least resistance to reap some early gains and achieve some dynamic in Mode 4 negotiations. If successful attention could then be switched to employment schemes.

Some General Considerations for TMNP Any TMNP will, at first, involve quotas. The easiest way is first-come first-served, with mobility ceasing once the quota has been exhausted. Logically one would apply the quota to the stock of workers since that is what governments wish to control. Hence, once the quota was full, governments would issue new licences in a period only to the extent that old ones had been turned in during the previous period. An alternative would be to ration admittances and rely on exit-enforcement to ensure that the stock of foreign workers did not become 'too large'. Winters *et al.* (2003) give detailed discussions on the problems and solutions of allocating and trading quota.

A second issue is security clearance for potential entrants. This would have to be the same process as applied to permanent migrants and be wholly separate from obtaining a GATS entry license – both security clearance and a GATS license would be required for entry to provide services. The need to obtain clearance obviously generates uncertainties for service providers, but these are not much different from those currently facing many travellers who have to obtain airline tickets before applying for their visas. If GATS labour mobility is to work, however, it is necessary

that security clearance be reasonably reliable and speedy, and it is not be captured for protectionist purposes. Authorities should be explicit about what is required for security clearance and ensure that it is applied even-handedly across professions and skill-levels.

Turning to the WTO dispute settlement, it is both a blessing and a curse. For demanders of their rights it appears to offer a reliable and powerful enforcement mechanism, quite beyond anything else in the multilateral system. For other parties, however, the WTO system looks less attractive, bringing essentially legal processes and criteria into sensitive areas where ultimately respect for national sovereignty and political solutions should preside. It is a major concern to such people that, with the near impossibility of adjusting its rules to reflect changing circumstances and perceptions, legalism could lock the WTO into an impasse. Some commentators have argued to us that Mode 4 has precisely the capacity to leave the WTO so stranded out of its depth. The appropriate province of the WTO DSM in Mode 4 we argue seems likely to be restricted to the application and design of ‘economic regulations’ such as the details of economic needs tests or of changes in the recognition procedures. The DSM should help to ensure that commitments are adhered to and agreed norms respected. One area that has raised concerns unnecessarily is whether host countries could take DSP action against home countries whose residents overstayed their visas or licenses. This is a matter between the host country governments and the private agents involved – the workers concerned and any bonded private employment agencies. There is no case for home country governments to answer and should not be subject to WTO DSM.

Perhaps the most sensitive issue in Mode 4 liberalisation lies in the practical operation or implementation of temporary movement. It is beyond the scope of this paper (and the skills of the authors) to discuss how to design an effective tracking system. But we do recognise that it is a key issue, not least because without it, it will be hard to convince immigration officials that Mode 4 does not undermine border integrity or labour officials that it does not undermine labour law or local job markets. The German sub-contracting schemes are instructive in several ways. First, they involve fairly rigorous investigation of sites where temporary workers are likely to be employed to locate transgressors. Second, they place an enforcement responsibility on

local companies – the beneficiaries of cheaper services provided from abroad. Third, they also require the overseas (sub-contracting) firm to ensure the exit of their workers. Fourth, at least at first, part of the payment was withheld until the workers returned home.

A common regulation in many foreign worker programmes is that foreign workers must be paid the prevailing local wage rate when they temporarily work in a developed country¹⁶. Paying prevailing local wages on temporary foreign workers is a one-stone-two-birds measure. It is intended to protect local workers from wage erosion and, presumably, to sweeten the pill of foreign competition, while, at the same time, it serves to protect foreign workers from being ‘exploited’. The problem of imposing a minimum wage/price is that it clearly reduces the potential volume of, and benefits from, trade. The principal losers are host-country consumers, but such regulations also prevent developing countries from exploiting their comparative advantage. In particular, given the difficulties of finely classifying occupations and subtle differences in skills, wage parity could become a total block on imports. ‘Wage parity’ is not a policy that commends itself in economic terms – almost no price fixing measure does – but it has a robust and pragmatic political and social appeal. As we enter the nearly uncharted waters of Mode 4 liberalisation we would not seek to counter it, but we do recommend revisiting it in the medium term.

Procedural issues

Finally, we discuss briefly four procedural issues that need solution if TMNP is to effectively liberalised: social security contributions; the classification of occupations; the recognition of qualifications and certification; and the codification of economic needs tests.

All developed countries that have temporary foreign worker programs collect social security contributions from foreign temporary workers¹⁷. Temporary workers do not, however, establish entitlements to social security benefits. For example, in the

¹⁶ Wage parity is not a requirement that foreign workers be paid the local minimum wage – a much less intrusive policy. It is that they be paid the wage prevailing in their sector.

U.S. for a person to receive social security he/she must work for 10 or more years, which obviously precludes temporary workers. We would argue that short-run social programmes (health) and long-run social protection should be separated for temporary foreign workers. Host governments could then legitimately insist that service providers are fully insured for work-related accident and health before they can enter the country. Long-run social protection could then be handled by refunds or perhaps by requiring employers or users of overseas contractors to fund the workers' social security contributions at their home rates.

“Excessive” social security taxes are effectively tariffs on the provision of services via Mode 4, and as such candidates for liberalisation. However, tariffs are more transparent and porous than non-tariff barriers such as numerical quotas and worker licensing procedures. Experience in the goods market suggests that non-tariff barriers are more costly than tariff barriers and hence should be higher priorities for liberalisation.

Without clear definitions of occupations and related skills levels, regulatory authorities have huge discretion in deciding what constitutes a specialist (and, presumably, in changing the definition according to political/labour market pressures). These problems reduce the transparency and credibility of commitments and ultimately discourage countries from negotiating in this area. Two steps are required: (a) uniform definitions and coverage of service personnel categories; (b) the agreed list should include middle and lower level of professionals. There is much to be said for merely adopting the existing ILO's list. This would save time and effort and would also avoid the temptation to design the classification in a fashion that permits powerful players to make carefully targeted carve-outs in the very places where liberalisation would be most effective.¹⁸

In addition to technical standards and licensing requirements, domestic practices and policies regarding professional and technical qualifications can severely restrict the ability of natural persons to move across borders to deliver services. It

¹⁷ Some of them also collect income tax from visitors and many of the same considerations apply in this case too.

would clearly advance the cause of TMNP greatly if these frictions could be overcome. Given governments' fiduciary responsibilities for ensuring the quality and safety of many services, this will require careful case by case work to define levels and match the current ranges of formal qualifications, skills and experience to them. It is essential to find a way to recognise that countries vary substantially in the degree to which they rely on formal academic qualifications as opposed to on-the-job training and experience in defining suitable qualifications.

Economic needs tests are like import substitution measures designed to encourage domestic service suppliers by limiting market access for foreign service providers. At present, the wording of economic needs tests is vague and each country tends to have its own interpretation. Effective liberalisation in Mode 4, requires that members must agree to develop a common code of practice for economic needs tests (as suggested under the EU proposal) with the objective of rendering them specific, transparent and non-discriminatory, defining their application criteria.

For the long run we would certainly recommend abolishing all economic needs tests, and not so much because that will help developing countries as providers of temporary labour but because it will help them as recipients. Given the sensitivities and difficulties of liberalising Mode 4, we do admit that complete liberalisation of Mode 4 is a very long-term objective and economic needs tests may serve as a step along the path.

7. Conclusion

The very heart of international trade, be it in goods or in factors, lies in exploiting differences. The larger the differences, the larger the potential gains from opening up international trade. In the case of the TMNP under the GATS, potentially large returns would be feasible if medium and less skilled workers, who are relatively abundant in developing countries, were allowed to provide their services in developed

¹⁸ Trade scholars are well aware of the way in which tariff schedules tend to become excessively detailed in the most sensitive sectors.

countries. Empirical studies of factor mobility show large potential economic gains from increased labour mobility and our estimates show over \$150 billion per year from increased mobility into developed countries equivalent to just 3% of the their current labour forces.

To balance the large economic gain with the various concerns in developed countries, and recognising the political sensitivity of the issue, we propose that under mode 4 negotiations developed countries should give immediate consideration to:

- new sub-contracting schemes to include lower-skilled service providers,
- uniform definitions and coverage of service personnel categories and expanding the coverage to include middle and lower skilled workers and professionals,
- explicitly keeping security issues quite separate from those of economic management,
- accelerating the mutual recognition of qualifications,
- codifying of economic needs and,
- separating short and long-run social security contributions.

Developing countries could usefully make "concessions" in these areas as well, but in addition they should also further liberalise access for intra-corporate transferees and business visitors.

In the longer run, the further liberalization of Mode 4 should aim at:

- confirming that the GATS does cover employed-based service providers and liberalising these schemes as well,
- abolishing economic needs tests, and
- addressing the wage-parity issue in a way that recognises the comparative advantage of developing countries.

• **Table 1: Economic Welfare, \$US billions**

Regions	II Welfare of temporary workers	III Welfare of temporary migrants	IV Welfare of permanent residents ^b	V Welfare of home region III + IV	VI Welfare of host region II + IV
Developed Countries	175.96	68.58	6.98	75.56	182.94
Developing Countries	-5.00	98.98	-20.69	78.30	-25.69

Source: Authors' simulations

Table 2: Percentage Changes^a

I Regions ^b	II % change in Real Wage of Skilled Labour	III % change in Real Wage of Unskilled Labour	IV % Change in Rental Price of Capital	V % Change in Real GDP ^c	VI % Change in Terms of Trade
Developed Countries	-1.02	-0.61	0.78	1.05	-0.24
Developing Countries	5.13	0.12	-0.52	-0.91	0.53

a. Percentage changes in variable from base case.

b. Weighted averages of results for the regions distinguished in the model – weights are skilled workers, unskilled workers, GDP, GDP and GDP respectively for columns II-VI.

c. Readers are reminded that Real GDP is not a measure of welfare. Real GDP is a measure of production, while welfare is a measure of the utility achieved from consumption, which depends among other things, on remittances received.

Source: Authors' simulations

Table 3: Skilled VS Unskilled Liberalisation, \$US billions

I Region	II Welfare of permanent workers (unskilled ^a)	III Welfare of permanent workers (skilled ^b)	IV Welfare of temporary migrants (unskilled ^a)	V Welfare of temporary migrants (skilled ^b)	VI Welfare of home region (unskilled ^a) II + IV	VII Welfare of home region (skilled ^b) III + V
Developed Countries	6.86	0.12	50.59	17.99	57.45	18.11
Developing Countries	13.10	-33.79	37.68	61.31	50.77	27.53

a. This is the welfare of the whole population when only quotas on unskilled workers are relaxed.

b. This is the welfare of the whole population when only quotas on skilled workers are relaxed.

Source: Authors' simulations

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