

Market Access Commitments under GATS and Export of Business Services: Some Implications for Developing Countries

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Abstract

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The paper is divided into 8 sections. Section 1 outlines the objectives of GATS and the major issues in service trade from the perspective of developing countries. Section 2 describes some conceptual issues in business services. Section 3 provides an overview of developing countries' export of business services. Section 4 presents major aspects of specific commitments under GATS for "market access" in business services especially those of horizontal offers of member countries. Section 5 deals with sectoral offers under GATS in professional business services. Section 6 examines sectoral offers under GATS in "other business" services. Section 7 looks into the impact of specific commitments on export of business services from developing countries and Section 8 discusses some relevant issues in export of business services under the new trading system of WTO.

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The paper is divided into 8 sections where *Section 1* outlines the objectives of GATS and the major issues in service trade from the perspective of developing countries; *Section 2* describes some conceptual issues in business services; *Section 3* provides an overview of developing countries' export of business services; *Section 4* presents major aspects of specific commitments under GATS for "market access" in business services especially those of horizontal offers of member countries; *Section 5* deals with sectoral offers under GATS in professional business services; *Section 6* examines sectoral offers under GATS in "other business" services; *Section 7* looks into the impact of specific commitments on export of business services from developing countries and *Section 8* discusses some relevant issues in export of business services under the new trading system of WTO.

Section 1

GATS and Developing Countries

The Doha round of multilateral trade negotiations at the World Trade Organization (WTO) is fast approaching. One Agreement, which is of immense significance, is General Agreement on Trade in services (GATS) which covers services related to critical infrastructure like telecommunications, computer software, banking, insurance, health, tourism, transport and business. Given the GATS framework this paper examines scope for export of business services by the developing countries. The study is based on market access commitments under GATS signed by 94 member countries (including The European Communities and its constituent countries as one) of WTO. The study concludes that there is a long way to go towards liberalisation under GATS, for having meaningful implications for developing countries, which export business services.

The Final Act of the Uruguay Round, the most comprehensive of eight rounds of GATT negotiations, aimed at "progressively higher levels of liberalization and growth in world trade". The Final Act covered diverse topics such as agriculture, textiles, intellectual property, trade related investment measures, anti-dumping measures, subsidies and countervailing measures and trade in services. With trade in services included for the first time in multilateral negotiations, exports of which are around 25 per cent of world export of goods, GATS is just the beginning of progressive liberalization of trade in services.

GATS has three main pillars to rest on.

- * The first pillar is the Framework Agreement which contains basic obligations applicable to all member countries.
- * The second pillar is that of national treatment and national schedules of commitments on market access.
- * The third pillar constitutes a number of annexes and attachments on special situations of individual service sectors.

As per sectoral classification list of services of GATT Secretariat (1991) services have been classified into the following: business services, communication services, construction services, distribution services, educational services, environmental services, financial services, health-related and social services, tourism and trade-related services, recreational, cultural and sporting services, transport services and other services.

Not all sectors of services were covered by the multilateral negotiations of the Uruguay Round. Negotiations in some of the areas proved to be difficult such as financial services, movement of natural persons, maritime services, professional services and GATS rules regarding emergency safeguards, government procurement and subsidies for services. Negotiations on basic telecom services were concluded in February, 1997.

Right from the inception of the GATT-Uruguay Round, there were clear areas of disagreement between the developing and developed countries which have become all the more pronounced in recent years. One grey area of trade in services is the 'right of establishment' which serves the interest of the developed countries and the 'right to movement of labour' which the developing countries perceive to be advantageous. For the

latter, the Annex on movement of natural persons has been included in GATS, though not very effectively, since commitments for entry of mainly higher category of personnel have been undertaken thus overlooking the natural advantage of developing countries in movement of medium and low skilled personnel. Since the Uruguay Round, the areas of divergent views between developed and developing countries have widened over a range of issues including issues such as trade and investment, trade and competition policy, government procurement and labour standards where three working groups were set up by WTO for the first three set of issues while the last one was left to ILO. The present paper examines selected issues in business services, the position of developing countries in export of business services and the future patterns emerging from the specific commitments on business services as negotiated in the GATS.

Section 2

Conceptual Issues In Business Services

Countries, across the globe, are increasingly realising that knowledge is the route to power and ways of acquisition of knowledge and its effective utilisation are major issues in global trading and wealth creation. The key to success in today's global environment is neither capital nor technology, it is essentially knowledge and the art of applying that knowledge. Knowledge and skills are integral parts of business services and with advancement in industrial, agricultural and service sectors, demand for new and sophisticated business services are getting created for purposes of production, consumption and market-clearing activities. Such business services which arise in conducting any business are of different kinds and originate from two main sources. One source is that of delivering knowledge, skill and technology-intensive services while the other is that of renting/ leasing/ contracting real estate/property/capital goods/material assets, such as leasing of cars, air crafts, ships etc. The former category of delivering knowledge, skill and technology-based expertise originates from human resources. Such expertise are delivered by semi-skilled, skilled and highly skilled professionals, technical, managerial, research and other personnel.

Those business services which are knowledge, skill and technology-intensive have production costs covering investment in creating knowledge, skills and acquiring technology. Such business services are heterogenous by nature and have two distinct aspects of investment, where one relates to that of fixed-cost and the other is that of public-good. Investment in knowledge, skills and technology is like fixed-cost where a firm having learnt to produce one unit of a service can apply such learning to produce an indefinite number of service without incurring any additional cost¹. The third related aspect of such services, apart from knowledge and skills is technology which brings about important changes in production of such services, in their mode of delivery and transmission.

Some categories of business services, which are knowledge and skill-based facilitate production and/or consumption while others do not directly add to utility but rather serve to facilitate market clearing or distribution of goods and services (Melvin:1989). Those business services which facilitate production and/or consumption can be further sub-divided into three groups, namely, those that are producer-oriented, for instance, accounting and book-keeping services; those that are consumer-oriented, for example, medical and dental services; and those that are distribution-oriented services such as advertising services.

As per Group on Negotiations on Services (GNS:1991) of the GATT-Uruguay Round, business services cover a wide range of services such as (a) professional services (b) computer and related services (c) research and development services (d) real estate services (e) rental/leasing services without operators and (f) "other business" services. As pointed out earlier, the present paper, essentially covers trade in two kinds of business services, professional and "other business" services.

Section 3

Developing Countries' Export Of Business Services

With a domestic base of educated, skilled and semi-skilled human resources of diverse kinds, many developing countries possess a wide base for exploiting the frontiers of tradable business services and other services (Mukherjee: 1996a,1996b). Although the industrial countries are the dominant exporters of business services, the developing countries have tapped small markets of their own in global trade of such services. As percentage of total service trade, business services constitute one of the important tradable services of developing countries as shown in Table 1, for selected developing countries, included in three groups having high, medium and low shares of business service exports in their total service exports. Some countries which export a wide range of business services include Brazil, Guatemala, India, Malaysia, Philippines, Singapore, Thailand and others.

The developing countries provide business services by different modes of delivery, such as,

- movement of consumer from one country to another to avail of foreign services, for instance, medical services;
- movement of producer from one country to another to export services as in the case of lawyers travelling abroad to provide legal services;
- commercial presence or setting up of establishment in a foreign country like an engineering firm offering engineering services;
- cross border trade eg., software in a floppy, business report, computer to computer transfer; and
- a combination of different modes of delivery.

Table 1
Average Share Of Tradable Business Services In Total Service Trade: Selected Developing Countries, Period:1995-99

Developing Countries	Business Service Receipts as % of Total Service Receipts	Business Service Payments as % of Total Service Payments
High Share (over 50 %)		
Malaysia	51.5	52.4
Philippines	72.6	62.1
Medium Share (over 20 % and under 50 %)		
Chile	32.4	23.0
Bangladesh	23.6	12.6
Bolivia	30.5	19.7
Guatemala	38.4	29.4
India	45.7	36.5
Nepal	45.3	23.6
Pakistan	30.4*	11.8*
Sri Lanka	28.9	25.0
Low Share (below 20 %)		
Argentina	11.2	20.6
Bolivia	10.1	7.3
Burundi	12.1	6.0
Indonesia	2.4	48.4
Maldives	0.9	9.5

Source: estimated on the basis of data from IMF's *Balance of Payments Statistics, Yearbook, 2000*.

Note: Grouping of countries into high, medium and low shares are based on their individual export-share of business services in their total service exports. * indicates data for Pakistan related to 1995-98.

Modes of delivery which are relatively important for developing countries are movement abroad of skilled and semi-skilled personnel from developing countries to deliver such services and consumption of services abroad by foreign firms and individuals visiting developing countries.

Table 2
Dimensions Of Service Sector And Business Services: Selected Developing Countries

Column 1	Column 2	Column 3	Column 4	Column 5	Column 6
Country	GDP (1998) (billions of US \$)	Services (as % of GDP 1998)	labour force in services 1992	Service exports (as % of GDP 1998)	Business service exports(as % of GDP 1998)
Argentina	298.1	65.6	53	1.6	0.1
Bangladesh	42.7	49.9	28	1.7	0.2
Bolivia	8.6	55.9	34	2.9	1.02
Botswana	4.9	50.4	61	5.2	0.45
Burundi	0.9	29.5	6	0.9	0.11
China	959.0	32.9	13	2.5	0.94
Chile	78.7	62.2	55	5.2	1.6
Costa Rica	10.5	60.5	48	12.8	2.03
Guatemala	18.9	56.8	32	3.4	0.94
India	430.0	45.9	20	0.3	0.15
Mexico	393.5	68.4	48	3.01	0.7
Morocco	35.5	51.4	29	8.0	1.03
Nepal	4.8	37.3	6	11.8	3.83
Pakistan	63.4	48.9	33	2.6	0.82
Philippines	65.1	51.5	39	11.5	8.8
Singapore	84.4	64.6	65	22.4	11.2
Sri Lanka	15.7	51.4	30	5.8	1.6
Thailand	111.3	47.7	22	11.8	3.8
Venezuela	95.0	61.0	62	1.54	0.1

Source: Estimated from *Human Development Report*, UNDP and *Balance of Payments Statistics, Yearbook*, IMF, 2000.

Service sector is quite prominent for many developing countries, as shown in Table 2, both as percentage of their gross domestic product (GDP) and with reference to the percentage labour force employed in such a sector. Columns 5 and 6 of Table 2 show that many developing countries are not only engaged in exporting services but also in exporting business services² which are expressed as percentage of their respective GDPs.

Such business services originating from developing countries are produced by skilled and semi-skilled individuals, firms, research bodies, banks, universities, public sector, governmental and non-governmental organizations. Much of export of business services arise due to manufacturing, agriculture and mining-related activities, development projects, infrastructure and energy-related activities, wherever such activities take place. Provision of such tradable services are both in discrete units and lumpsum, with some enterprises offering discrete services like auditing service or services for search for personnel, while others doing lumpsum business involving total consultancy of a project from its conceptualizing to commissioning.

As pointed out earlier, the coverage of the present study is in terms of those business services which are technical, non-technical and professional services. Instances of technical services exported by developing countries relate to agriculture and natural resources, dams and irrigation engineering, energy, oil and gas, industry, telecommunication engineering and networking, maritime, mining, minerals and metals, town planning and building, environmental engineering and others. Non-technical services include socio-economic studies, management systems, financial evaluation and planning, family welfare and hospital management, project management, investment planning and feasibility studies etc. Instances of professional services exported by developing countries include legal services, auditing services, accounting services, architectural services etc.

Do Developing Countries Have Comparative Advantage In Business Services?

One relevant issue regarding trade in business services is whether developing countries enjoy revealed comparative advantage in such exports given the labour-intensity of many business services. For estimating revealed comparative advantage of developing countries vis-a-vis industrial countries, I have used the market share approach³ as shown in Table 3 comparing such advantage over a period of five years by applying Balassa's formula (1964) of revealed comparative advantage for tradable commodities. Since data for total business services are not published as a separate item, I have taken balance of payments data on "other services" which includes business services as the major item, apart from services like construction, insurance etc. The estimates of revealed comparative advantage, as given in Table 3, indicate that such advantage of industrial countries in "other services", although at a higher level, has declined considerably over 1993 and 1994. For developing countries, the estimates show that, as a group, such countries enjoy revealed comparative advantage in "other services" which has registered a general increase over 1991-94. As shown in Table 3, the bigger is the 'Qosi', the higher is the comparative advantage. This is a relative number estimated for a country or country-group and becomes meaningful only when compared with other similar indices arrived through the same formula.

Comparatively speaking, advanced economies are better placed as exporters of skill-intensive services rather than as exporters of labour-intensive goods. Such growth of skill-oriented services is reflected in professional and other business services which are growing at a fast pace in the industrial countries. Apart from skills, information technology is another factor contributing towards the comparative advantage of advanced economies as providers of business services. Such services make large use of new information technology which is a major factor influencing the way such services are produced and consumed. Country-specific historical and regulatory factors is another factor for explaining trade patterns in such services⁴.

Table 3
Revealed Comparative Advantage In Business Services

Year	Revealed Advantage of Developing Countries	Comparative of Developing Countries	Revealed Advantage of Industrial Countries	Comparative of Industrial Countries
1988	100.00		100.00	
1989	101.11		100.83	
1990	101.34		97.00	
1991	104.06		116.66	
1992	101.70		116.92	
1993	104.77		106.91	
1994	103.83		106.71	

Source: Estimated on the basis of data from IMF's *Balance of Payments Yearbook*, 1995.

Note 1: "Other services" include business services as the main category and, in absence of disaggregated data, on total trade in business services of developing countries, 'other services' have been used for estimating revealed comparative advantage of country-groups in business services. The other main category of service trade as given in *Balance of Payments Statistics Yearbook* of IMF (1995) are transportation, travel and government services, not included elsewhere.

Note 2: The estimates of revealed comparative advantage are based on the formula,

$$Qosi = \frac{\text{Vosi (current year)}}{\text{Vosi (Base year)}} \dots\dots(i)$$

where, 'Qosi' is the revealed comparative advantage of a country-group 'i' in 'other services' denoted by 'os' and 'Vosi' is the market-share of country-group 'i' in 'other services' 'os'. 'Vosi's are estimated through the following formula,

$$Vosi = \frac{\text{Xosi/ Xtsi}}{\text{Mosr/ Mtsr}} \dots\dots(ii)$$

where, 'Xosi' is export of 'other services' or 'os' by country-group 'i', 'Xtsi' is total export of services or 'ts' of country group 'i', 'Mosr' is import of 'other services' or 'os' by rest of the world denoted by 'r' and 'Mtsr' is the total import of services or 'ts' by rest of the world denoted by 'r'.

However, some services require inputs which are labour intensive as in case of many types of business services, hotel operations, tourist services, operations in construction and engineering services, shipping operations, data processing, input and software production, banking operations (OECD:1989). The source of competitiveness for many developing countries in business service exports is associated with labour-intensity which reflects comparative advantage which can be fully realised only through a process of trade expansion.

Section 4

Specific Commitments In "Market Access" For Business Services

In this section and the following three sections, specific commitments, of member countries in GATS have been examined from the point of view of exporting business services from developing countries. As explained by GATS, a specific commitment in a service schedule is an undertaking to provide market access and national treatment for the service activity in question on the terms and conditions specified in the schedule. The national schedules of specific commitments of member countries of WTO, appear in a standard format, indicating presence or absence of limitations on market access, national treatment and any other additional commitments⁵. In the service schedule, specific commitments are mostly of two kinds⁶, one is the set of "horizontal" commitments which applies across all sectors for all modes of delivery of services. The other set is that of "sectoral" commitments which relate to particular sectors or sub-sectors of service trade.

Scanning of the horizontal commitments of a sample of 85 member countries⁷ (including The European Communities and its constituent countries as one of WTO) show that stringent requirements and conditions have been placed especially for accessing markets through movement of foreign service providers. The market access limitations have been described mostly, for two modes of delivery, one is that of setting up establishment in foreign countries and the other is that of movement of foreign service providers. Although both the modes of delivery have direct implications in terms of exporting business services from developing countries, the latter mode is of greater importance than the former reflecting their comparative advantage. The horizontal commitments with regard to movement of foreign service providers, in general, portray the following picture.

With regard to the magnitude of foreign service providers, some countries through their horizontal commitments have specified limitations on such "magnitude". Such limitations are mostly in terms of quantitative and administrative restrictions like specifying ceilings and floors, administrative approval for additional numbers, specification of quota and other restrictions. Apart from "magnitude" considerations, most countries have allowed entry of merely two groups of natural persons, one is that of intra-corporate transferee (ICT) while the other is that of business visitor. ICT, mostly includes, higher-level executives, managers, senior personnel, professionals etc. The duration of stay of foreign service providers have also been specified where, four groups have been included, namely business visitors, intra-corporate transferees, professionals and specialists. Many countries agree on a 90-day period of stay for foreign business visitors for setting up of commercial establishment, while, the duration of stay for ICT ranges from less than one year to four years and above.

Different conditions of entry for foreign service providers have also been specified in the horizontal commitments, such as legal and administrative requirements for employment, employment restrictions favouring domestic personnel, application of labour market test, economic needs test, non-availability test of domestic personnel etc. In many countries, academic and other requirements are also obligatory for foreign service providers for accessing markets. Such requirements are in terms of academic credentials, internationally recognized professional qualifications, full licensure requirement, specified experience etc.

Section 5

Sectoral Offers In Professional Business Services

After having an idea of what the horizontal commitments portray, scanning of sectoral commitments of 85 member countries of WTO, as in Table 4, show that only 53 members (including The European Communities and its constituent member countries as one) of WTO⁸ have made sectoral offers in professional business services.

Table 4
Sub-Sectoral Commitments Of WTO Member Countries In Professional Services
Under GATS

Professional Services	No. of offers
Engineering services	44
Accounting, Auditing & Book-keeping services	43
Architectural services	37
Legal services	35
Taxation services	29
Integrated Engineering services	24
Urban Planning & Landscape services	23
Medical & Dental services	23
By Veterinary surgeons	14
By midwives, nurses, physiotherapists etc.	8
Total no. of WTO member countries* making offers	54

Note: *including The European Communities and its constituent Member countries as one.

Source: Based on individual country schedules of specific commitments, GATS, WTO, Geneva.

Amongst the professional sub-sectors, not all of them have been opened by the countries concerned as shown in Table 4. A few member countries have made commitments across a range of professional sub-sectors, (making offers in most of them or all of them) as compared to many others which have opened only a few sub-sectors of professional services. The highest number of offers numbering 44 have been made in engineering services, followed by 43 offers in accounting, auditing and book-keeping services as shown in Table 4. Services requiring lower level of skills such as services by mid-wives, nurses etc. have received the lowest number of offers as compared to those professional services which involve higher levels of skills such as engineering services, accounting and auditing services etc. The sectoral offers in professional services are guided by both sectoral and horizontal limitations, especially for two modes of delivery,

namely, *movement of foreign service providers* and that of setting up establishment by foreigners.

Of the 53 member countries undertaking offers in professional services, many have imposed sectoral barriers for accessing their markets. Let us take the example of professional legal services. The first aspect of sectoral commitments of the 35 country-offers in legal services is to do with the coverage of sub-sectors. Not all sub-sectors have been included for market access by the member countries concerned. Apart from limited coverage, there are other sectoral barriers to market access relating to specific technical standards, professional requirements, local requirements etc. For instance, in case of legal services which include representation of clients in civil and criminal courts, legal consultation, advice, negotiation and preparation of legal documents, market access offered by many member countries relate mostly to areas like foreign and international law. In countries like Turkey and Hungary, market access has been offered only in legal advisory services. Japan requires a non-resident service supplier to look for advice from qualified domestic lawyers whereas, in case of United States, sectoral commitments vary from state to state where some states permit foreign legal consultant to practice host-country law, third-country law and use of firm name while, other states of United States do not have such provisions. The point made here is that there are a host of barriers created for restricting movement of foreign service providers.

Section 6

"Other Business" Services And Sectoral Offers

World trade in "other business" services is technical as well as non-technical. The non-technical ones include advertisement services, market research and public opinion, management consulting services and related services, placement and supply of service personnel, investigation and security services, and convention services. While, technical services include technical testing and analysis services, services associated with agriculture, hunting, forestry, fishing, services incidental to mining; services associated with manufacturing, services related to energy distribution, services for maintenance and repair of equipment and others.

"Market Access" Offers In "Other Business Services" Under GATS

Of the sample of 85 countries, 49 members (including The European Communities and its constituent countries as one) of WTO⁹ have undertaken market access offers in "other business services" as shown in Table 5.

Table 5 shows that the highest number of offers lies in the area of management consulting services which are 38 in number. Those 38 member countries which have liberalized management consulting services include Latin American countries like Brazil, Mexico, Argentina and Venezuela, East Asian countries like Thailand, Korean Republic, Malaysia, Singapore, African countries like South Africa, selected countries of East Europe and the industrial countries including the European Communities.

Table 5
Sub-Sectoral Commitments Of WTO Member Countries In "Other Business" Services

Sub-sectors	No.of Offers
1. Advertising services	33
2. Market research, public opinion	32
3. Management consulting services	38
4. Services related to management consulting	24
5. Technical testing & analysis services	21
6. Services incidental to agriculture, hunting & forestry	26
7. Services incidental to fishing	19
8. Services incidental to mining	22
9. Services incidental to manufacturing	11
10. Services incidental to energy distribution	6
11. Placement & supply of services of personnel	14
12. Investigation and security	11
13. Related scientific & technical consulting	23
14. Maintenance & repair of equipment	23
15. Building-cleaning services	24
16. Photographic services	19
17. Packaging services	17
18. Printing, publishing	17
19. Convention services	18
20. Other services	19

Source: Country schedules of specific commitments, GATS, WTO, Geneva

Offers in management consulting services are closely followed by 33 offers in advertising services and 32 offers in market research and public opinion. The horizon of management consulting, advertising services and market research services are expected to grow exponentially as a result of new market opportunities that have been created through the "market access" offers in GATS. However, services related to energy distribution have offers from only 6 members which are the smallest number of offers for any sub-sector of "other business" services.

The industrial countries are relatively more open as far as the offers on business services are concerned. Most developing countries have made limited market access commitments in professional services. One reason for such differential approach may be

attributed to gradual liberalization of selected sectors and sub-sectors which constitute their priority sectors and in which liberalization is perceived to be worthwhile. Such reasons may be on account of efforts being undertaken for indigenous capacity building in selected priority sectors and not undertaking liberalization of those sectors which are not of priority considerations. Such priority considerations may be determined by the nature of industrial growth, domestic demand for services and foreign exchange considerations which is often the case for managing balance of payments problems.

Section 7

Impact of Specific Commitments under GATS

As a consequence of implementation of the specific commitments in GATS, different kinds of impact are expected on developing countries' export of business services. Some of them are indicated below.

Level Impact

Movement of skilled and semi-skilled personnel from developing countries will be adversely affected, especially those which do not involve higher levels of personnel. This, in turn, will directly restrict mass movement of labour from developing countries for providing business services abroad, which, in turn, will lend its impact on levels of employment, workers' remuneration, standards of living, migrants' remittances etc. Flow of higher levels of personnel, mostly from the industrial countries will, however, continue since, provisions have been made mainly for movement of higher levels of skilled personnel for accessing markets as service providers.

Impact On Labour Market

For developing countries, migrant labour market would shrink in size. Criteria like economic needs test, labour market test and similar other requirements will have major impact on the potential of exporting business services through movement of labour. Application of economic test as adopted by selected countries in their horizontal commitments, does not describe a scientific way of applying the same and hence it is not that transparent. In this context, UNCTAD (1995) suggests that barriers to trade in the form of economic needs test can be reduced if their scope is reduced by making fewer occupational categories subject to the test. Apart from this, labour, technical standards and other requirements in specific commitments is likely to hinder movements of service providers from developing countries unless alternative arrangements are made by them to cater to such requirements. Such arrangements are not that easy to bring about. In addition, requirement to set up establishment in host country for movement of labour and "nationality requirement" will act as barriers for many providers of business services from developing countries. Only a few countries¹⁰ have revised their offers for qualified professionals to have market access, in an individual capacity, on temporary assignments, without the requirement of commercial presence in the concerned host country.

Impact On Mode Of Delivery

As a result of specific commitments, mode of delivery of business services would become oriented towards higher levels of technology. This implies that cross border trade as a mode of delivery will gather momentum due to restrictions on movement of personnel. All those countries and their business service personnel would be adversely affected which are unable to adjust quickly to appropriate mode of delivery for exporting business services.

Technology Impact

Selected sub-sectors of business services which are relatively labour-intensive will be affected as a result of GATS commitments. By restricting movements of skilled and semi-skilled labour, the implications of specific commitments are less towards labour-using technologies and more towards hi-tech labour-displacing technologies. The move is towards labour skill-displacement technology through increased mechanization and high technology adaptation which would help in both reducing the number of personnel required and in exporting many business services through latest communication technology. Such a development will adversely affect labour movements from developing countries in the area of business services, amongst others. Ways to limit damages from such development need to be identified through further research into the extent of such damage.

Sectoral Impact

Those business services which involve higher levels of knowledge and skills such as management consulting services, advertising services, market research and public opinion have greater number of countries undertaking sectoral commitments. This also indicates unfavourable implications for those business services which involve lower levels of skills in which developing countries contribute in large numbers. Examples of such business service providers can be found in nurses, mid-wives, technicians and numerous other similar professions.

Balance Of Payment Impact

As shown in Table 1, for many developing countries, business service exports are a significant component of total service exports. These countries would be adversely affected in terms of their prospects for gains from business services. Many of them have opened their business service sectors which again implies that imports on such account would rise whereas, exports, atleast, in the short and medium run, would tend to shrink as a result of specific commitments. Some of the migrants' remittances would also get affected, from the WTO member countries once implementation of GATS catches up. For many developing countries trade in services is a net deficit area which would get accentuated in addition to that on merchandise trade. Other conditions remaining the same, this would have unfavourable impact on current account balance, exchange rate movements, foreign exchange earnings etc. However, this would indirectly contribute to quality upgradation of other sectors which would use such imported business services either for improving domestic production and/or for improving quality of exports.

Concentration In A Few Hands

With restrictions on modes of delivery such as movement of personnel and sectoral restrictions, only those multinational firms would find bigger business which are already in the game, possessing highly skilled personnel, high levels of technology and can operate across a wide market. In the real world, global market in business services involving professional expertise is dominated by six foreign firms¹¹, who between them account for 80 percent of the business. These firms have the major advantage of international expertise, access to global information, price flexibility and aggressive marketing strategies¹². International business services which were 673.7 billion US dollars in 1991 in 1995 dollars are estimated to be 810.5 billion dollars¹³ in 1996. Market coverage of the foreign firms in business services would go up under the new trading arrangements and global business power would get concentrated in a few hands, rather in a few giant multinationals from industrial countries which need not lead to the most efficient trading system in business services and not the least towards multilateral trade in services.

Section 8

The Global Competitive Environment & Developing Countries

There exists fierce competition from the industrial countries in the sphere of business services. In such a service sector, the industrial countries have a wide range of business expertise and given the high levels of unemployment in their labour markets, the competition from professionals of such countries is likely to increase in the markets of both industrial and developing countries. The tradability of such business services have increased by means of sophisticated information technology which facilitates global contacts. The multi-nationals from industrial countries are in an advantageous position with trained personnel, access to trans-national clients, experience of working in global environment, high-quality standards, reputed brand names and global information networks. Although it is not easy for developing countries to compete in international markets with such dominant players, however, in the long run, it is also possible to imagine selected developing countries, learning to offer cheaper services overtime with requisite technological back-up and higher standards of performance. Such experience, accumulated over time would enable such countries to operate in a highly competitive environment.

Unilateral Liberalisation

Although many developing countries have not undertaken much formal liberalisation in business services through GATS, many of them, through their unilateral economic liberalisation measures, have practically allowed a large import of such services through establishment of foreign firms and joint ventures. This is expected to lend favourable impact on the quality of business services available within developing countries and also influence the process of upgradation and sophistication of domestic base in such services.

Rise In Exports Not Guaranteed

New demand generated for business services in many developing countries, in diverse areas such as joint venture feasibilities, strategic management (for location, entry, manufacturing, distribution, retailing etc.), search for personnel and executives and others has made it possible for firms, both indigenous and foreign, to provide such services. The domestic markets of developing countries, however, are witnessing a queer mix of multi-national giants operating in their markets along with specialized domestic enterprises which are much smaller in size. Competition is tough although many domestic firms, small sized, have carved their own niche market for providing such business services. With economic liberalisation policies and with increased import of business services, the quality of business services in developing countries would improve, however, there is no guarantee that this would get translated into higher levels of business service exports so that their vast wealth of manpower for providing such services gets tapped.

It is widely agreed and also corroborated by empirical evidence that the GATS bindings by member countries are at a lower level. This implies that the guarantees

provided by member countries through specific commitments are a set of minimum guarantees where the real bindings would mostly be at a much higher level. Hence developing countries can aim at exploiting the real bindings of member countries on business services where the specific commitments are taken as indicative at a higher level of those in practice. However, specific commitments indicate future trends in barriers to market access in business services in the GATS-domain.

Advantage Of Scale

Size seems to be an advantage in business services given the global trend of mergers of firms and consolidation of fragmented units. Many global firms are experiencing difficulties in finding top professionals; in adjusting to pricing pressures from customers in favour of fixed fees; in coping with falling trend in commissions on large contracts; undertaking risk of taking more work than firms able to handle¹⁴; and adjusting to scale-impact of communication technology and other infrastructure.

Taking cue from the global firms, the developing countries which enjoy comparative advantage in business services can provide appropriate incentives for establishing big size firms or merging of firms for providing business services. The current global trends also indicate, such scale economies are important for global players which makes for better overheads, cheaper services, greater work responsibilities, more projects and ability to offer a variety of professional services under the same umbrella.

Quality Upgradation Of Human Resources

In the medium run, developing countries can work towards human resource development and identifying niche markets by producing professionals of better quality and international standards. This includes collaboration with foreign firms for upgrading professional standards, training, transfer of technology and exchange of information and access to networks, offices and marketing centres abroad. Developing countries require efficient institutional set ups for gearing towards appropriate management information system in business services. Networks for receiving and disseminating information would strengthen multi-modal delivery of such business services.

Concluding Remarks

Although many of the member countries of WTO have qualified their import liberalisation offers for movement of natural persons by placing numerous restrictions on the entry of selected foreign personnel (Mukherjee:1996a) through levels of qualification and experience, economic needs test etc., ultimately the specific commitments of GATS reflect, though partially, the enormous "crunch" existing in business services across the world. It needs no special emphasis to observe that movement of higher level personnel would get a strong boost from such offers and help in partial bridging of gap between the rapidly increasing world demand for business services and its slow pace of supply. It would also help in organizing the invisible market of selected business services and systematize such information flows across the world. However, only a small segment of tradable business services is actually covered through GATS, leaving aside a large chunk of human resources, available globally, and the critical business services that they can provide. Fresh attempts can be made by the developing countries for making such offers more meaningful and realistic in coming rounds of negotiations at WTO. They can plan to negotiate for better market access in selected sub-sectors of business services so as to exploit their competitive advantage and enjoy better opportunities in multilateral trading of business services.

Notes

¹see Krugman.1987, p.180

²In this context it is important to remember that data on service exports including business services exports have a significant downward bias due to non-reporting of data and limited coverage. Some of the receipts on business service exports are often included in migrants' remittance flows

³If 'Xat' is the total export of country A and 'Mbt' is the total import of country B then 'Vai' or the market-share of country A is given by the following formula,

$$Vai = \frac{Xai/Xat}{Mbi/Mbt} \dots\dots(i)$$

This is a static index of comparative advantage which relates to a point of time. We can estimate the market-shares of different competing countries for service 'i' in the import of country B and then we can rank the different values of 'Vi's for different countries and arrive at a picture of comparative advantage of the countries concerned. If we attempt to show the evolution of that advantage 'Vi' in different years then we can compare the different 'Vi's estimated for different years by applying Balassa's formula (1964) of revealed comparative advantage for tradable commodities.

$$Qsi = \frac{Vsi(\text{current year})}{Vsi(\text{Base year})} \dots\dots(ii)$$

where, 'Qsi' is the revealed comparative advantage of a country 's' in service 'i' and 'Vsi' either relates to a current year and a base year or is an average of two different periods of time. The bigger the 'Qsi', the higher the comparative advantage. This is a relative number and becomes meaningful only when compared with the indices of other countries estimated through the same formula. The Qi's estimated for different countries are ranked to compare the positions of different countries.

⁴for details see OECD.1995, p.20.

⁵A specific commitment made in the schedule binds the government concerned to a specified level of market access and national treatment with an undertaking not to impose any new measures that would place restrictions on entry into the market or on the operation of a service. Commitments can be withdrawn or modified after the agreement of compensatory adjustments with affected countries and no withdrawals or modifications are permissible until 3 years after the Agreement comes to force.

⁶Not all member countries of WTO have such commitments.

⁷The sample coverage of 85 Member countries is as follows.
Antigua & Barbuda, Argentina, Australia, Austria, Bahrain, Bangladesh, Barbados, Belize, Bolivia, Brazil, Brunei Darussalem, Burkina Faso, Canada, Chile, Colombia, Costa Rica, Cote d'Ivoire, Cuba, Cyprus, Czech Republic, Dominica, Dominican Republic,

Egypt, El Salvador, The European Communities, Finland, Gabon, Ghana, Guatemala, Republic of Guyana, Honduras, Hong Kong, Hungary, Iceland, India, Indonesia, Israel, Jamaica, Japan, Kenya, Korea, Kuwait, Liechtenstein, Macau, Malaysia, Malta, Mauritius, Mexico, Morocco, Mozambique, Myanmar, Namibia, Netherlands -For the Kingdom in Aruba & Netherlands Antilles, New Zealand, Nicaragua, Nigeria, Norway, Pakistan, Paraguay, Peru, Philippines, Poland, Romania, Saint Lucia, Saint Vincent & the Grenadines, Senegal, Singapore, Slovak Republic, South Africa, Sri Lanka, Suriname, Swaziland, Sweden, Switzerland, Tanzania, Thailand, Trinidad & Tobago, Tunisia, Turkey, Uganda, United States, Uruguay, Venezuela, Zambia and Zimbabwe.

⁸*The WTO member countries making offers in professional business services include, Antigua & Barbuda, Argentina, Australia, Austria, Barbados, Brazil, Brunei Darussalem, Canada, Chile, Colombia, Cote d'Ivoire, Cuba, Cyprus, Czech Republic, Dominican Republic, El Salvador, The European Communities, Finland, Guyana, Hong Kong, Hungary, Iceland, India, Indonesia, Israel, Jamaica, Japan, Korea, Kuwait, Liechtenstein, Malaysia, Mexico, Morocco, Netherlands -For the Kingdom in Aruba & Netherlands Antilles, New Zealand, Norway, Pakistan, Peru, Poland, Romania, Senegal, Singapore, Slovak Republic, South Africa, Swaziland, Sweden, Switzerland, Tanzania, Thailand, Trinidad & Tobago, Turkey, United States, Venezuela and Zambia*

⁹*The WTO member countries which have undertaken commitments in "other business" services include, Argentina, Australia, Austria, Brazil, Canada, Chile, Colombia, Cote d'Ivoire, Czech Republic, Dominican Republic, El Salvador, The European Communities, Finland, Gabon, Honduras, Hong Kong, Hungary, Iceland, India, Israel, Jamaica, Japan, Korean Republic, Kuwait, Liechtenstein, Malaysia, Mexico, Namibia, Netherlands-For the Kingdom in Aruba & Netherlands Antilles, New Zealand, Nicaragua, Norway, Pakistan, Peru, Poland, Romania, Singapore, Slovak Republic, South Africa, Swaziland, Sweden, Switzerland, Thailand, Trinidad & Tobago, Turkey, United States, Uruguay, Venezuela and Zambia.*

¹⁰*The countries making higher level of commitments at the Negotiating Group on the Movement of Natural Persons are Australia, Canada, the European Communities, India, Norway and Switzerland.*

¹¹*The foreign firms are Mckinsey & Co., Arthur Anderson, Coopers & Lybrand, Booz Allen & Hamilton, A.T. Kearney and Ernst and Young.*

¹²*see Business Today, 1993, September 22 to October 6, Champions of Change, p.62.*

¹³*see Business Week , 1996, January 8, p.77.*

¹⁴*see Business Week, 1996, January 8, p. 77.*

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