

Trade in Services, Gender and Development – A Tale of Two Modes

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The role of women in the services sectors of developing countries has been prominent and is expanding rapidly. Women are active in retail and distribution services, hospitality, health, education, professional, business and social services. Public or government services have traditionally provided an important avenue for women's participation in the services sector. More recently, with the increased privatisation and liberalisation of services sectors in many developing countries – resulting from autonomous efforts as well as through structural adjustment programmes and implementation of the General Agreement on Services (GATS) – women have turned to growing employment and entrepreneurial opportunities in the private services sector.

Women's participation in developing country trade in services has been growing steadily, in many cases mirroring the feminisation of many light manufacturing export sectors. There are of course inter-country differences; in 1999 women's participation in services employment ranged from 35 per cent in Egypt and 39 per cent in Argentina to 54 per cent in Bangladesh and 56 per cent in Kenya (World Bank, 2003 B). These differences reflect variations in national development conditions and skill levels as well as socio-cultural and regional factors. There may also be an interaction between widely varying fertility rates among developing countries that limit women's availability for employment in some developing countries. Often significant differences in the size of the services sector relative to commodities and manufacturing sectors activities influence relative wages and women's selection of employment options. The share of services activities within commodities and manufacturing sectors may also have an influence.

There are two modes of services delivery, Mode 1 and Mode 4, that have become the main vehicles for increased gender participation in developing countries' exports of services. Mode 1 involves cross-border trade in services, most commonly through the use of information and telecommunications (ICT) technology, and Mode 4, the temporary movement of service suppliers of one country to supply services in the territory of another country. Women also have a strong interest in Mode 2, which involves the movement of consumers from one country to another country to avail of services there. Mode 2 is particularly relevant in the tourism and health services sectors, which have for various reasons been largely feminised for some time. Mode 3, the establishment of commercial presence in another country for the supply of services is not used much by women as it involves the deployment of capital and risk-taking in foreign markets, which women entrepreneurs are not generally equipped to undertake, often due to their limited access to financial resources. However, women do benefit from the establishment of commercial presence of foreign firms in many developing countries, especially in the financial and commercial service sectors. Depending on the sector, type of services supplied, origin and destination countries and markets, there are cross-modal and cross-sectoral linkages, which also affect the level of women's participation in international services trade.

This paper focuses on Mode 1 and Mode 4 services delivery – the two modes of service delivery that have a proven track record of contributing to the increased participation of women from developing countries in international services trade while providing significant and positive development impacts. Both modes enable the opening up of new and dynamic areas for developing country exports that can provide prompt, yet durable development benefits. Gender-specific benefits from women's participation in international services trade based on these two modes of delivery can be clearly identified, many of which accrue to women as part of wider development gains in their home countries that are stimulated by increased services exports through Modes 1 and 4.

At the same time, a comparison of Mode 1 and 4 services delivery by women from developing countries represents a study in contrast. In the case of Mode 4 delivery, it is women's mobility to work in foreign countries that presents opportunities – sometimes the only opportunity for gainful employment – which enable them to utilise their comparative advantages to provide *in-situ* services in world markets where demand is greatest. In contrast, in the case of Mode 1 delivery, it is women's ability to work without physically moving from their home countries to provide cost-efficient ICT enabled services – such as back-office processing and telephone call centres – that gives them a competitive edge.

Despite this fundamental contrast between Modes 1 and 4, there are cross-modal linkages; many of the services provided under these two modes can take place in either mode, and trade under one mode can stimulate trade under the other. Market access barriers to Mode 4 affect the development of Mode 1 trade and the execution of some types of outsourcing contracts, especially those with higher value-added. For instance, it has been observed that when barriers are posed to Mode 4 enabled services supplied by developing countries there is a tendency for companies in developed country markets to resort to increased use of outsourcing and offshoring through Mode 1. As has been noted, if people (cost quality competitive workers) are not allowed to go to business, “business will go the people.” In addition, there may be strong elements of Mode 4 related movement involved in the supply of services under Mode 1. For example, successful on-site provision of services and an established reputation help in securing offshore contracts.

International market forces are moving positively far ahead of formal, legal, intergovernmental commitments and rules, distinguishing the two modes of services supply – Mode 4 and Mode 1 – from others. For example, in the United States, official records indicate the number of foreign-national temporary workers – including temporary workers, exchange visitors, and intra-company transferees – admitted to the US in 2002 was 1.3 million (US-OIS, 2003). Of these workers, 370,000 were admitted as specialty workers, a number far outstripping the quota of 65,000 per year specified in US multilateral commitments under GATS (WTO, 1994). Certainly, undocumented workers would number even more. In actual fact, on the ground, global business is moving much ahead in exploring the competitive advantage that outsourcing and offshoring of IT enabled services provide. There is obviously a need to positively upgrade the quality and quantity of multilateral commitments in both of these modes in the context of the GATS negotiations to respond to market forces.

Modes 1 and 4, although delivered in different ways, are both based on the leveraging of cost quality competitive labour. Liberalisation within the international trading system of these modes can redress the current asymmetries that restrict mobility and use of the labour factor of production in order to enhance global efficiency and welfare. It would

also bring tremendous development dividends that reduce poverty and lift millions above the poverty line. It has been found that both in the case of Mode 4 and Mode 1, employed woman not only support their families but also provide employment to others to assist with domestic work and childcare, and indirectly their increased collective spending on consumer goods provides new employment opportunities in national and local economies (Jhabvala, 2003). This trickle-down multiplier effect on employment at different levels is an important developmental benefit characterising women's engagement in Mode 1 and 4 services trade. Gains from Mode 1 and 4 liberalisation can thus make a significant contribution to the achievement of MDGs, especially through promotion of poverty reduction and gender equity.

The Importance of Mode 4 in Trade and Development

Definition and scope

There is a broad definition of the movement of natural persons in GATS, which covers all occupations, skills levels and qualification levels. It can cover foreigners, who are employed by a foreign company established abroad, or which is supplying services under contract without a permanent presence, and it does not exclude employment of foreigners in domestic companies. Mode 4 involves movement of natural persons where companies are suppliers of services or where individuals are supplying services directly. It includes:

- Self-employed or independent service suppliers;
- Employees of a foreign company who are sent to fulfil a contract with a host country client (contractual suppliers);
- Foreign nationals employed by a host country company, which can be foreign or national;
- Employees of a foreign company established in the host country (intra-corporate transferees);
- Business visitors.

Women usually provide services under Mode 4 in categories other than business visitors and intra-corporate transfers; hence the last two categories are rarer still, as far as women are concerned.

Sectors

The sectors in which Mode 4 related service supplies by women are undertaken are mostly labour-intensive services that require proximity between providers and consumers and make use of the natural comparative advantage that women seem to have in these sectors. Care services in the broadest sense – caring services for the children and the aged and domestic services – have been characterized by the predominance of women and they are also active as doctors, nurses and health workers (health service providers), teachers (educational services providers), and social service workers. Jobs requiring meticulous handling and patience such as those in horticultural and agricultural services have also lent themselves to feminisation. Women are increasingly entering ICT and other business services sectors as well as professional services sectors such as accountancy, engineering and management, but their participation is still limited, though growing.

Trends

Gender-specific statistics on Mode 4 suffer from the same methodological and practical difficulties and infirmities as Mode 4 statistics themselves, in particular, and services statistics more generally. Nevertheless, some countries and sector-specific patterns can be observed and cited. Although only limited compilations of gender-specific data are extant, examples suggest significant employment of women through Mode 4. In Sri Lanka, where some 12 per cent of the total labour force works outside of the country, the estimated stock of Sri Lankan overseas contract workers was 970,000 workers in 2002, of which 70 per cent were women (SL-BFE, 2004). In many LDCs as well, statistics indicate considerable movement of women abroad for employment, particularly lower-skilled workers. It is estimated that about 11,000 women leave Bangladesh each year for temporary work abroad (SAT, 2002), however, in contrast to Sri Lanka, men make up the majority of expatriate Bangladeshi workers.

Where gender-specific data is not readily available, sectoral data for domestic services and personal, education and health services – for which the majority of workers are females – also suggest important participation of women as foreign service providers. For some South-Asian countries and Philippines, domestic service and personal care providers, as well as nurses, account for a very large proportion of temporary migrant workers. In the Philippines alone, where about 10 per cent of the total labour force works abroad, an average of 5,700 nurses moved abroad for work annually between 1995 and 2001 (DOLE, 2001), primarily to the United Kingdom and Saudi Arabia (Buchan et al., 2003). Following huge outflows to the US during the 1980s, a fair number of Philippine nurses now work in the US, and out of 26,500 foreign nurse applications for US registered nurse licences between 1997 and 2000, 36 per cent were from Philippine trained nurses (Buchan et al., 2003). Remittance data indicate that Jordan, Yemen, and China have also been active exporters of services (World Bank, 2003 A). From India too, apart from the caring services, including educational, there is a growing number of ICT related Mode 4 movement involving provision of on-site services in foreign countries. Some prominent IT companies like Infosys of India are trying to ensure that their foreign on-site work involves up to 40% women service providers (Aggarwal, 2003). Remittance data also indicate important caring services exports from countries in Africa and Latin America and the Caribbean (World Bank, 2003 A). In Africa, Algeria, Egypt, Ethiopia, Ghana, Malawi, Morocco, Nigeria, Senegal, Uganda, Yemen, Zimbabwe, are among the African countries involved in the export of caring services with some element of feminisation. In Latin America and the Caribbean, Brazil, Colombia, El Salvador, Honduras, Mexico, Nicaragua, Peru, Haiti, Jamaica, Guyana, benefit from significant Mode 4 exports of caring services.

Sources and Destinations

With large markets and offering relatively high salaries, developed countries continue to be the main destinations of service providers, and developing countries their principal origin. The major sector associated with this South-to-North movement involves care services. South-to-South movements are also significant, especially amongst neighbouring countries, and are often under-recorded. These South-South movements are on account of income differences and labour market pulls and pressures, as for example between South-Asia and the West Asia. It is also due to the fact that women earn more in some countries than in others. Often, when skill gaps created in one developing country workers from

other developing countries seek to fill them. For example, the export of nurses and doctors from Jamaica has resulted in an inflow of health service providers from Cuba, Myanmar and Nigeria.

There are a number of push and pull factors – economic, social, demographic, historical and political – in global services trade that operate across Asia, Africa and Latin America. They affect large and small countries, least developed countries (LDCs) and Small Islands Developing Countries (SIDS) and cut across all levels of development. Specific catalytic factors contributing to Mode 4 movement of women abroad include foreign demand, proactive policies in the home market, growth of fee-charging entrepreneurs and middle-men and the social network of those working abroad already. Different factor endowments across countries contribute to the need for the exchange of skills, as well as relative labour shortages. For example, in some high-income countries in the Middle East, foreign Mode 4 workers are needed to fill jobs in health-, hospitality- and domestic-care services for which there are national labour shortages.

Remittances

Remittances are one of the main ways in which both the extent and benefit of Mode 4 movement can be measured. Though much work remains to be done to obtain gender-specific data on remittances, a few facts are clear enough. Firstly, women make a significant contribution to remittances received by developing countries, not only because they are increasingly involved in temporary provision of services abroad but because they are more likely to save more and to remit a larger proportion of their earnings back to their home country. The fact that most of them are in the lower or middle-skilled categories also means that they tend to send the higher proportion of their wages back home.

In 2003, \$93 billion in remittances flowed to developing countries – nearly double Official Development Assistance (ODA) (World Bank, 2003 A). It has been estimated, that when flows through informal channels are accounted for, the actual magnitude of remittance flows to developing countries flow may be the double or triple this amount (World Bank, 2004). Latin America is the principal destination of remittances from temporary workers. Flows to the region exceeded \$30 billion in 2003, which is higher than the region's FDI and ODA receipts, and represents a nearly 30 per cent increase from the previous two year period (World Bank, 2004). Some 75 to 80 per cent of these remittances were from the US, 9 per cent from Japan, 6 per cent from Europe, 3 per cent from Canada, and 5 per cent from other Latin America and Caribbean countries. Worldwide, the US, EU and Saudi Arabia are the largest sources of remittance flows (World Bank, 2003 A).

Although in 2002 the absolute value of remittances is greatest in countries in Asia, Latin America and North Africa, it is in low-income countries where the value of remittances as a share of GDP, 2.9 per cent, were highest relative to lower-middle income countries, 1.3 per cent, and upper-middle income countries, 1 per cent (World Bank, 2004). Data from individual countries available for 2001 illustrate this: as a share of GDP remittance receipts were highest in Tonga at 37 per cent and Lesotho at 27 per cent (World Bank, 2003 A). These data highlight the positive role of remittances in Least Developed Countries and other low-income countries. Their importance as a source of hard currency earnings for commodity-dependent and resource-strapped countries can be invaluable.

Benefits of Mode 4 and Remittances

Movement of natural persons supplying services under the GATS extends beyond short-term economic, trade and competitiveness benefits for developing countries. By providing employment opportunities abroad it can be an effective tool in addressing unemployment in the domestic economy and thereby contribute to poverty reduction. Worker's repatriated earnings in the form of remittances received by their home countries are also a way to generate investment and savings and promote accelerated development of the domestic economy. Furthermore, as women return to home countries after temporary employment as service providers abroad, their entrepreneurship and knowledge can stimulate gender mainstreaming into domestic services sectors and enhance domestic capacities needed to assimilate new technologies into key sectors in their home countries.

Remittances have clearly emerged as one of the most stable, steady, continuous, increasing and significant source of development finance for many developing countries. The rapid growth in remittance flows in recent years has stimulated consumption and investment and reduced inequality including the gender gap. Unlike FDI, the flow of remittances is more widely distributed amongst developing countries and is an important complement to ODA and FDI. Remittances deliver financial resources to people who need it most, including women, without waiting for a trickle-down effect from other financial channels and investment. Recent analysis of economic effects of remittances have demonstrated their positive effect on saving and investment, increasing recipient countries' foreign exchange reserves, income and growth, and serving as an insurance policy against the risks associated with cyclical price and demand fluctuations affecting goods exports.

Relative to other sectors of trade, in the case of many countries, the value of exports from Mode 4 enabled services are already outstripping, or are poised to overtake, their major traditional export items, be they commodities or manufactures, as for example, Sri Lanka and tea, Bangladesh and jute, and India and textiles and clothing. They could also be a major means of diversification and overcoming commodity dependence. It has been found that remittances have contributed to infrastructure development and improvement and assured better access of the poor to essential goods and services, such as transport, water, electricity, educational and health care in their home countries and communities. Many have invested in setting up productive ventures providing employment and improving the living standards of local communities.

Women benefit directly in terms of the resources they themselves send home or in what they receive from their male family members in support of household consumption and expenditure and for asset building in their home country. Moreover, in many LDCs, when the domestic economy does not generate sufficient opportunities, as in the case of Zambia and Bangladesh, moving abroad for work provides an attractive opportunity for women. It does not require capital, which is scarce in developing countries and difficult for women to acquire as they continue to be wrongly perceived as high-risk borrowers in many developing countries. Structural adjustment cost of economic reform and liberalisation, which often fall more heavily on women in developing countries, are easier to bear because of the cushion provided by income earned through Mode 4 enabled services involving women.

The most important spin-offs from Mode 4 movement of women service suppliers arise from the backward and forward linkages. Mode 4 movements enable women to improve

their skill and educational levels. This in turn leads to their being more highly valued socially and economically. When this happens, the propensity to invest in women's education and skills development is greater in view of the potential opportunities that Mode 4 related employment would provide. It tends to increase the return on education and gives a boost for greater investment and human capital development in the home economy, thus ensuring the continued availability of skills domestically, for example in the area of health services. Where movement involves less-skilled women, it is likely to induce a positive impact on lower-skilled wages in the home economy. There might be in some cases a pull-up effect on wages in the home country, improving gender outcomes. It has also been found that it enables women, over time, to move up the value chain becoming entrepreneurs, businesswomen and real estate agents. Conversely, it enables women at all skill levels ranging from domestic and agriculture service providers to high-tech professional engineers and managers to seize the opportunities provided by Mode 4. There has been a significant contribution of Mode 4 to the reduction of the gender wage gap in home countries.

Mode 4 comes in particularly handy for women when the unemployment rates are high at home, both in absolute terms and in relation to men. Because of the limited employment opportunities domestically and the time necessary for a structural change, movement of women abroad emerges as a very attractive option in the immediate term to alleviate these problems. This is especially true in the area of care services as these are accessible to women at all skill levels. For example, in Sri Lanka, the unemployment rate of women stood at 13 per cent as compared to 7 per cent for men in 2002 (SL-DCS, 2002); a situation which contributes to a greater outflow of women than men seeking employment abroad (SL-BFE, 2004). Thus, apart from being an antidote to unemployment, Mode 4, based as it is on wages differences and associated labour productivity across sectors, offers a better quality of life as well as a stream of income for women from developing countries.

Costs

The dark side of Mode 4, temporary movement for providing services income arises from the fact that it may, in some cases involve separation from families and culture shock leading to psychological stress, unfavourable terms and difficult working conditions. Those women with lower skill levels have greater vulnerability. Since women work abroad mostly as independent service suppliers, often delivering services without a contract, the terms and conditions of employment in the host country may not be favourable and predictable. In some cases, women may even be robbed of their true earnings by intermediaries who exploit them. As in many other areas, women suffer from inadequate information access. In many cases, labour agents mislead their clients. For women temporary workers abroad, it may be costly in terms of family relationships. There are also extreme cases of exploitation of women moving abroad to provide temporary services.

Some of the measures that can be taken to ameliorate the difficulties faced by female temporary domestic workers include: standardisation of employment contracts; the institution of a special provision for the settlement of disputes between migrants and employees with the knowledge and concurrence of the host country government; and the implementation of programmes to orient migrants for employment abroad.

In terms of the home country, one of the most important costs involves temporary loss of trained womanpower and capital invested in their education and training. Skill shortages due to this brain drain (Stalker, 2000) have been experienced in certain countries, such as Ghana, Jamaica, Malawi, Philippines, among others, which has affected the provision of health care or other key services at home. Movement of health workers abroad in particular has created some concerns in a number of countries related to the issues of brain drain. The phenomenon of brain drain may also occur within the country in regional terms or where the sector does not provide adequate employment opportunities. Size of the country may particularly accentuate this problem and it may also be more pronounced in certain parts of the world. In fact, the same countries have become sending and receiving countries in terms of nurses, leading to growing trade in services globally, as has been the case, for example of South Africa and Jamaica, creating a phenomenon of “brain circulation”.

The issue of “brain drain” is less acute when such movement is temporary. Some countries like the Netherlands have introduced measures to ensure that movement to their markets remains temporary in effect and have committed to investing into monitoring the return and in training programmes for skills which would be useful to service suppliers upon return to their home countries. Furthermore, costs linked to temporary loss of skills in the home economy are more than likely to be offset by gains, including through income remitted back to the home economy to support farming, housing purchases and development of related residential infrastructure such as educational and health facilities, and venture capital for entrepreneurship. In many cases returnees have come back with higher skills and training, and invested in local skills development, thus adding to brain ‘gain’ rather than ‘drain’.

The Status of Mode 4 Commitments – Expanded market opening remains essential

Multilateral liberalisation of trade in services through Mode 4 constitutes an unfinished development agenda and business of the Uruguay Round. It is also an essential element of a balanced and development oriented outcome of the current multilateral trade negotiations launched at Doha in 2001. It is important for the trading system because, at present, Mode 4 movement is taking place in the context of extremely limited multilateral commitments and/or bilateral and regional frameworks and unilateral regimes. These are, by their very nature, often changeable or arbitrary and do not provide stable and predictable market access. In addition to the limited commitments, there are a number of market entry barriers that Mode 4 exports of developing countries face, and based on the experience of past negotiations in services, achieving effective liberalisation of Mode 4 needs to go beyond market access and national treatment (UNCTAD, 2003 A; UNDP, 2003).

Entry barriers arise from immigration related restrictions and a plethora of administrative, procedural, technical and licensing requirements. The multilateral liberalisation of Mode 4, and meaningful market access commitments therein, must be buttressed by a reduction and streamlining of market entry conditions if substantive development gains are to be assured by the international trading system. There is also a very real need to separate Mode 4 related supply of services from immigration so as to avoid political and cultural complications, including xenophobia, that hamper realisation of the full potential of Mode 4 for both home and host countries. It has to be understood that liberalised, but regulated,

movement of temporary workers from developing to developed countries, would help resolve the problem of clandestine and illegal migration which raises all kinds of difficulties for both home and host countries.

In terms of the commitments scheduled by major developed countries under GATS Mode 4, the introduction or improvement of the following elements would greatly facilitate and support increased gender participation and benefits from international trade in services (UNCTAD, 2003 A):

- i) Widening the categories of service providers covered to include independent and contractual service providers.
- ii) Including all skill levels and occupations.
- iii) Eliminating economic needs tests or reducing their coverage and making them more predictable through establishment of transparent criteria.
- iv) Simplifying, streamlining and easing and making more transparent visa, work permit and licensing requirements and procedures.
- v) Wage parity and social security concerns whilst being valid, including in respect of gender equity and welfare, should be rationalised, including through portability of social security, and accomplished in a way that the comparative advantage of women service providers is not diminished. In cases where Mode 4 women service providers are required to contribute to social security in host countries, they should be able to benefit from it in the future; otherwise such contributions should be reimbursed.
- vi) Facilitating recognition of professional qualifications including through mutual recognition agreements, and horizontal application of the GATS guidelines on accountancy to other professions as appropriate. It has been found that different approaches to granting recognition could have a certain degree of gender bias especially in higher-skilled services.

An illustration of the importance of qualifications requirements and mutual recognition and accreditation issues is provided by the health services sector. The movement of women in the health professions would also be affected on how adequately their qualifications and experience are recognized in the host economy. In recent years, temporary movement has been growing in countries such as the United Kingdom, Germany and France, with decisions being made by employers. In addition, for example, in the UK, a new Highly Skilled Migrant Programme has been introduced which promotes movement of persons with special skills, with emphasis on general medical practitioners, including nurses.

The following criteria are taken into account when granting market access: educational qualifications, work experience, past earnings, prior professional achievements with extra points given to. Recognition of qualifications and experience has become an important issue in the movement of nurses, and in some cases it acts as a significant barrier to their movement.

In general, assessment of qualifications and/or skills for entry to an occupation may consist of one or more of the following processes/mechanisms: (i) *mutual recognition agreements* for occupations (engineering, actuarial) or for groups of countries (EU, Mercosur, NAFTA) or provinces/states; (ii) competency based assessment by means of *employer interview* (in non-registrable occupations) or *test* (registrable or licensable occupations); (iii) *on-the-job competency assessment* – during or after a period of service (nursing); (iv) *probationary* or trial period of supervised work – such as teaching, medical practice; (v) *examination* of knowledge (such as medical tests) and/or language skills - often with no training or local experience; (vi) *credentials assessment* or assessment of paper qualifications, where institutions or individuals are assessed for comparability, ‘substantial’ equivalence or equivalence.

Governments in both, developed and developing countries have an important role to play in maximizing economic and development dividends of Mode 4 related movement of women (Williams, 2003). Adopting an optimal mix of regulation and liberalisation of market access for Mode 4, and for ensuring the temporariness of such movement, in addition to assuring that rights of women are protected abroad, are key requirements. It is important to promote the analysis of different factors and drivers in the area of movement of women supplying services abroad, trying to identify their rate of return, leading to a better understanding of the multiple effect of this trade related movement on the country of origin and bottlenecks that trade faces in this area.

Developing countries are already supplying services internationally and have specific interests in liberalizing market access in the context of the GATS. Strengthening the capacities of governments in managing the trade agenda surrounding the issues of Mode 4, including sequencing of the implementation of domestic policy reforms, innovative employment policies and training programmes aimed at capitalising on export opportunities; and supporting the creation of institutional capacities to allow recognition of qualifications at all levels in those services with export potential through this mode would be helpful.

The Importance of Mode 1 in Trade and Development – Outsourcing and offshoring

Sectors and Trends

Mode 1 concerns outsourcing, in the sense that there is cross-border supply of services without movement of either supplier or consumer from one country to another. The primary mechanism for Mode 1 delivered services are ICT technologies. Outsourcing of services until recently was mostly among developed countries and when it first expanded to include outsourcing to developing countries, this was often in the form of outsourcing routine IT functions. IT outsourcing consisted of contracting a service provider to completely manage, deliver and operate one or more IT functions including data centres, networks, desktop computers, and software applications. This was initially performed at the client sites, and therefore was not “offshorable”, however, with recent technological advances much of this work can now be done remotely. Large IT and business process outsourcing (BPO) service providers and intermediaries have included Accenture, Computer Sciences Corporation, CAP Gemini Ernest & Young, Deloitte Consulting, IBM Global Services, Keane and PriceWaterhouseCoopers (Vault, 2004).

More recently, owing to the advances in network technology, high-speed data networks and substantial increases in bandwidth capacity, outsourcing has expanded dramatically to include a wide range of business activities. One of the major outcomes of the rapid internationalisation of information-technology-enabled services (ITES) has been the practice of BPO, including remote management services that can be performed away from clients' locations through ICT technologies (UNCTAD, 2003 B). As the large companies in developed countries have increased the scope of operations, they now outsource entire business functions; a practice sometimes called offshoring. Lowering operating costs by moving functions such as call centres and customer support centres to lower cost locations, as well as by offering remote services providing Internet and Web-based applications, have become substantial new business areas. As a consequence, some developing countries have emerged as major players in BPO, providing services such as software application and development, and finance and account management services. Service sectors amenable to outsourcing include finance, banking, insurance, human resources, e-training, healthcare, mortgage services, credit card services, asset management, customer care, logistics and distribution, real estate, sales and marketing, and web-related services. Indeed, cross border supply has the potential to become the most prevalent mode of trade in services.

Cross-border exports of services from developing countries have grown rapidly in recent years due to the rise in outsourcing of back-office and offshore activities to low-cost centres, driven by ICT advances; pressures to reduce costs; increased availability of low-cost, well-trained and educated workforces in developing countries; and demographic trends. The global ITES, including BPO market is predicted to value at \$300 billion by 2004 following projections of annual market growth of 23 per cent since 1999, making it one of the fastest growing services sectors (Berkman 2002). Outsourcing companies benefit from the trade facilitation effect, cost reduction and a round-the-clock work cycle, enhancing their competitive advantages, to offer services to home economies facing shortages of manpower and skills in specific areas and sectors, particularly during night hours.

Recently, an increasing number of enterprises are opting for outsourcing in developing countries, providing developing countries with an opportunity to exploit higher added value niches. In addition to India, BPO service providers are emerging, among others, in Bangladesh, Brazil, China, Malaysia, the Philippines, Romania, Russia, Singapore, Thailand, Venezuela and Vietnam. The kinds of services provided by these developing countries have as yet been predominantly basic BPO such as data entry. However, increasingly complex functions are being executed by these countries related to human resources, billing, finance, payroll administration, training, telemarketing, order entry. A large number of developing and transition economies are engaged in cross border exports of services across a wide range of sectors. Today, Manila, Bangalore, Shanghai and San Jose Costa Rica are the new back offices for corporate America, Japan, and Europe, and even countries like Bulgaria and Romania are emerging as outsourcing providers in developed country markets.

In India, for instance, outsourcing has demonstrated its viability. As noted, India accounts for a growing share of the international outsourcing market owing to its English-speaking, skilled workforce and wage level that is roughly 80 per cent lower than those in developed countries. India's BPO outsourcing sector has grown by almost 60 per cent since 2000 and is projected to be the fastest growing segment of the IT market in India over the next five years. It is reported that half of the world's largest 500 companies and government

agencies contract out IT and business process services to India, and the number of companies outsourcing more than 3 per cent of their IT budget to India rose from 32 per cent in 2000 to 62 per cent in 2001 (Financial Times, 2003). Major Indian outsourcing providers include GE Capital International Services, Infosys, e-Serve, Wipro Technologies, Tata Consultancy Services Group, Satyam Computer Services and HCL Technologies. Many Indian companies like Tata, Infosys and Wipro have already established themselves as global leaders in the BPO arena.

In the case of China, firms have built significant capacities in product development outsourcing services. Chinese firms have become key product development centres for GE, Intel, Microsoft, Phillips, and other electronics giants, for hardware design and embedded software. China also hosts call centres for Japanese and South Korean companies. Philippines is host to outsourced work from over 8,000 foreign companies given its English speaking, educated workforce of accountants, software writers, architects, telemarketers, and graphic artists. Costa Rica is host to call centres for Spanish speaking customers in the US and Europe, given its cheap telecommunications and its educated workforce. Companies like Boeing, Nortel, Motorola, and Intel outsource research and development services and solutions for complex projects to Russia given its large pool of professionals in science, information technology, and mathematics.

Demographic data also suggest that cross border supply will become increasingly important in services trade. According to the US Bureau of Labour projections, there will be an estimated 168 million jobs in the US in 2010, but only 158 million workers, and thus a shortage of some 10 million workers (Fullerton and Toossi, 2001). To the extent that many services can be intermediated and physically disengaged from the firm location and that imports of labour cannot make up for this entire gap, much of this shortage will be met by outsourcing contracts to developing countries that are low cost centres. In the light of this projected growth in demand for foreign outsourcing services and the competitive advantage enjoyed by a number of developing countries by virtue of their economic, linguistic and technical capacities, there is growing expectation that the potential for developing countries to enter the outsourcing industry is virtually unbounded. It is estimated that developing countries could increase their participation in offshoring to levels approaching 25 per cent of the world market for outsourcing.

Gender Intensity of Outsourcing to Developing Countries

Countries that have a well-trained and educated workforce and well developed telecommunications infrastructure will continue to be the main beneficiaries of this process. Supply of cross-border services in a number of sectors has created opportunities and attracted women as a predominant workforce due to their perceived comparative advantage in a number of areas. Women tend to contribute to a larger extent in the area of data entry and data conversion activities. The most common among these are medical and legal transcription services, whereby dictations by doctors or lawyers are converted to written medical or legal records. At present, there are about 200 medical transcription firms in India employing some 10,000 transcribers, many of them women (Economist, 2001).

Women are also predominantly employed in providing teleworking services which involve rule based processing and simple voice and on-line customer relations support type services, based on rules set by the client. These include call centre services, email processing, data processing, billing and payments. The clients range from airline

companies like Delta and British Airways for reservation and frequent flyer services, to financial companies like Citigroup for credit card payment and collection services, to retail stores like JC Penny and Lowe's for on-line shopping services, to cheque printers like Deluxe for data processing services. Multinationals like GE and American Express also provide such processing and voice services specifically to their client companies.

Outsourcing plays a big role in creating job opportunities, in particular for women, who may be employed largely at the low-end of BPO services, working in call centres or performing data entry and other operations requiring low-level skills. The global expansion of software and IT-enabled services has broadened job prospects for women, who can now work from home or in a data centre or telecentre close to home (UNCTAD, 2003 B). The Indian BPO sector, for instance, employs a large number of women. Of Wipro's total workforce of 5,000 employees, 49 per cent are female, while ICICI OneSource's workforce of over 2,400 employees is 60 per cent female. Daksh E-Services also claims that 60 per cent of its employees are women (Aggarwal, 2003).

Benefits

The perception that outsourcing and particularly offshoring is somehow equal to export of service jobs from developed to developing countries has created some concerns amongst labour unions in developed countries and raised political sensitivities. In fact, analysis carried out by economists across different sectors suggests that this phenomenon is a win-win for both developed and developing countries and therefore the perception that outsourcing would lead to job losses or wage depression in developed countries is unjustified.

There are numerous benefits, which accrue to both source, and host economies from Mode 1 trade in services. For host economies, one of the main benefits is employment creation. For example, transcription services are another major source of employment in India. As noted earlier, there are some 200 medical transcription firms in India that provide employment to an estimated 10,000 transcribers (Economist, 2001). In some countries like Bangladesh, where there are limited opportunities for skilled workers, transcription services are a source of employment for doctors and other highly educated medical professionals. Mode 1 delivered services opportunities also helps bridge the gender wage gap.

Thus, cross-border trade provides a source of gainful employment as well as scope for diversification of employment opportunities in developing countries. Moreover, wage rates tend to be higher compared to local jobs requiring similar qualifications. Mode 1 also results in strategic investments in the form of local subsidiaries, joint ventures with local firms, and establishment of R&D centres with spillover benefits to the host economies from transfer and upgrading of skills and technology, especially for women. Destination developing countries see increased investment and job creation and, as McKinsey Global Institute (MGI) study points out, a country like India, for example, gains 33 cents for every dollar spend on offshoring contracts to its firms (MGI, 2003).

The MGI study indicates that "it is as beneficial to the US as it is to the destination country, probably more so." Offshoring will allow America to capture economic value through reduced costs, new revenues, repatriated earnings and re-deployed labour. Of the \$1.45 to \$1.47 value MGI estimates is created globally from every dollar spent, the US captures \$1.12 to \$1.14 or 78 per cent of the total value. It has been found that the job

creation in developing countries on account of offshoring is not at the expense of jobs in US, but rather offshoring is a net contributor to job creation across sectors in the US. The ploughing back of the savings and extra revenue into the domestic economy can generate new employment opportunities and enhance consumer welfare in home countries.

For home countries, the most important benefit derived by the outsourcing is cost reduction and productivity gains through lower labour costs. For example, monthly salaries for an engineer are only \$500 per month in the China and \$700 per month in India compared to \$4,000 per month in the US (BusinessWeek, 2003). These wage differentials translate into huge gains for companies in the developed world. However, although estimated cost savings are less than salary differentials would suggest due to staff transitions and remote management costs, they remain significant, usually exceeding 20 per cent (Overby, 2003).

In addition to the above gains, Mode 1 has several other positive implications. These include its larger impact on trade between the outsourcing and host economies, such as through expenditures for buying bandwidth from telecommunication firms in the outsourcing economies or expenditures for purchase of hardware from the outsourcing economies. Mode 1 also enables companies to leverage strengths across different locations in the world and makes possible a 24-hour work cycle. It also enables developed country firms to overcome manpower and skill shortages in their home countries.

The Status of Mode 1 Commitments – Keeping markets open to all GATS Modes

Although constraints to cross border supply of services have to date been mostly technical and infrastructural in nature, recently, there has been a move towards policy-based intervention. In some countries, such as the US, some state legislatures have sought to pass laws banning government procurement outsourcing contracts with foreign firms. There are related moves to prevent domestic firms that are under contract with the government to outsource any government-related work to foreign firms. This would have a significant impact on inter-firm outsourcing as well. It is therefore important that such protectionist moves on Mode 1 be pre-empted. Recognising this, some developing countries are seeking to table requests based on Mode 1, and also in relation to the computer and related services where they expect considerable market opportunities.

As regards Mode 1, a major limitation concerns the lack of commitments “for reasons of lack of technical feasibility” whereas rapid technological changes have made such supply indeed possible in the case of BPO and ITES services. Only 30 per cent of commitments made under Mode 1 so far are full commitments, whereas it should be possible to make full commitments during the current round of GATS negotiations. For instance, currently less than half of the Mode 1 commitments are unrestricted with regard to distribution, advertising, architecture, legal, accountancy, and computer and computer-related services.

Services supplied under Mode 1 and 4 are often substitutable or complementary for many of the types of business activities that are commonly outsourced. However, Mode 4 commitments remain extremely limited. In the context of securing increased Mode 1 market opening commitments from developed countries, developing countries thus seek to gain parallel Mode 4 opening needed to supply services related to these activities. More complex, higher value-added activities tend to involve temporary movement of natural persons during their preparatory and follow-up phases even though the final services are provided through cross-border supply. Such inter-modal linkages imply changes in the

need for movement of natural persons at the middle level (in that it reduces the duration of stay and the numbers of personnel) and the shift towards movement of intra-company transferees and business visitors from middle and lower level service providers. This means that as countries move up to higher value outsourcing and BPO activities, their need for mobility of natural persons will not diminish but shift towards higher level service providers.

Complementary to liberalisation of Mode 1 is liberalisation in Mode 4, in particular with regard to contractual service suppliers in the middle level services providers categories, and de-linking commercial presence requirements from Mode 1 and from Mode 4 commitments. Advantages of possibly the use of “GATS visa” could be considered in this regard. Expanding specific commitments in Mode 1 across all services sectors is necessary to ensure that effective choice of the most suitable means of supply of services is available to private sector operators. This is the best way of ensuring an effective allocation of resources. A limited mode-wise approach in the negotiations does not reflect the economic reality of changing business practices and the linkages between modes of supply for the delivery of services. The real economy shows that services are provided simultaneously through multiple modes of supply. Barriers to one translate into actual/potential barriers to other modes. Some limitations, which arise in all modes, comprise transparency, recognition, nationality, residency, and commercial presence requirements and others conditions related to security (data protection, liability, privacy). Some of these constitute market entry barriers and restrictions that go beyond market access and national treatment commitments under GATS. Transparency and objectivity of information and issues relating to social impact in home countries of corporate policies are important issues to be dealt with.

Computer and related services are acting as enabling services for cross-border trade in services across all other services sectors. Liberalisation of computer-based and related services could act as a catalyst in making computer and related services more accessible to end-users and in promoting trade through Mode 1 in other relevant services sectors and modes of supply of export interest to developing countries. Hence, developing countries are seeking progress in liberalisation of computer and related services as a necessary pre-condition for enhancing trade in Mode 1 across all services sectors and for outsourcing. Developed countries should make commitments for categories of professionals relating to computer services in line with ILO ISCO 88 classification, namely for computing professionals and for computer associate professionals. In this respect, numerical restriction put on the entry of professionals in the foreign markets for supply of services would need to be removed, making greater provision of mobility for these professionals in terms of visa issuance. The EC has made an initial offer in this sector that provides for flexibility for the continuation of the evolution of the sector, which is combined with an offer in the area of management consulting, thus reflecting a functional approach to the sector. There may also be a need to focus on government procurement when negotiating in this sector, especially since public policy does play an important role in the development of computer-related services.

Mode 1 depends on the availability of the telecommunications services as the basic infrastructure for cross-border trade. Efficient telecommunications services are a necessary condition for facilitating the liberalisation and trade of a wide range of other services, including information technologies and in particular in promoting and making possible the international outsourcing of services. Further improvements in commitments made in the telecommunications sectors should be supported in developing countries. This could best

be achieved by integrating robust competition policies and adequate sectoral regulation and enforcement capabilities as pre-conditions for liberalisation to yield benefits.

Conclusion

Multilateral liberalisation of Mode 1 and Mode 4 are not only key to the increased and beneficial participation of developing countries in world services trade, but in trade-led growth and development in general. At the same time they provide the greatest opportunity to developing countries to foster gender equity, welfare and women's social and economic empowerment. However, dedicated national efforts by developing countries are also needed to realise these latter benefits. Women's awareness of BPO opportunities and access to education and technology are required for their integration into increasingly ICT-centred outsourcing industries at all levels of BPO services operations. For both Mode 4 and Mode 1 related sectors, domestic training programmes must be coordinated and effectively deployed to build technical and managerial skills so that opportunities offered by an increasingly liberalized global services market can be seized.

Achievement of broader liberalisation commitments across sectors, and greater balance in the distribution of commitments across the different modes of supply through GATS negotiations will allow developing countries to improve their competitiveness in global markets and benefit from emerging opportunities for international services trade in a wide variety of services sectors where they have substantial comparative advantages. This would renew developing countries' faith in the ability of globalisation and liberalisation of trade and investment and the application of modern technology to deliver major development gains. It would thus help developing countries to meet the challenge of providing equal opportunities, both in terms of employment of women and raising women's earning power.

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