

GATS and Higher Education

Revealing Comparative Advantage

This paper reviews the different proposals put forth by nations under the General Agreement on Trade in Services in the context of their comparative advantages within the field of higher education. It analyses the nature of comparative advantages among nations pertaining to different modes and articles specified in the GATS text. The authors argue that nations that have a distinct comparative advantage in a particular area within education insist, via the proposals they put forth in that area, on liberalisation of that area first. This is leading to a certain sequencing of the articles negotiated that is likely to alter the implications of the entire trade agreement.

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The existing literature on the General Agreement on Trade in Services (GATs) and higher education pays little attention to the “procedural” aspect of the agreement, which has an enormous bearing on the process of negotiations and their outcome. In a complex, multilateral trade agreement like GATS, involving countries with varied economic profiles, there is a long drawn period of discussion, scrutiny and negotiations preceding the actual implementation of the agreement. As part of the procedure, proposals are submitted and the mechanism of “request-offer” is employed by nations, which form the content of negotiations, finally determining the implementation. This paper seeks to draw attention to this procedural aspect of the negotiations.

Education has been one of the 12 primary sectors negotiated under GATS for the past 10 years now. However, not all the articles in GATS have found equal attention. Nations have been selectively putting forth proposals in the articles of their preference. This paper argues that nations, which have a distinctive comparative advantage in a particular area within education, insist on liberalisation of that area via putting up proposals in that area first. This leads to a certain sequencing of the articles negotiated, thereby changing the implications of the entire trade agreement.

From an overview of the proposals and negotiations within education, it can be discerned that the field of higher education has featured predominantly at the trade negotiations. The development of the systems of higher education and the policies for higher education has varied across countries over a long period of time. As a result, some countries have evolved specific comparative advantages, which have emerged during the times when higher education was not a part of trade negotiations. These comparative advantages are a result of multiple factors like prior and current educational policies, allocation of resources, concentration of academic weight to name a few. This “inherited” gamut of comparative advantages is put forth by nations at the negotiation rounds of GATS.

The paper reviews the different GATS proposals put forth by nations in the larger context of their comparative advantages within the field of higher education. It tries to analyse the nature of comparative advantages among nations pertaining to different modes and articles specified in the GATS text. The Ricardian framework of comparative advantage is used to analyse the

inherent advantage nations may have for international trade in educational services.¹

The paper is structured in the following manner. Section I discusses the four modes of supply in educational services. It examines the rationale behind the formation of the four modes of supply defined in GATS, and attempts to analyse its limitations. Section II discusses the proposals put forth in the four modes in the light of the comparative advantages held by nations. Section III then discusses three articles that have received attention through proposals and requests so far. This is followed by a brief conclusion.

I Modes of Supply

Article I of GATS defines four modes of supply, which are the four distinct ways of providing any service. These four modes have been identified according to the location of the recipient and the provider. Accordingly, they include distance learning (Mode I), students travelling abroad (Mode II), commercial presence abroad (Mode III) and professionals travelling abroad (Mode IV). This concept of modes of supply included in GATS is derived from a four-way division of service trade suggested by Stern and Hoekman, based on the location of the provider and recipient [Stern and Hoekman 1987].

However, the classification of modes of supply-based exclusively on the criterion of location alone has its own limitations. It is a restrictive definition, amounting to mechanical divisions of the trade flows. In the case of education, such a classification does not take into account either the historical origins of the international movements in higher education, or the depth that each mode has generated for itself on account of being in existence over a varying duration of time.

When we analyse the four modes of supply not just from the location point of view, we find more important issues of contention that have a significant influence on trade in education. Within the field of higher education, the four modes have not emerged simultaneously, but have different points of origin on the scale of time. Mode II, or students travelling abroad, has traditionally been the beacon of internationalisation of higher education. It has a longer history as compared to the other three

modes. Even today, Mode II comprises the bulk of trade in higher education. But to categorise this traditionally accepted form of higher education purely as trade would limit its historical perspective. It amounts to an extension of present terminology to the past, when higher education was not included within the gamut of tradable services.

In the past few decades, the second mode of supply has witnessed enormous growth because of the large numbers of students traveling from developing countries to the west. This growth has created the basic ground for considering education as a tradable service in the first place. Rudner et al point out "As international economic advantage becomes increasingly linked to knowledge-based sectors, tertiary education, which generates much of this knowledge is being rapidly reconceptualised in tradeable terms" [Rudner 1997, p 1, Bennell and Pearce 2002]. This re-conceptualisation has led to the proliferation of new modes, particularly those concerning distance education and commercial presence. The emergence and growth of Mode I and Mode III has "piggybacked" on the traditional international movements in education, which are now categorised as Mode II. The new commercial dimension of education therefore is not reflected in the four modes in equal measure. Modes such as distance education, commercial presence and movement of professionals have originated in the recent period of growing commercial considerations.

Also, when location is the only attribute taken into consideration as done in GATS, an important aspect that gets shadowed is the shift in attitude that has emerged towards education over the past decade or so. Students are increasingly being called recipients or "consumers" and education, a "tradeable service". This phenomenon is being referred to as "trade creep", which is explained as "the quietly pervasive introduction of trade concepts, language and policy into the education sector. The nuance behind trade creep is an unconscious adoption of trade jargon and its underlying values" [Knight 2003a].

"Trade jargon" has crept into the area of education; but at the same time, the function of education at a national and global level has changed substantially. The compulsions of employment-oriented higher education have changed the attitude towards education, characterising it with a more commercial disposition. One can therefore say that the emergence of education as a "tradeable service", the introduction of "trade jargon" in the area of education, and the emergence of higher education as a passport to global employment are mutually reinforcing compulsions.

The recent phenomenal growth in the number of students travelling abroad has its origins in the relatively recent technology based employment reorientations of higher education. But the blueprint of this growth has historical origins. During the 20th century, when the colonised world was introduced to the western form of education, a flow of students from the developing world to the western universities emerged. This led to the clear demarcation of countries as "providers" and "recipients" of higher education. The trend continued and became stronger throughout the postcolonial period as well. The continued flow of students to these countries provides evidence to the predefined comparative advantage, which escalates to date. It is this comparative advantage in Mode II that would manifest in other modes as well and tends to get reflected in the proposals put forth at GATS.

The proposals seek the liberalisation of different modes through the progressive lifting of barriers. However, in the classification

of the modes, the nature of barriers is markedly dissimilar from the point of view of the "recipient" and "provider". The lifting of barriers for distance education (Mode I) and commercial presence (Mode III), involves a greater liberalisation of the educational services and capital markets in the developing countries. On the other hand, in the liberalisation of students going abroad (Mode II) and professionals travelling abroad (Mode IV), the barriers are not on part of the developing nations, but involve alterations in the immigration policies and labour markets of the developed countries. Hence, the negotiations on higher education would not only involve finding a mutual consensus on two extremities, but would also involve a dialogue on issues beyond the purview of education alone.

II

Analysis of Modes of Supply

Mode I – Cross Border Supply

The first mode includes the process of learning "without" the movement of consumers or providers. Different forms of distance education are covered in this mode. The existing barriers to this mode range from restrictions on electronic transmission to authorisation and validity of the awarded degrees and certifications.

The comparative advantage in this mode of supply primarily lies with the developed nations because of their superiority in information technology as well as quality education. There is a perception that this mode has very high potential for growth in the developed countries since their penetration level of internet is very high. However, the notion that high penetration levels alone will necessarily guarantee a larger market size in the developed world for distance education has its limitations. The use of information technology is prolific in the west, however recent research indicates that it acts only as a supplement to mainstream education. "On-campus is and will remain the dominant learning setting" [Collis and Wende 2002].

The infrastructure facilities available on account of a high penetration of information technology and networking in the developed nations have already created the prerequisites for providing higher education through e-learning. But, well-established infrastructure facilities for quality "on-campus" learning have also been in existence for a long time. Consequently, when it comes to choosing between distance education and "on campus" learning, there is an inter-mode competition, in which the on-campus mode of learning emerges as a preferred mode of supply.

On a comparative note, though the penetration level of internet is much lower in the developing world, the number of students seeking better quality higher education is very high. There is a strong possibility that the students of the developing world may view distance education offered by western universities as a better substitute than domestic mainstream education. The rationale being a marked preference for "brand name" more accepted in the domestic and international markets.

It is probable that when the e-courses become available on the net for aspiring students of countries like India, the ones demanded most could be the ones that originate from leading universities in the US or UK. Apart from the comparative advantage of "brand name", the leading universities in the US and UK also have the globally more acceptable English language advantage.

Existing data on the growth and scope of education delivered through distance and e-learning programmes do not provide much

insight into the reach of these programmes across borders [OECD Forum 2003]. However, as and when these courses are offered at a global level, the inherent advantages of nations are bound to surface.

For instance, American universities have the largest comparative advantage in the e-learning market across the globe, with one-third of American institutes of higher learning offering distance education courses in 1995 [Statistical Analysis Report 1997]. Such an extensive domestic proliferation of distance learning forms the basis of their comparative advantage. This advantage is already visible through the generation of innovative modes of delivery. For example, some universities in the US create no course content of their own, but serve instead as a hub for distance learning bringing together providers and students [ACE 1999]. When distance education would be further liberalised as part of GATS, these universities would be the largest beneficiaries.

Apart from the US, the other countries actively promoting distance education include the UK, Australia and New Zealand [OECD Forum 2003a]. This reflects a competition among the educational institutions of the developed world in which the developing world has very little participation as providers.

The proposal submitted by the US (S/CSS/W/23), identifies e-learning as one of the important modes of supply where the US has a comparative advantage. The proposal states "Higher education and training services are expanding rapidly, particularly through the use of the internet. Increasingly, educational institutions and publishers are teaming up with information technology companies and other experts to design courses on a variety of subjects. Large companies also are developing education and training courses to improve the skills of their employees and keep them up to date on their latest products". The US proposal thus concentrates on the "knowledge economy" aspect of higher education through internet and proposes to remove the main barrier on this mode namely – "inappropriate restrictions on electronic transmission of course materials". The US proposal spells out that many multinational companies, publishers and educational institutions would be expanding training services either in an "intra-company" manner or otherwise.

Within higher education, the US proposal identifies adult education and training services as the area for future liberalisation. It also covers the liberalisation of "educational testing services". If such services would be available on the internet they would come under the first mode, else they would be part of the third mode. The Australian proposal like the US reiterates the need to remove barriers in the use of internet.

From the perspective of the developing countries, the liberalisation of distance education via e-learning is an issue which demands due deliberation. On introduction, such courses would offer easy accessibility. Their compatibility to the domestic higher education needs to be addressed, since they may well become a threat to the mainstream higher education. Across the developing countries, the legal mechanism to restrict the penetration of such a parallel provider of education is presently inadequate.

Mode II – Consumption Abroad

The second mode includes the process of learning through the movement of recipients to higher educational institutions abroad. With an estimated market of \$ US 30 billion in 1999, education in Mode II alone (students travelling abroad) accounted for

around 3 per cent of the total trade in services among OECD countries [Larsen et al 2002a]. This data mainly constitutes of tuition fees and living expenses abroad. Barriers to this mode include visa restrictions, costs of living and studying abroad, recognition of prior qualifications, quotas on number of students, restrictions of employment while studying etc.

The US is by far the biggest exporter of educational services, followed by UK, Australia and Canada [Larsen et al 2002b]. The "export" earnings of OECD countries in Mode II have largely accelerated over the past two decades. The growth in US has been a steady one over time while growth of exports for recent entrants like Australia is at a much faster rate [OECD Forum 2003b]. The growth is undoubtedly fuelled by a rise in demand overseas. However, in case of the new entrants, there has been a constructive strategy to attract overseas students with aggressive marketing efforts, by projecting these nations as quality providers of higher education.

While globally, capital and information flowed largely from North America and Europe to Asia, the main flow of people has traditionally been in the reverse direction. "In 1954-55, there were an estimated 34,232 foreign students in American tertiary institutions, of whom 30 per cent were from Asian countries. By the year 2001, the number of Asian students to the US universities was a phenomenal 2,94,230, while the total number of students from Asia going to all OECD countries stood at 6,56,832" [Marginson and McBurnie 2003]. This growth in the migration of students particularly from Asia to OECD countries, which translates into incomes for OECD universities, needs to be scrutinised.

"The number of citations is a measure of quality: the US has 43 highly cited papers per million, Israel 39, Korea 0.12 and Egypt 0.02" [Carr-Hill 2003]. These figures indicate the high level of concentration in the area of academic research in favour of the west. On the other hand, the age structures of countries in Asia are such that the number of people demanding higher education is much more here than that among OECD countries. This surging demand for quality higher education is not entirely met in the domestic markets of the Asian countries.

In these circumstances, the academic superiority of western education and its perceived market value in the domestic employment market form a strong "pull" factor towards the western educational institutions contributing to further growth of Mode II. This growth of Mode II paves the way for comparative advantage in the developed world when commercialisation of education takes place.

Further, the proliferation of universities in the developed world has already created the infrastructural base to absorb a larger capacity of students [Theisens 2003]. And with a shrinking domestic demand, these countries are increasingly resorting to attracting foreign students. For example, "on account of a dearth of US applicants in US graduate programmes in science and engineering, these fields are especially dependent on the presence of international students. Enrolments in mathematics and computer science grew by 13 per cent from 2000-01 to 2001-02, perhaps reflecting the increases in Indian and Chinese enrolments" [Green and Knight 2003].

Countries like Australia and New Zealand, in spite of being late entrants, have been able to corner a share of the students travelling abroad for education. These countries have the advantage of tapping into the traditional pool of students, created on account of the acceptance of English as an international language.

Such a pool is lacking for other languages. Hence, higher educational institutions from non-English speaking countries will have to make additional efforts to attract oversea students. As part of this effort, most European universities are now offering courses in English [Eurydice 2000].

The comparative advantage in this mode has been and continues to be among the OECD countries, particularly the English language countries. Australia and New Zealand are relatively new entrants in the field of higher education trade and their proposals are not as elaborately defined as that of the US. The proposals however, reflect their position of comparative advantage in Mode II, that of "consumption abroad".

Mode III – Commercial Presence

The third mode includes the establishment of local branches of foreign institutions, as well as joint ventures set up by institutions of one country in another. The barriers to this mode cover issues such as market access, ownership patterns and capital movements. The issues of foreign direct investment (to acquire real estate and other infrastructure for education) as well as intellectual property rights (patenting of syllabi) also feature in this mode.

The awareness of availability and diversity of quality higher education in OECD countries has grown tremendously in the developing countries in recent times. But the expensive nature of higher education and high cost of living in the west limit the numbers only to those who can afford it, though an increasing number of students now resort to educational loans. Since OECD countries have an established comparative advantage in Mode II, the opening of branches, franchises or even joint ventures in the developing markets would greatly expand their scope.

In a country like India, the market for higher education has witnessed a high growth rate in selective fields of higher education. Areas like computer engineering and management, which are highly profitable with high demand due to their orientation towards immediate employment, have witnessed the highest growth and private participation [Sahni and Kale 2004]. The socio-economic inequalities inherent in a developing country are reflected in the regional disparities, costs and access to higher education. In this scenario, when the market opens up and such pressures will only increase as the GATS negotiations progress, there is a possibility of a further deepening of these inequalities.

The proposal by the US mentions the possibility of "intra-corporate movement", which would be a result of commercial presence. It also reflects the interest shown by multinationals in providing training services. The US proposal is extremely keen on removal of barriers to Mode III, as could be discerned from its requests to different countries [Jane Knight 2003b]. The US requests of removing the barriers to Mode III include removal of ownership limitations on joint ventures with local partners (Egypt, India, Mexico, Philippines, Thailand), removal of ban on education services provided by foreign companies and organisations via satellite networks, removal of requirements for foreign educational institutions to partner with Chinese universities (China), to mention a few.

The US proposal stresses the liberalisation of market access for a larger commercial presence in the developing world. The Australian proposal also reiterates the US position. Australian universities have opened many offshore branches in south-east

Asia. The proposal put forth by New Zealand requests a different kind of commercial presence, which would involve agencies to recruit overseas students (S/CSS/W/93).

Mode IV – Presence of Natural Persons

The fourth mode exclusively deals with movement of natural persons who are service providers (independent of commercial presence). Examples of trade in educational services under this mode could be teachers or researchers going abroad on a temporary basis as providers of services. The perceived barriers in this mode are mainly related to tight immigration policies, traditionally followed by the developed countries and the issue of recognition of qualification of professionals from developing countries.

Many developing countries have a comparative advantage in this mode, which can be exploited if the movement of natural persons would be liberalised. Hence, the removal of barriers to labour movements from developing countries is the main thrust in proposals put forth by the third world countries (TN/S/W 14). The negotiations so far do show deliberations on the issue of movement of natural persons as service providers. However, the movement of natural persons has been strategically restricted to only "intra-corporate" transferees. Most of the documentation in this mode is based on the "horizontal" basis. This means that movement of personnel between countries is considered only among the top layer of employees. In the main categories scheduled in the horizontal commitments, intra-corporate transferees and executives, managers and specialists occupy the highest numbers (239 out of the total 312)(S/CSS/W/12). The comparative advantage for the developing world can be realised if a far more comprehensive liberalisation of movement of natural persons would be included in the negotiations.

India has been one of the most vocal members trying to push liberalisation under this mode for all service providers. Even though commitment in higher education under this mode is yet to be negotiated, liberalisation of services other than education under Mode IV will definitely affect the movement of natural persons in higher education as well. The communication from India explicitly states that Mode IV is of primary interest to developing countries that have a comparative advantage in human resources. It expresses a concern regarding the sluggishness of response in liberalising this mode and states "Horizontal commitments in Mode IV are subject to limitations in the case of 100 countries as opposed to only four countries for Mode II. The effectiveness of even these limited commitments is further reduced through a host of limitations and administrative hurdles" (S/CSS/W/12).

India's proposal further states that existing commitments are largely linked to commercial presence, which is of very limited use to developing countries that are interested primarily in movement of independent professionals and other persons. India thus proposes to "delink" the movement of natural persons from Mode III. The Indian proposal also insists on:

(1) Common definitions and broad definitions of professional personnel (to include middle and lower level professionals) to be covered by horizontal commitments applying to all scheduled sectors together with a more detailed classification of categories of personnel by sectors with reference to the International Standard Classification of Occupation (ISCO), and removal of restrictions on the entry and stay of service providers,

(2) Clear criteria for Economic Needs Test (ENT)² or quantitative restrictions to be set out in a reference paper,

(3) A “GATS” visa for the broad range of personnel covered by horizontal and sectoral commitments under Mode IV; ordinary immigration rules should be disapplied for the purpose of gaining temporary entry and the procedures for obtaining temporary entry should be made more transparent, streamlined and expedited (visas to be granted within two-four weeks),

(4) Recognition of qualified and licensing requirements through Mutual Recognition Agreements (MRAs) and development of minimalist accreditation standards to overcome national requirements,

(5) Waiver in payment of social security taxes without corresponding benefits.

India’s proposal is bold and demands liberalisation in Mode IV mainly because of the large possibilities of export of service providers from information technology, medicine and engineering, finance, education, architecture and construction industry as also entertainment and hospitality industry. In a recent international rating India ranks sixth in overall skilled labour force and IT skills are second only to the US across all major economies (*Economic Times*, December 22, 2003). India, however, is not alone in demanding liberalisation of Mode IV. There is a proposal on Mode IV put forth by 14 developing countries jointly, including China, India and Mexico, which reiterates India’s position. (TN/S/W/14).

From among the developed countries the US (S/CSS/W/29), the European Union (S/CSS/W/45), Japan (S/CSS/W/42) and Canada (S/CSS/W/48) have put forward proposals concerning Mode IV. The proposal put forth by the US is entirely focused on transparency enhancements of the most general kind and does little to add to the general obligations on members under GATS. Japan recognises the increasing significance of Mode IV and states that liberalisation in this mode is a “win-win” situation for developing and developed countries. However, it does not really go beyond the scope of liberalising “intra-corporate transferees”. The Canadian proposal is the clearest in its intention to see improvements in the current schedules of commitments by all countries in Mode IV.

The European Community’s communication calls for reflection on the harmonisation of definitions and descriptions of “intra-corporate transferees”, executives, managers and specialists and urges members to elaborate on the common code of practices for Economic Needs Test (ENT). The communication also proposes improvements in access to information through national points of information. The EU’s proposal, however, does nothing to create expedited procedures for the temporary movement of defined categories of personnel.

A commentary prepared by the European Services Forum (ESF), while stating that they “strongly” support the Indian proposal goes on to doubt the possibility of its acceptance [Kerneis 2001]. It states that:

(1) By including lower levels of personnel including “specialist, technical or managerial personnel” that the Indian proposal has proposed, the ESF considers the scope of the Indian proposal goes wider than is likely to be achieved in practice.

(2) The ESF has some concerns about whether the ISCO nomenclature is the right one to address the specificity of job categories addressed by these negotiations.

(3) The ESF is doubtful whether the WTO provides a manageable framework for addressing differences between members about social security measures.

(4) By including the issue of mutual recognition of qualifications in these proposals, the ESF considers there is a significant risk that India’s proposals as a whole could be jeopardised if members are asked to tackle the difficult (and potentially very time consuming) issue of mutual recognition of professional qualifications on a multilateral basis as part of a package of improvements on mobility.

The above comments clearly show the reluctance of accepting the Indian proposal on the grounds that commitment on Mode IV should be treated separately from:

(a) Cutting the costs of movement (quick visas and waiver of social security taxes), and

(b) Recognition of qualifications.

The comparative advantage that India or any developing country could possess in movement of labour would precisely be realised only if the costs are low and their qualification is recognised. Otherwise, the liberalisation of so called “labour” would be limited only to “intra corporate transferees”. In which case, it would fall under the purview of Mode III – Commercial Presence. India, as the rest of the developing world, really needs to press on its demands in a more systematic manner to make a positive impact for the liberalisation of Mode IV.

III

Other Articles: Proposals and Requests

Article III – Transparency

The clause of transparency basically stipulates the publication of all the necessary information by each member regarding every relevant measure of general application, which would affect the operation of GATS. Under this article, each member has to promptly and annually inform the council for trade in services of the introduction of any new, or any changes to existing laws, regulations or administrative guidelines which would significantly affect trade in services. The article also stipulates that any member may notify to the council for trade in services any measure, taken by any other member, which it considers as affecting the operation of this agreement.

The US has submitted a special communication (S/CSS/W/102) regarding transparency in domestic regulation. It specifically states that transparency in domestic regulation is characterised as the availability of information necessary to evaluate the costs and opportunities of operating in a given commercial market. The clause of transparency as given in the GATS agreement does not mention the “need” for transparency in “commercial presence”. However, the US proposal interprets the clause, as “transparency is particularly important for service suppliers because of the complexity and costs involved in the establishment of commercial presence or the cross border supply of services”.

The US proposal states that some countries see transparency as an additional administrative burden, but they should view transparency as benefiting economic growth and development.

The issue of transparency is an uneasy one, especially for the developing countries, because it involves making the regulatory mechanism public and exposing its weaknesses in doing so. It also would infer setting up information centres, whose implications would not only include high costs, but may also entail

significant changes in the legal system of higher education that the countries may have in place. In this context, the Indian representative to WTO has stated, "transparency should not imply an additional burden on developing countries. Different legal systems exist and the clause should not require a comprehensive change in the legal systems" (S/CSS/M/12).

Article IV – Increasing Participation of Developing Countries

This article is exclusively devoted to increasing the participation of developing countries in the world trade in services. Currently, the involvement of developing countries in the world service trade as exporters is rather insignificant. This is in spite of constituting a significant proportion of the negotiating countries at GATS. Article IV of the GATS text proposes to improve (a) their domestic capacity, efficiency and competitiveness through access to technology on a commercial basis, (b) their access to distribution channels and information networks, and (c) the liberalisation of market access in sectors and modes of supply of "export interest" to them.

The text explicitly recognises the developing world's need for access to technology, access to distribution channels and market access in sectors and modes of supply. But the specific sectors of services for which the developing countries can have market access in the developed markets are still ambiguous. Further, there is a possibility of liberalisation commitments by developing countries not reciprocated in equal measure by the developing countries. The sequence of liberalisation (i.e., which mode of supply gets liberalised first) could have a bearing on the participation of the developing countries, and may turn detrimental to their interests.

The developing countries are pushing Article IV very strongly in a communication jointly put forth (S/CSS/W/131). Among other things, the proposal demands (a) provision of special and differential treatment to developing countries, with special priority for the LDCs, (b) special commitments, mainly by developed countries, (c) liberalisation of market access and modes of supply of export interest to developing countries.

The Article IV however, would face a certain difficulty in granting concessions to the developing world because the third world as it is traditionally known has undergone a great change in composition in the past decade or so. There are countries like China, India, Mexico, Argentina and many in south-east Asia that are vibrant economies with future growth potential and larger share in world trade, while many LDCs in Asia, Africa and Latin America would take much longer to lift any protective measures at all. The altered economic status of some of the third world countries shows that the economic capacity to cope with liberalisation is dissimilar among the third world countries.

On the other hand, there are LDCs that would probably benefit from commercial presence in higher education. It is highly possible, as seen at Cancun, that this difference in economic status may divide the issues at stake and may lead only to partial commitments from the developed countries.

Article VII – Recognition

One of the most important issues related to liberalisation of the educational sector involves the recognition of qualification as well as work experience. The Article VII of GATS states that

recognition will be based on a harmonised or otherwise system involving agreement or arrangement with a country concerned, or may be accorded autonomously. Each member is supposed to inform the council for trade in services of its existing recognition measures within 12 months from the date on which the WTO agreement takes effect. The process of recognition would involve international standardisation of quality and content of a particular degree, and the recognition of a certain university based on predetermined criteria.

Japan in its proposal has mentioned the need for a collaborative research on evaluating agencies in each country to maintain the quality of higher education supplied across borders (S/CSS/W/137).

From the developing world perspective, such international accreditation may prove to be one of the most difficult impediments in the process of opening up of developed markets for their services.

If the international criteria or "ratings" for recognition of qualifications are set high by educational institutions in the US or Europe, it would block entry of professionals from the developing world. This would be an added impediment to liberalisation of Mode IV. The gradation may also relegate some third world institutions of higher education to the periphery. On the other hand, recognition for the developed countries' universities may be much easier resulting in liberalisation in all four modes for them on account of their academic weight.

The issue of recognition could result in a divide even among the developing world educational institutions. Some of them may be universally recognised, while others may be thrown out of the process of internationalisation. The question here is not just the fate of such institutions, but also of their students and staff affected by the wave of internationalisation. In its proposal, India has stressed the need to simplify the procedures for recognition. It remains to be seen whether it would find takers at the negotiating tables.

IV Conclusion

The division of service trade in education according to the location of the recipient and provider alone is inadequate for understanding the trade flows, their historical origins and the comparative advantages established among nations.

Higher education is more compatible to trade agreements. But even within this field, the nature of the comparative advantages derived by nations needs to be taken into consideration before barriers to trade are lifted. Due consideration of these comparative advantages may lead to an agreeable solution at the negotiations. This would hold true not only in higher education, but in other services as well.

Proposals put forth by nations are reflective of the comparative advantages they hold. At the negotiation rounds, the sequence of proposals is in fact, a sequence of comparative advantages. The agreement is implemented in a gradual, progressive manner, in which case, the sequence of proposals and the order of negotiations gain importance. A country whose comparative advantages come to the negotiating table first stands to benefit over other countries. This sequencing by itself could consequently change the implications of the entire trade agreement. [17]

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Notes

- 1 Hindley and Smith (1984) examine whether theories of comparative advantage put forth to explain trade in goods can be applied to services as well. They note that while services may be different from goods, this in itself does not constitute a reason for believing that the logic of the theory of comparative advantage, or comparative cost, does not apply to them. Deardorff (1985) states that the law of comparative advantage applies to services if (i) one allows for certain specific characteristics of services, and (ii) the comparative advantage arises from differences in factor endowments. Overall, it appears that the literature has not established any objections against using goods theories of comparative advantage when analysing services, formally or empirically.
- 2 Economic Needs Test is referred to in subparagraphs (a) to (d) of Article XVII and is defined as “quantitative restrictions that limit numbers of service suppliers, value of transactions or assets, numbers of service operations or quantity of output, or total number of natural persons” (S/CSS/W/118).

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