# Employment and People-Movement Impact of Services Trade Liberalization

by

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Services Trade: New Approaches for the 21st century

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# Outline

- Trends in services output
- Trends in services exports
- Services employment
- Significance of IT-BPO for services employment
- Significance of mode 4
- Summary and concluding thoughts

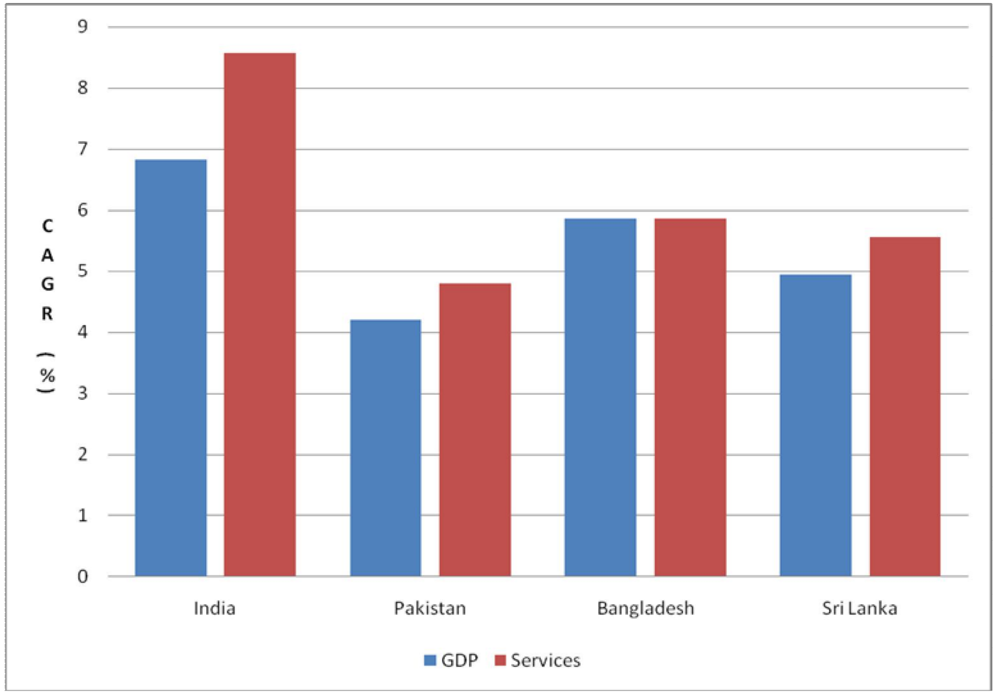
# Trends in Services Output

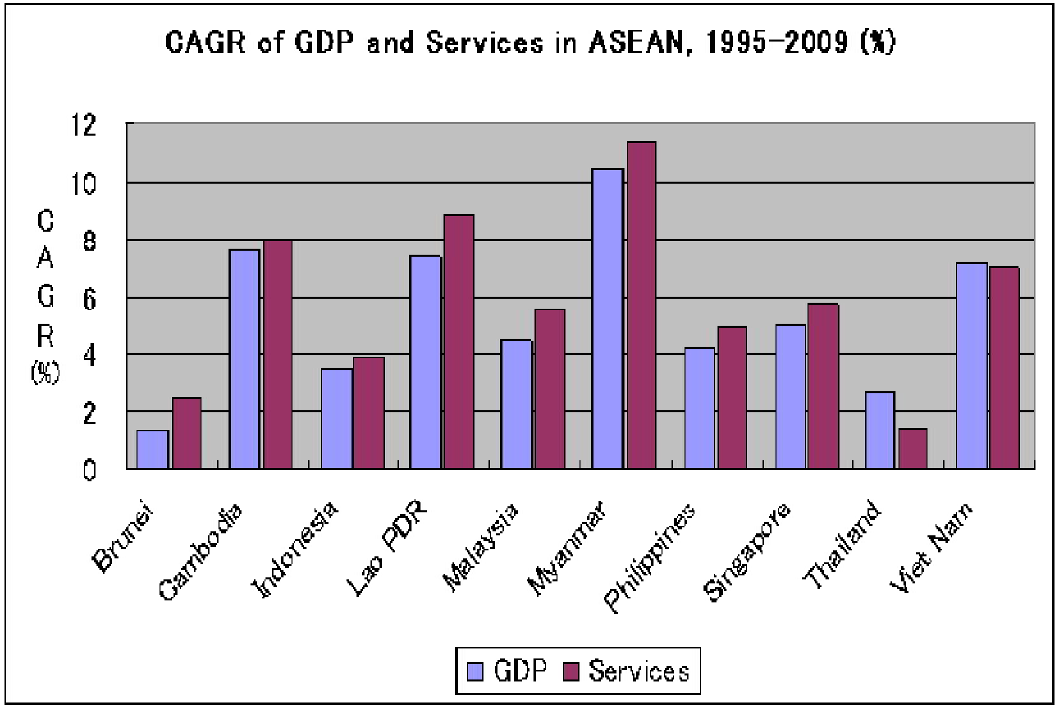
- Services outpaced overall economic growth in both regions
  - India has exhibited highest growth in South Asia
  - Thailand and Vietnam exceptions in ASEAN where manufacturing has driven growth

- Services share in GDP has increased in the 1990s and 2000s in both regions
  - In South Asia, construction, distribution, communication , financial services significant (12-20%), communication services shown highest growth
  - In ASEAN- trade and distribution services and other business services significant

- Trends in services GDP reflect importance of:
  - Deregulation and policy reforms (telecom and financial services)
  - Rising incomes and domestic demand (trade and distribution services, community, social and personal services)

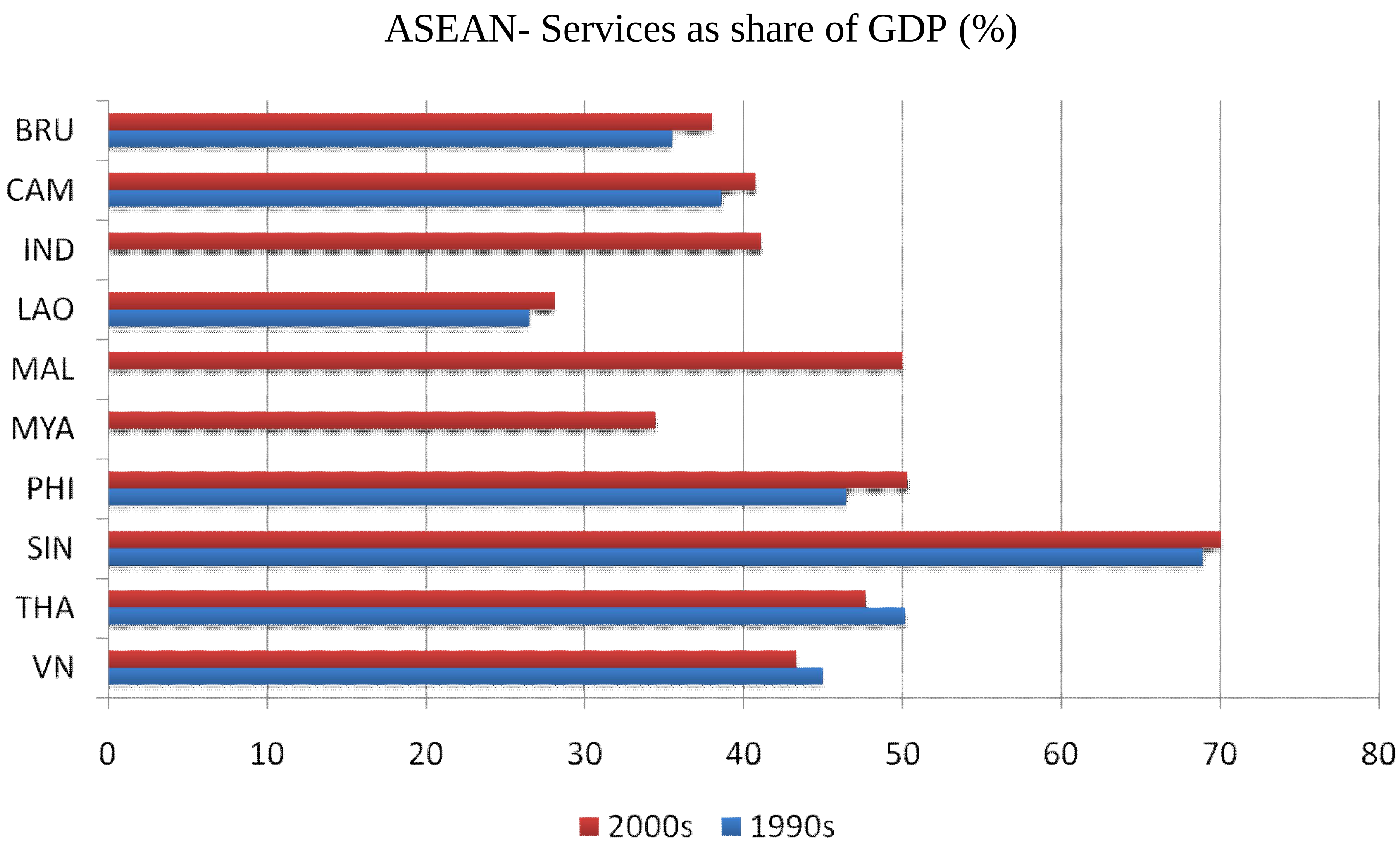
# CAGR of Services and Overall GDP in South Asia, 1995-2009 (%)



Sectoral composition of GDP in South Asian countries (%)

| | | 1980 | 1985 | 1990 | 1995 | 2000 | 2007 |
|---|---|---|---|---|---|---|---|
| **Bangladesh** | Agriculture | 40.70 | 38.28 | 34.65 | 30.06 | 29.52 | 24.49 |
| | Manufacturing | 13.66 | 12.95 | 14.35 | 17.81 | 18.00 | 20.88 |
| | Services | 45.64 | 48.77 | 51.00 | 52.13 | 52.48 | 54.62 |
| **India** | Agriculture | 37.15 | 33.80 | 30.20 | 25.93 | 21.99 | 17.83 |
| | Manufacturing | 17.88 | 19.72 | 21.87 | 23.26 | 22.11 | 21.57 |
| | Services | 44.98 | 46.47 | 47.93 | 50.81 | 55.90 | 60.60 |
| **Pakistan** | Agriculture | 30.11 | 26.57 | 24.89 | 25.38 | 24.26 | 20.90 |
| | Manufacturing | 18.79 | 20.59 | 22.81 | 22.40 | 22.93 | 25.39 |
| | Services | 51.10 | 52.84 | 52.30 | 52.23 | 52.81 | 53.71 |
| **Sri Lanka** | Agriculture | 30.64 | 28.71 | 25.33 | 21.98 | 18.76 | 15.59 |
| | Manufacturing | 20.59 | 20.59 | 23.72 | 26.39 | 28.95 | 28.80 |
| | Services | 48.77 | 50.70 | 50.94 | 51.63 | 52.29 | 55.61 |


ASEAN- Services as share of GDP (%)
BRU
CAM
IND
LAO
MAL
MYA
PHI
SIN
THA
VN
0
10
20
30
40
50
60
70
80
2000s
1990s

# Trends in services exports

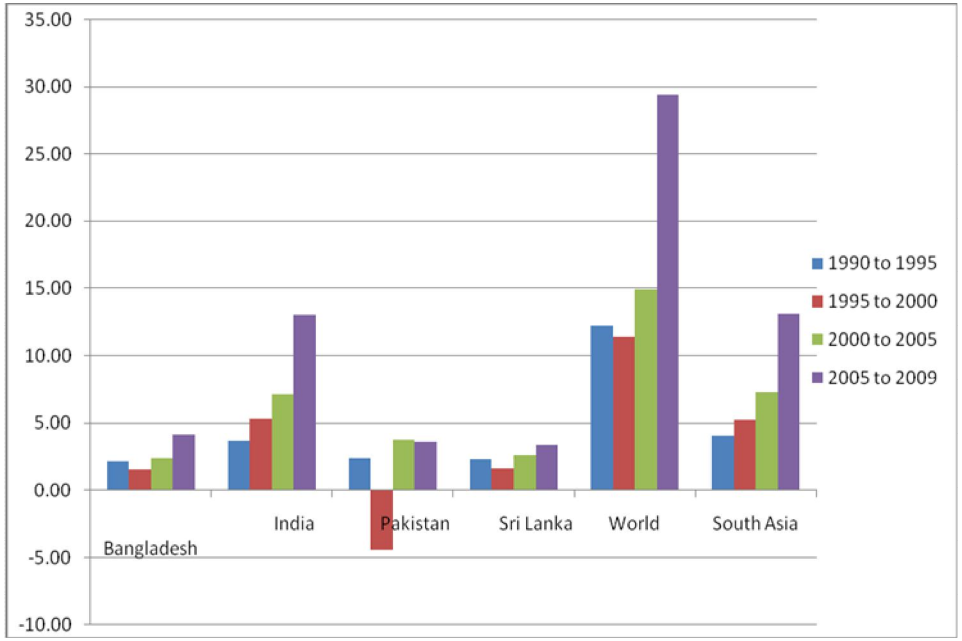
<u>South Asia</u>

- CAGR for services exports risen from less than 5% in 1990-95 to over 12% in 2005-09
- Region's share in world services exports grown, but trends mostly driven by India
  - India's share in world services exports risen from around 1% to 3% since 2000, others show meagre increases or declining shares
- Composition of services exports shifted from traditional towards "other" services
  - "Other commercial services" over 90% of India's and Sri Lanka's services exports
  - Computer and information services show most significant increase for all countries
- Trends reflect comparative advantage due to low cost, skilled labour, government policies to boost software services exports, and liberalization of telecom sector

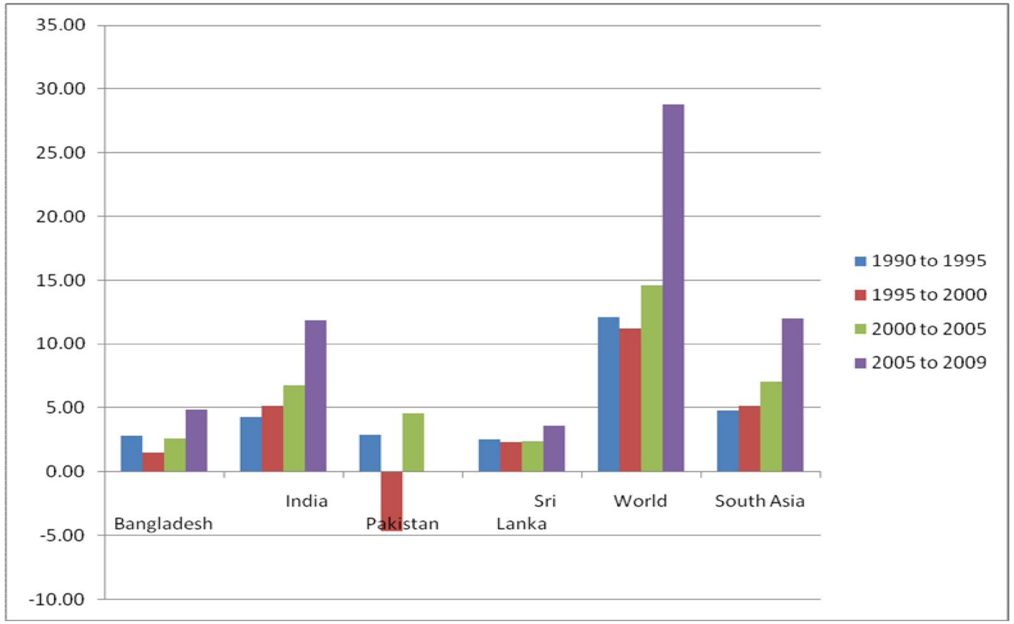
<u>ASEAN</u>

- Services exports growing but excepting Singapore, account for very low share in world services exports
- Services share in total exports increased only for the Philippines and Singapore
- Differences in services export composition across countries
  - Cambodia, Thailand, Indonesia- majority of service exports are from tourism
  - Philippines and Singapore- majority from other business services and computer and information services

CAGR of services exports in South Asia (%)



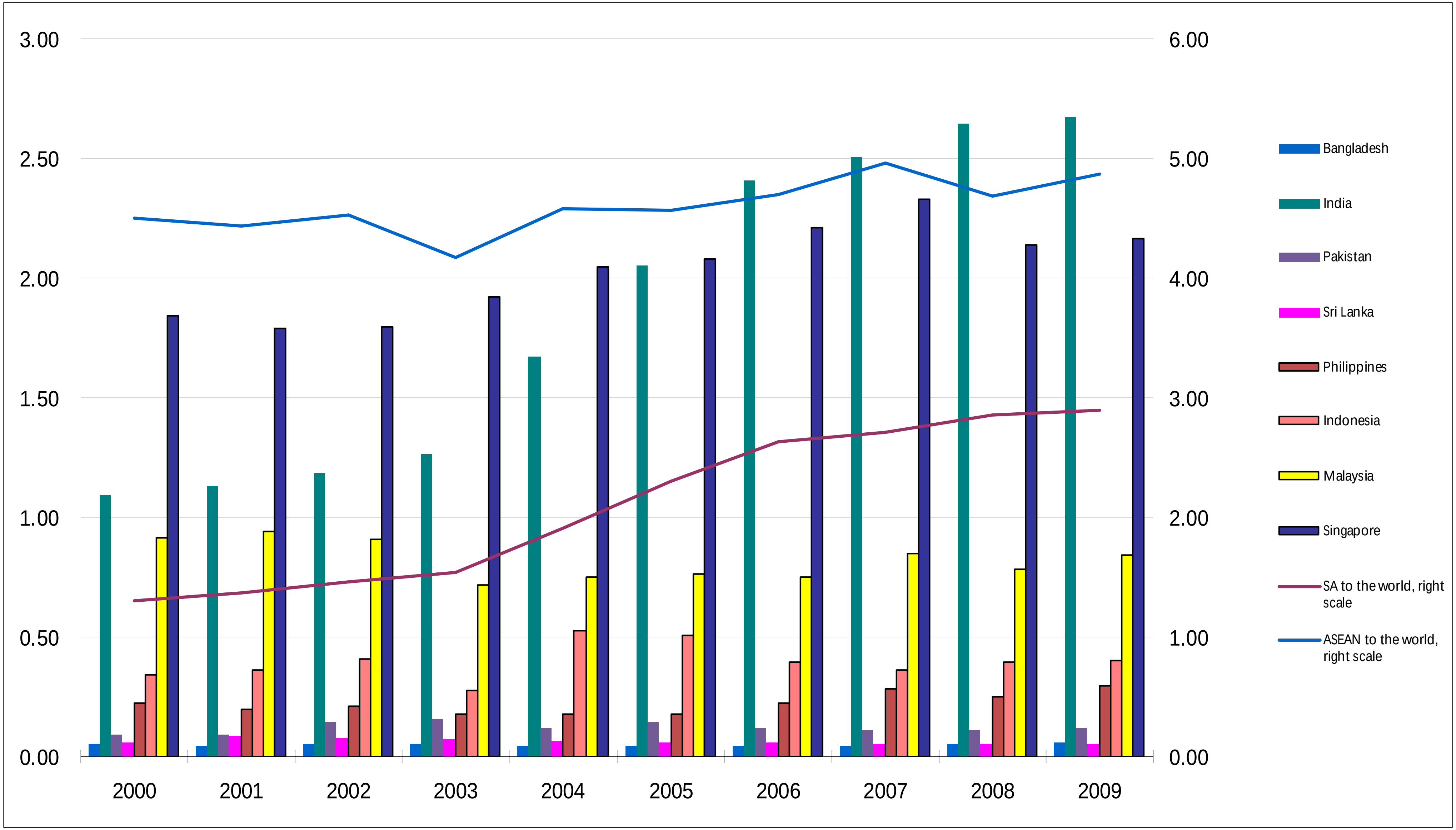

CAGR of services imports in South Asia (%)




Share of services in exports (%)

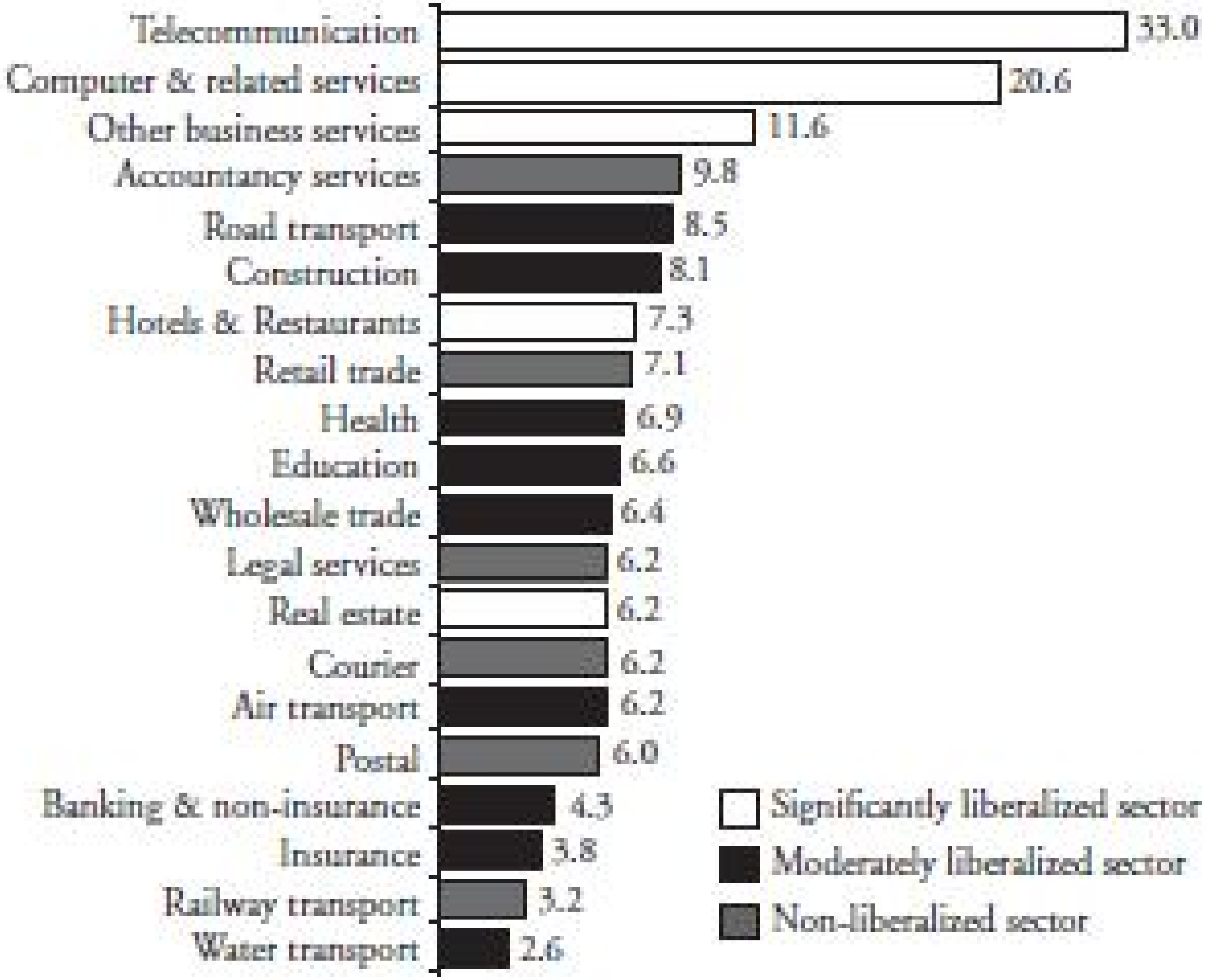
| YEAR | Bangladesh | India | Pakistan | Sri Lanka | South Asia |
|---|---|---|---|---|---|
| 1995 | 16.63 | 18.11 | 18.86 | 17.74 | 15.23 |
| 2000 | 11.31 | 28.25 | 13.26 | 14.74 | 19.25 |
| 2005 | 11.84 | 34.52 | 18.64 | 19.53 | 25.23 |
| 2009 | 11.42 | 35.91 | 18.98 | 20.49 | 28.39 |

# Asian share in world service exports




Asian share in world service exports has been growing but still negligible for most countries

India- Growth rates of Value Added and Liberalization of Selected Services in 1990s



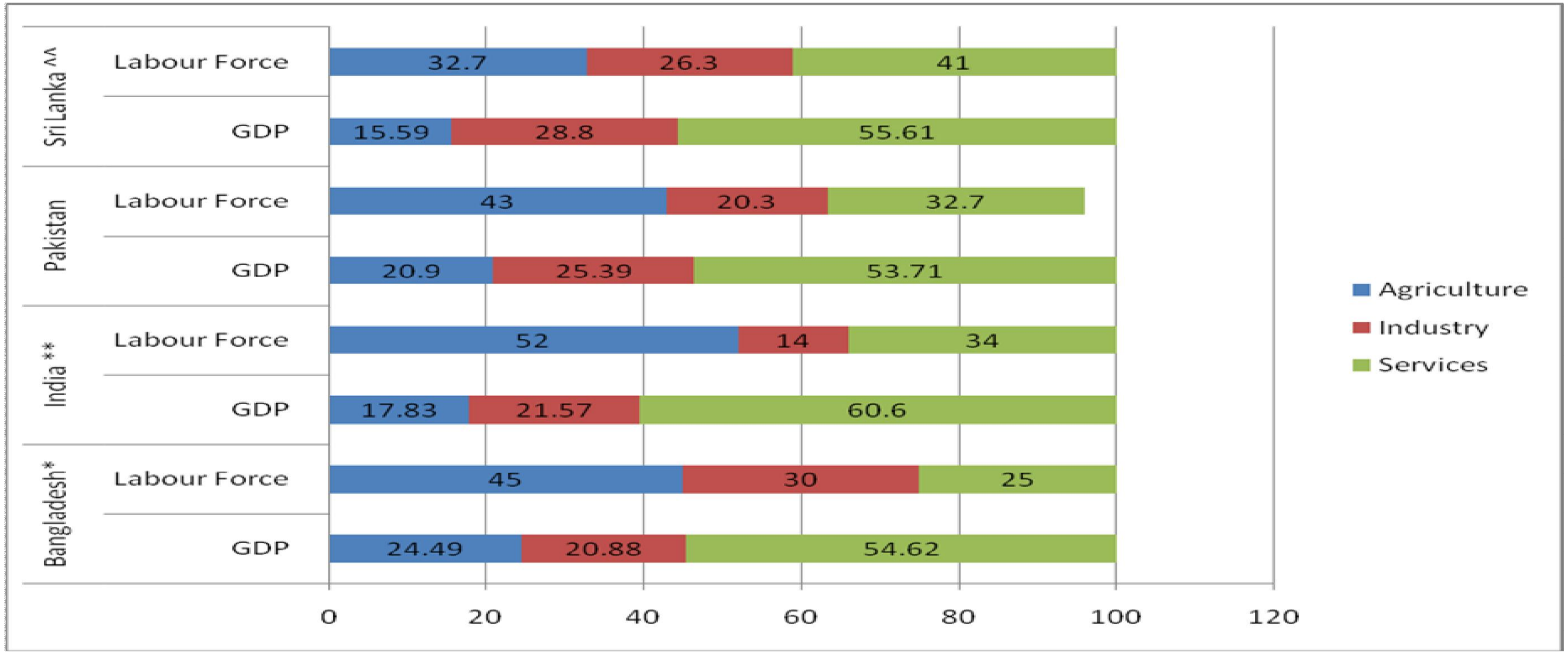

Some studies indicate positive correlation between extent of liberalization and growth in output in service sector

# Services Employment

South Asia

- Employment share of services increased in past 2 decades but less than in GDP
  - Share in labour force of 25-40%, almost stagnant, while GDP share of over 50%
  - Agriculture still accounts for 50% of total employment though declining GDP share
  - Even in India, employment share of services at only around 1/3rd,
    - Projected employment creation of 20-30 mn jobs between 2011-12 and 2016-17, more than in industry (in real estate, construction), with shortages expected in some services (IT-BPO, education, engineering, hospitality, healthcare, financial services)
  - Services not a major contributor to female employment,
  - Services employment mainly an urban phenomenon
  - Services sector not created long term quality jobs in the region
  - Share of informal and contract-based employment in services is high
  - Services have shown low employment elasticity (<1), declined over past 2 decades
  - Lack of employment-intensive services growth seen as reflecting :
    - TFP based growth in services rather than increased factor accumulation
    - Pattern of services growth

## Services contribution to GDP and employment in South Asian countries (%)




## Select indicators comparing the employment situation in South Asia vis-à-vis the world

| | Indicator | 1997 | 2007 |
|---|---|---|---|
| **World** | Share of Agriculture in total employment | 41.4 | 34.9 |
| | Share of Industry in total employment | 21.1 | 22.4 |
| | Share of Services in total employment | 37.5 | 42.7 |
| | Unemployment Rate (%) | 6.1 | 6.0 |
| | Vulnerable employment as share of total employment (%) | 52.8 | 49.9 |
| **South Asia** | Share of Agriculture in total employment | 59.4 | 48 |
| | Share of Industry in total employment | 15.3 | 21.7 |
| | Share of Services in total employment | 25.2 | 30.3 |
| | Unemployment Rate (%) | 4.7 | 5.1 |
| | Vulnerable employment as share of total employment (%) | 80 | 77.2 |

## Bangladesh-Share of Employment and Labour force by Occupation by Sector, 1999-2009 (%)

| | Agriculture | Industry | Services |
|---|---|---|---|
| **Employment share** | | | |
| 1999 | 59.5 | 15.4 | 25.1 |
| 2007 | 53.5 | 18.9 | 27.6 |
| 2008 | 53.5 | 18.9 | 27.6 |
| 2009 | 53.5 | 18.9 | 27.6 |
| **Labour force by Occupation** | | | |
| 2000 | 62.1 | 10.3 | 27.6 |
| 2005 | 48.1 | 14.5 | 37.4 |
| 2008 | 45.0 | 30.0 | 25.0 |

## India-Share of Sectors in Employment, selected years (%)

| Year | | Primary | Secondary | Tertiary |
|---|---|---|---|---|
| 1993-94 | | 64.5 | 14.3 | 21.2 |
| 2004-05 | Overall | 57.0 | 18.2 | 24.8 |
| | Male | 71.4 | 12.6 | 16.1 |
| | Female | 85.4 | 8.9 | 5.7 |
| | Urban | 6.6 | 32.8 | 60.6 |
| | Rural | 17.7 | 29.3 | 53.0 |
| 2007-08 | | 55.9 | 18.7 | 25.4 |

| Year | GDP growth rate | Projected Employment (in million) | | | |
|---|---|---|---|---|---|
| | | Agriculture | Industry | Services | Total |
| 2011-12 | 9% | 229.2 | 105.0 | 153.5 | 487.7 |
| | 7% | 225.4 | 102.0 | 149.0 | 476.4 |
| | 5% | 221.5 | 99.1 | 144.6 | 465.2 |
| 2016-17 | 9% | 240.2 | 126.2 | 189.5 | 555.9 |
| | 7% | 232.0 | 116.8 | 174.8 | 523.5 |
| | 5% | 224.0 | 108.1 | 161.2 | 493.3 |

Pakistan- Share of employment and gender distribution by major sectors, selected years (%)

| Year | | Primary | Secondary | Tertiary |
|---|---|---|---|---|
| 1999 | Overall | 47.4 | 16.9 | 35.6 |
| | Male | 44.5 | 19.4 | 36.1 |
| | Female | 72.9 | 9.0 | 18.1 |
| 2005 | | 43.1 | 20.2 | 36.6 |
| 2008 | | 44.8 | 20.0 | 35.3 |

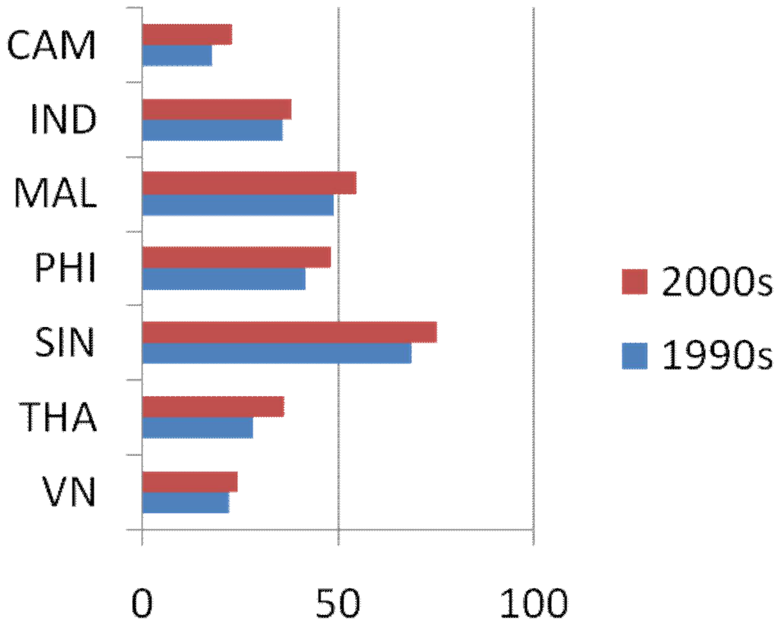
Sri Lanka- Share of labour force and employment by sectors, selected years (%)

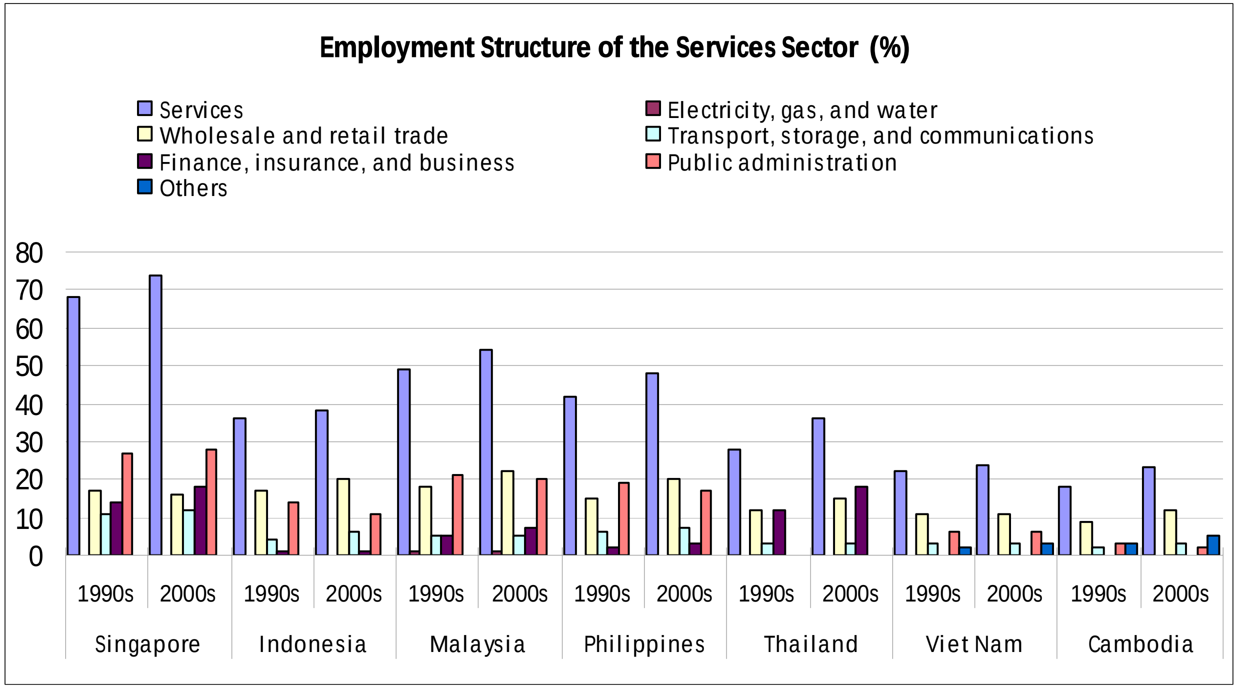
| | Agriculture | Industry | Services |
|---|---|---|---|
| **Employment share** | | | |
| 2002 | 40.4 | 16.5 | 43.1 |
| 2006 | 39.6 | 19.2 | 41.2 |
| 2008 | 40.1 | 18.9 | 41.0 |
| **Labour force by Occupation** | | | |
| 2002 | 34.5 | 22.4 | 43.1 |
| 2006 | 32.2 | 26.6 | 41.2 |
| 2008 | 32.7 | 26.3 | 41.0 |

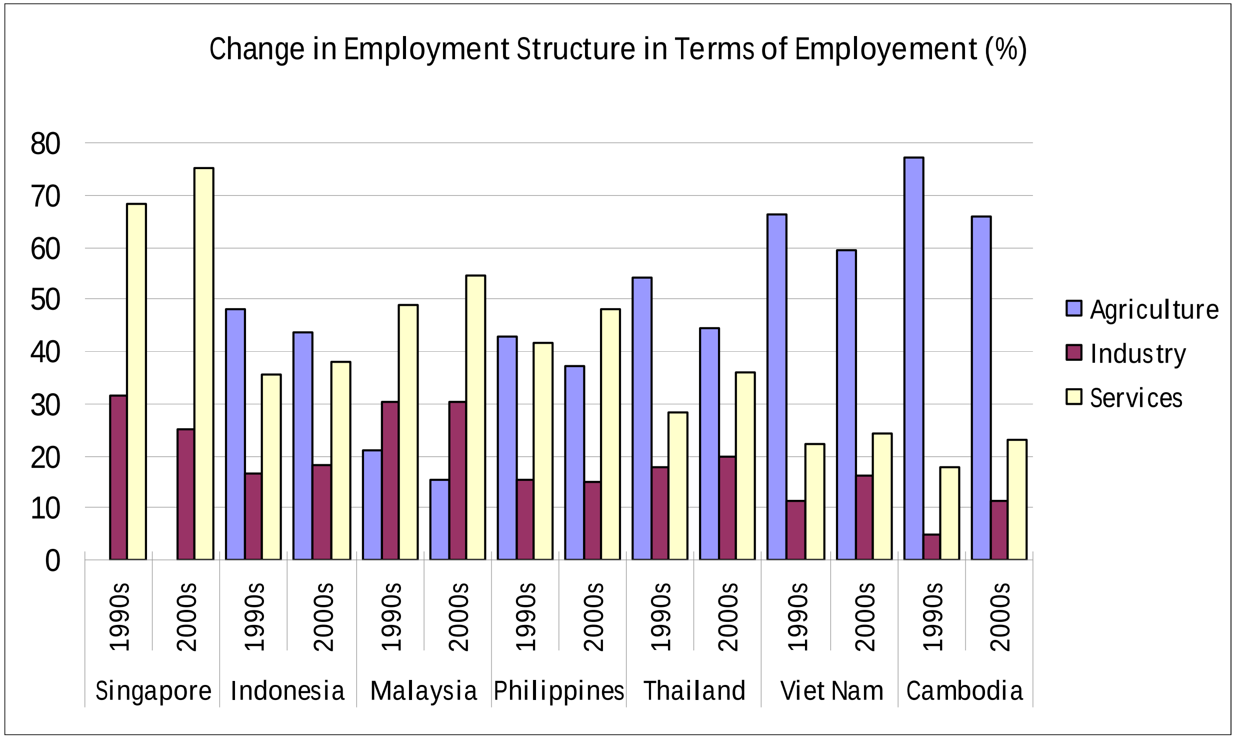
ASEAN

- Services a large employer in almost all countries, it share in employment grown between 1990s and 2000s for all countries, faster growth post 2000
- Decline in employment share in agriculture matched in most countries by rise in services share of employment, employment growth in industry stagnant or declined
- Female share in services employment high
- Distribution services is the biggest employer (which may reflect hidden unemployment) along with public administration
- Employment in services mostly in very low-productivity sectors, in small and micro enterprises
- Some countries have certain strong sectors with high share of services employment compared to that in the rest of the region
  - Thailand- hotels and restaurants linked to tourism sector
  - Malaysia- education sector
  - Philippines and Indonesia - transportation and communication

# Employment Share of Services: Growth from 1990s to 2000s



## Commonalities and differences in services employment

- In both regions services share in employment grown, more so in ASEAN
- Contribution to female employment greater in ASEAN
- Services have absorbed surplus labour from agriculture in ASEAN but not in South Asia
- Informalization/self-employment in services evident in both regions

- Thus the two regions clearly differ in their patterns of services growth and factors underlying this growth
- TFP growth more of a driver of services growth in South Asia while factor accumulation in labour intensive activities seems to be more of a driver in ASEAN

- Raises questions about :
  - Viability of a services led growth paradigm in South Asia if unable to absorb excess labour from agriculture
  - Nature of employment growth in services within ASEAN-in low productivity, informal, self-employed services primarily

- No specific thrust evident for skill development and employment policies concerning the service sector, though support for institutes of technology and engineering in some countries (India) has indirectly contributed to growth and employment in selected services (IT)

# Significance of IT-BPO for services employment

- IT-BPO exports important driver of services exports and value added in several Asian countries

- Main facilitator for IT-BPO services is manpower
  - Availability of English speaking skilled manpower, low labour costs

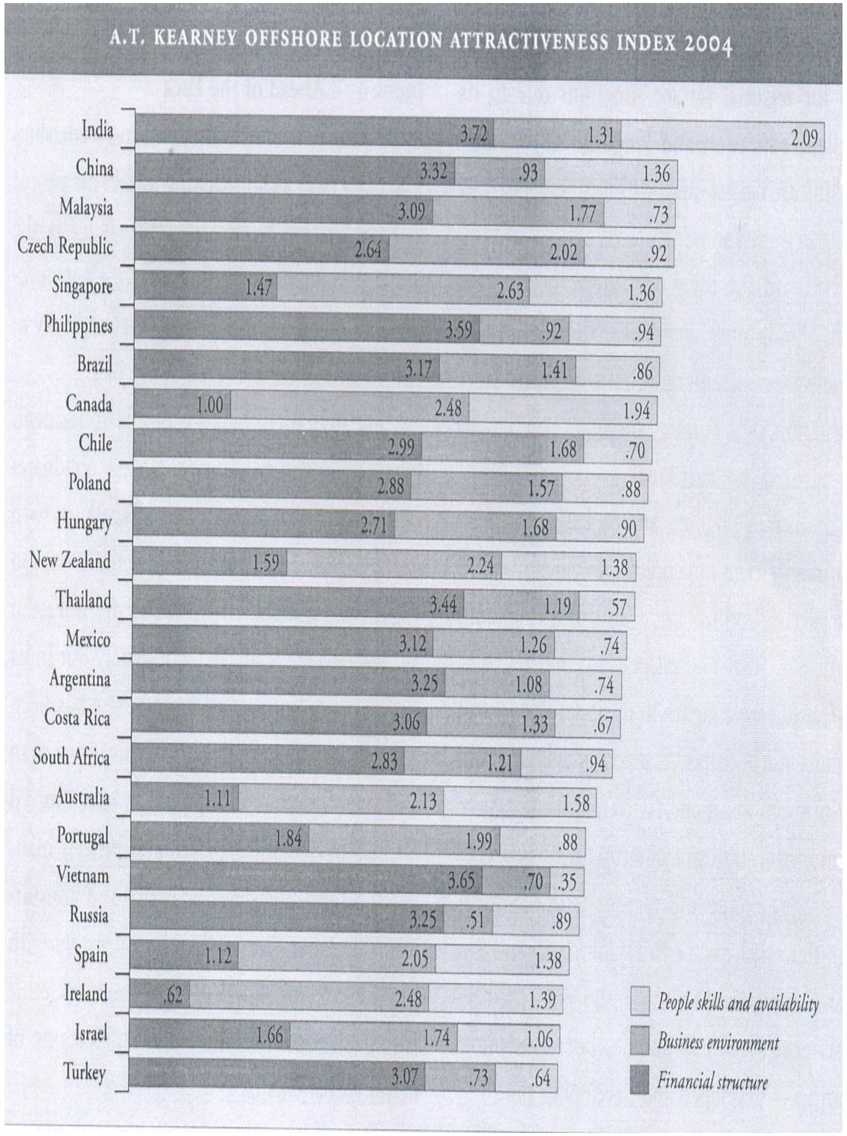
- Growth in IT-BPO services exports accompanied by rapid increase in
  - Direct employment of skilled persons
  - Indirect employment in supporting services (transport, real estate, catering, housekeeping, security, training)

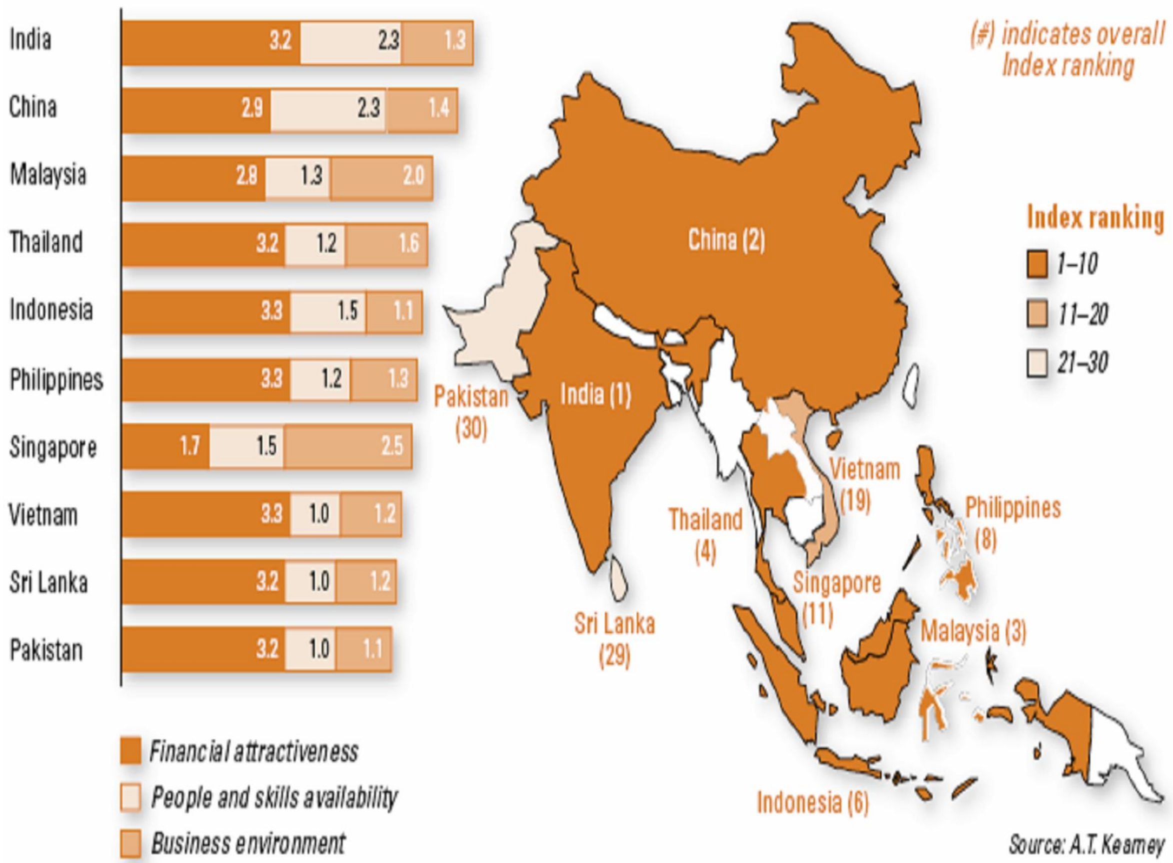
- Positive socio-economic and gender implications

- Though employment prospects very promising, constraints emerging due to demand outstripping supply of skilled graduates, problems of quality, attrition, rapid wage increases undermining human resource and cost advantage

- Several Asian countries are giving special attention to employment needs of IT and ITeS sector in their skill development and capacity building strategy through government initiatives, collaboration with industry bodies

# Attractiveness index for offshore locations



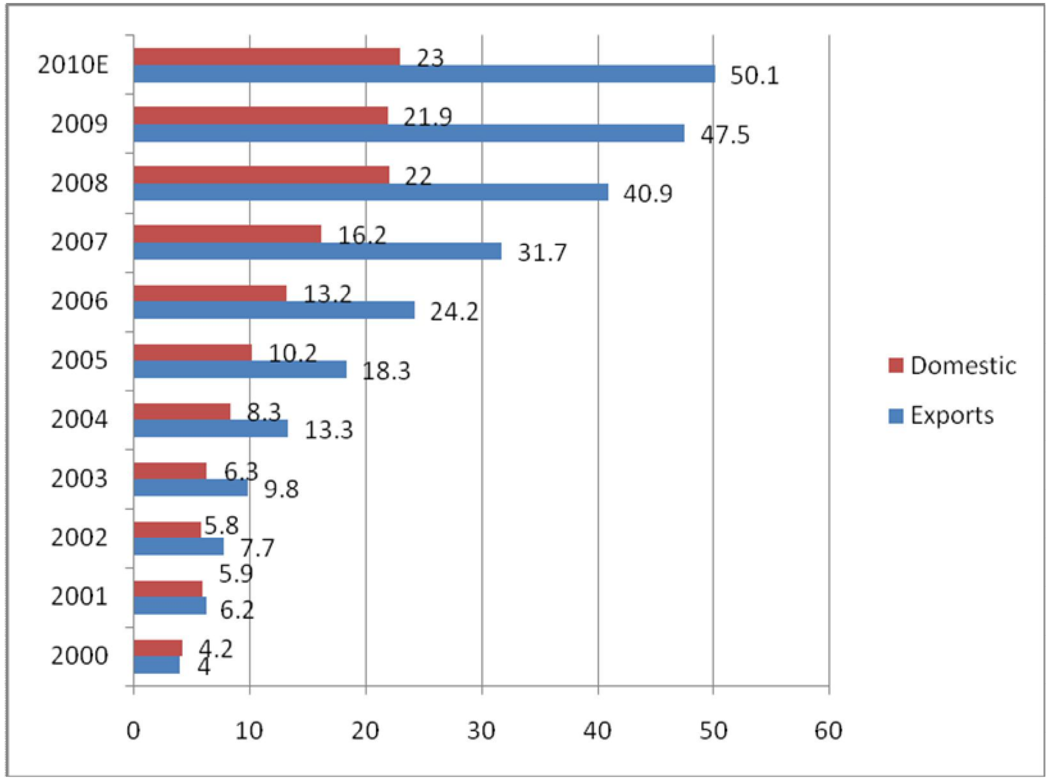
| Country | Salary of Graduates US $ p.a. | Total Number of graduates p.a. |
|---|---|---|
| India | 2400 | 2,000,000 |
| China | 2000 | 950,000 |
| Philippines | 2900 | 380,000 |
| Mexico | 1400 | 137,600 |
| Ireland | 19500 | 43,200 |
| Malaysia | 7200 | 30,000 |
| Singapore | 16500 | 12,500 |

Competitive advantage due to low manpower costs

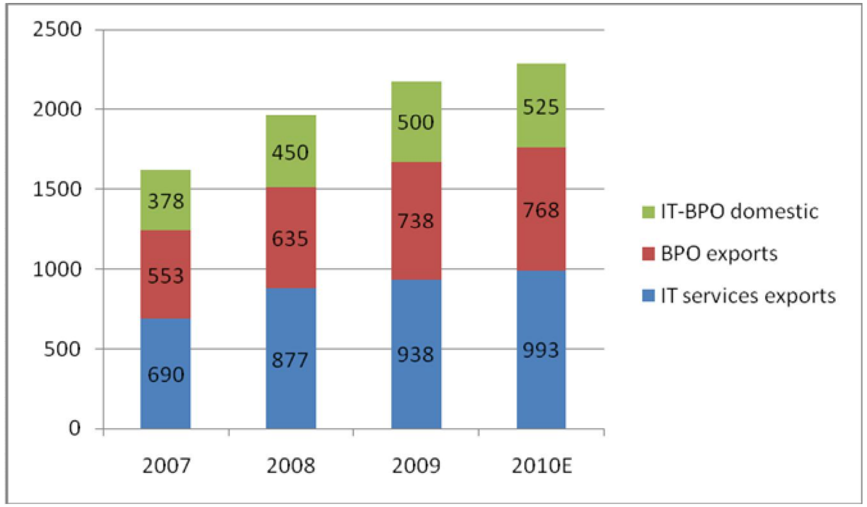
Manpower is the key facilitator

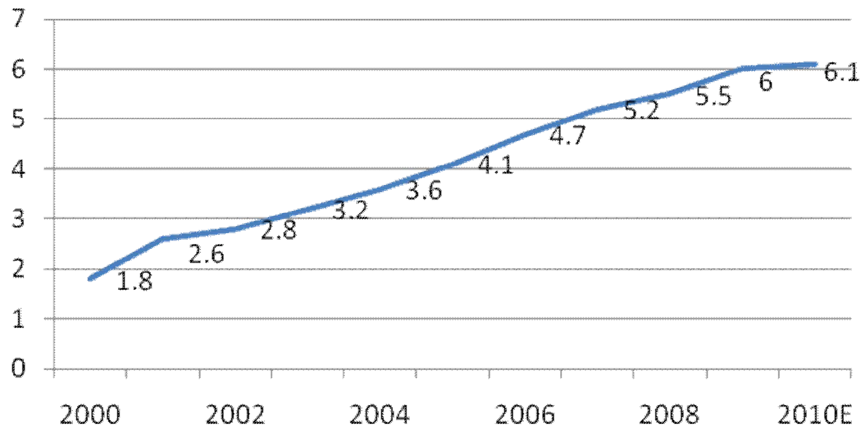
# Case of India

India-Trends in IT-BPO Revenue, 2000-2010 (US $bn)




India-Direct employment in the IT-BPO sector, 2007-2010 (('000s)




IT-BPO share in GDP (%)

- IT-BPO services provide direct employment to over 2.3 million, up from less than a few hundred thousand persons a decade ago

- Provide indirect employment to more than 8.2 million people in support activities such as training, transport, real estate

- 91% of this employment in Tier 1 Indian cities but 2$^{nd}$ and 3$^{rd}$ tier cities seen a 50% increase in employment between 2007-09

- Helping upward mobility of women, youth, and disadvantaged social classes
  - 30 % of employment in the 18-25 year age group
  - 4% by economically backward groups
  - 31% are women

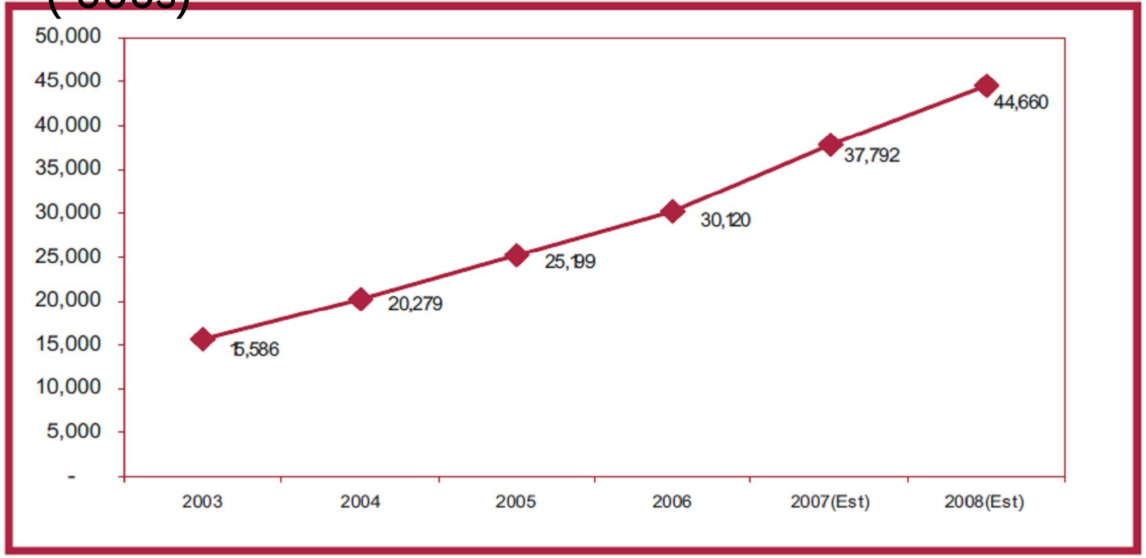
- For every one person directly employed in the outsourcing industry, 3 persons indirectly employed in other areas

- Projected incremental employment requirement of anywhere between 3.8 million to 8.5 million persons between 2008-22

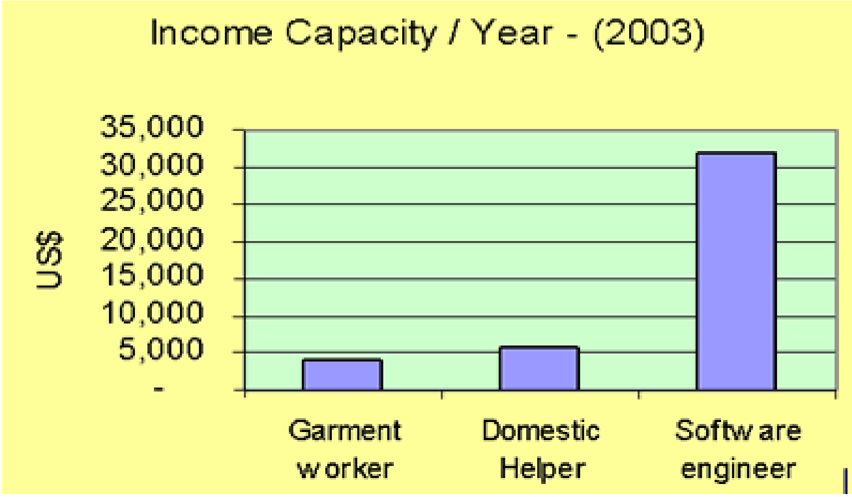
- But projected shortage of skilled manpower, from management to frontline operations, resulting in salary increases of 30-40 percent in the near future

# Case of Sri Lanka

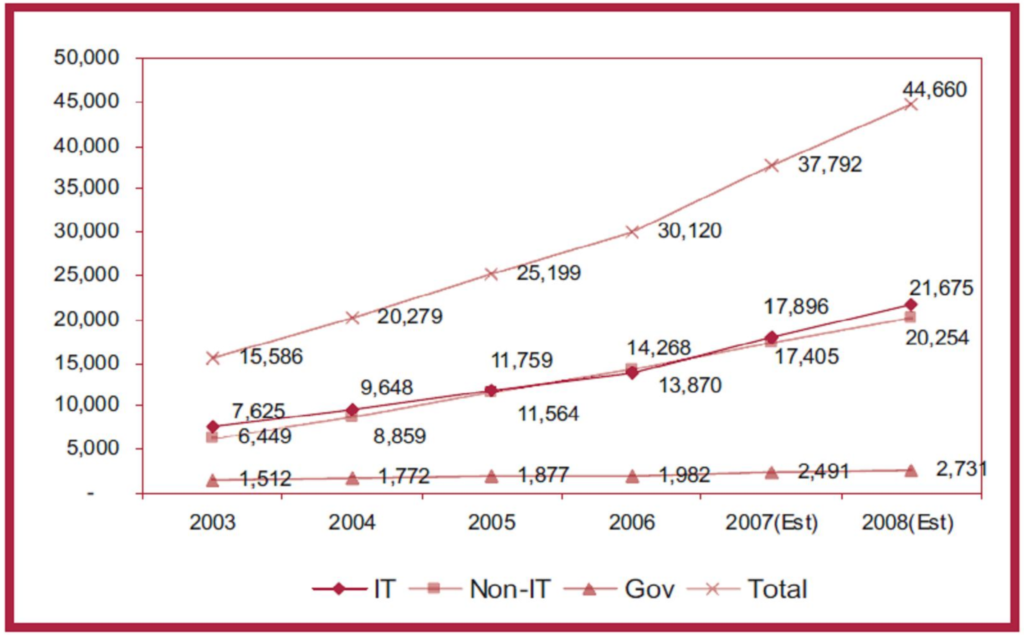
Sri Lanka- Overall IT workforce growth trend 2003-08 ('000s)



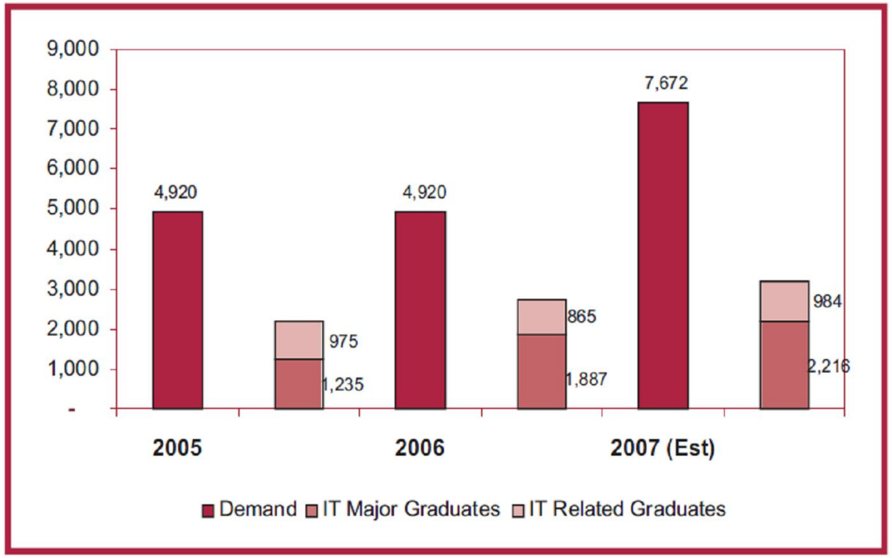

Annual income in software and other sectors (US $)




Comparison of Sri Lanka's IT workforce with the non-IT and Government workforce ('000s)




Demand for IT professionals versus supply of graduates in Sri Lanka



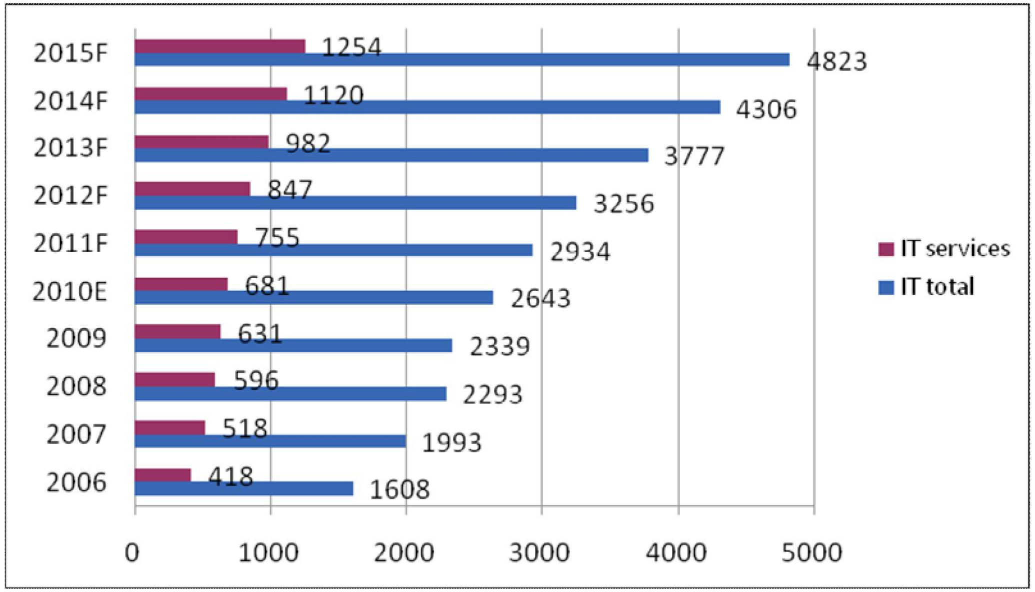
# Case of the Philippines

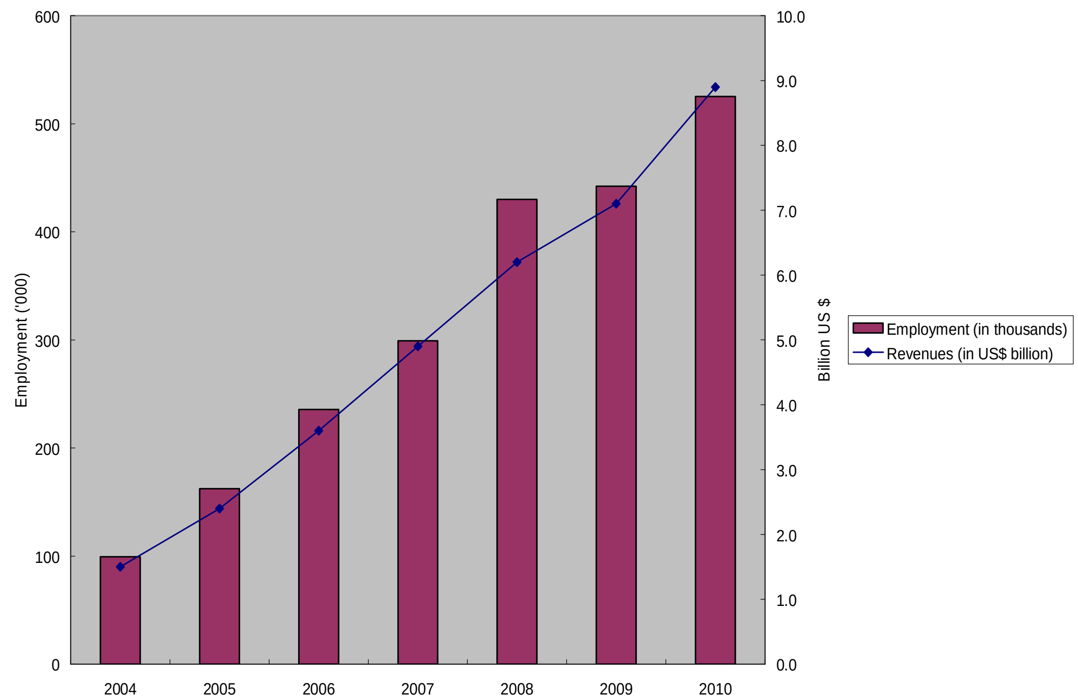
Trends in IT revenue in the Philippines, 2006-15 (US $mn)

16 | Philippines: The New Outsourcing Hub—A Debrief on the International Outsourcing Summit

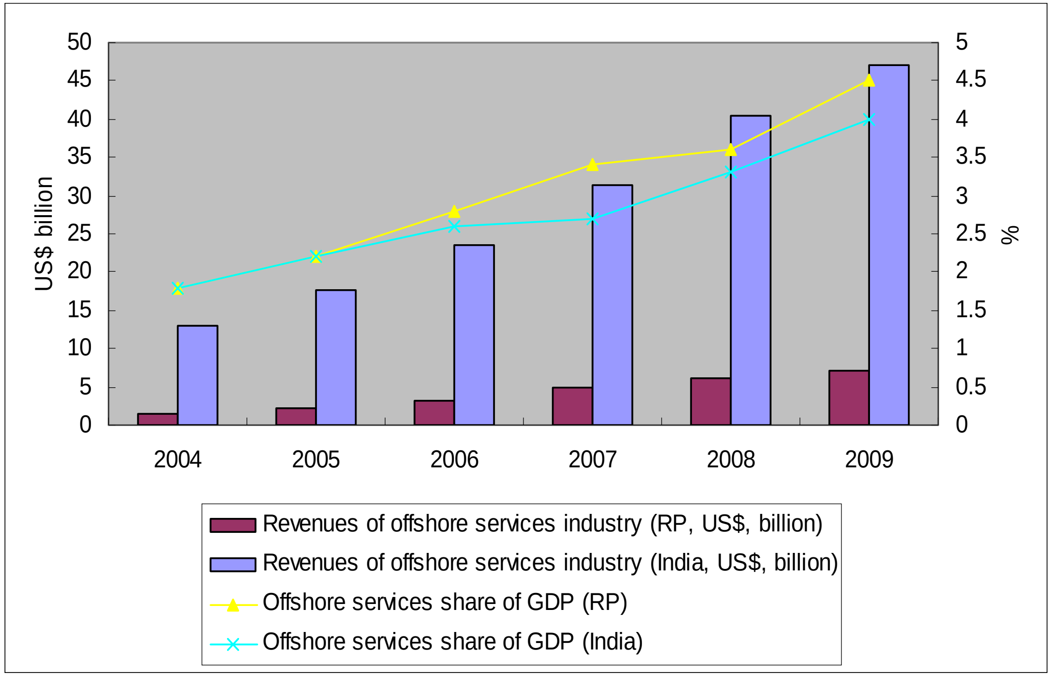
**Philippine IT-BPO Industry Performance in 2010**
(January 1 to December 31)

| Sector | Employment (FTES) | Growth from 2009 | Revenue (US$ million) | Growth from 2009 |
|---|---|---|---|---|
| Voice BPO | 344,000 | 23% | 6,100 | 21% |
| Non-voice BPO and KPO | 101,750 | 16% | 1,628 | 30% |
| IT outsourcing | 44,962 | 27% | 725 | 28% |
| Transcription | 14,000 | 8% | 102 | 11% |
| Engineering services outsourcing | 10,600 | -12% | 201 | -12% |
| Animation | 8,640 | 8% | 142 | 18% |
| Game development | 1,230 | 92% | 9 | 100% |
| **TOTAL** | **525,182** | **24%** | **8,907** | **26%** |



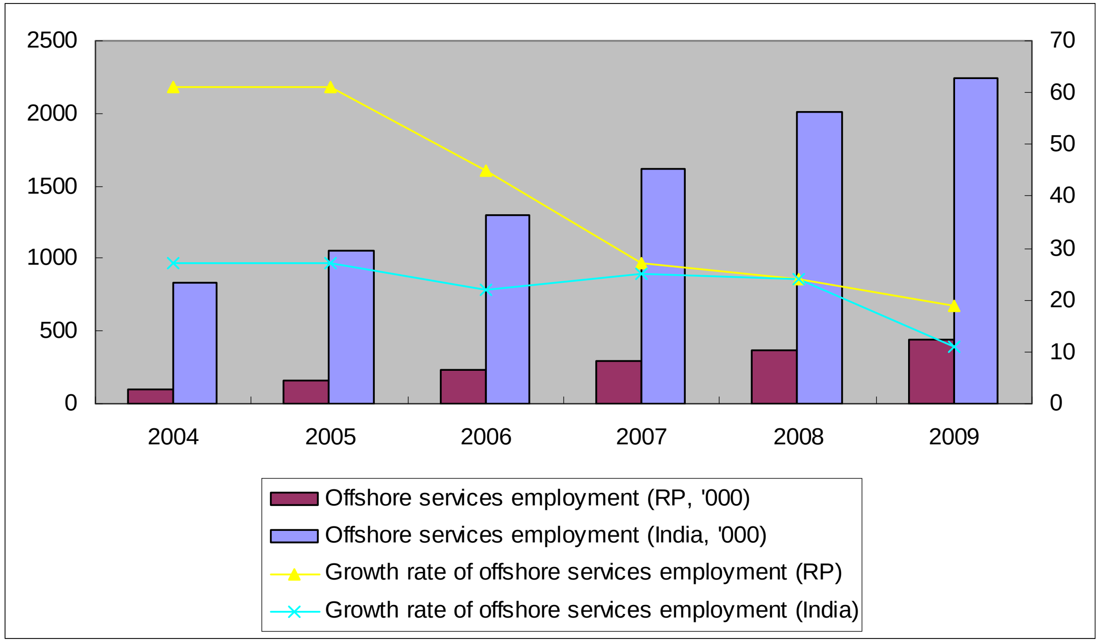



# The two main exporters in Asia- India and the Philippines




## Offshore services revenue and GDP share

## Offshore services employment



Cross-country primary survey results for impact of BPO services on employment (% firms)

| | Philippines | India | China |
|---|---|---|---|
| Impact on Direct Employment (% of firms) | | | |
| Not Significant | 20 | - | 2 |
| Moderately Significant | 35 | 14 | 48 |
| Highly Significant | 45 | 86 | 50 |
| Impact on Indirect Employment (% of firms) | | | |
| Not Significant | 23 | 2.5 | 14 |
| Moderately Significant | 48 | 32 | 64 |
| Highly Significant | 28 | 65.5 | 22 |

Significant share of employees are female

| Ancillaries | China | India | Philippines |
|---|---|---|---|
| Transport | 68 | 81 | 45 |
| Catering | 64 | 54 | 33 |
| Training | 56 | 50 | - |
| Security | - | - | 27 |

Top 3 ancillaries affected by BPO industry (% of firms)

# Significance of Mode 4

<u>South Asia</u>

- One of the main source regions for low skilled, semi-skilled, and skilled service providers
- Gulf major destination region for low and semi-skilled workers
  - accounted for around 80 percent of temporary contractual workers in this region
- OECD countries main destination for skilled workers, esp. in IT, health, engineering
- Some are also destination countries -subregional movement mainly to India
- Benefited source countries through knowledge and skill transfer, investment

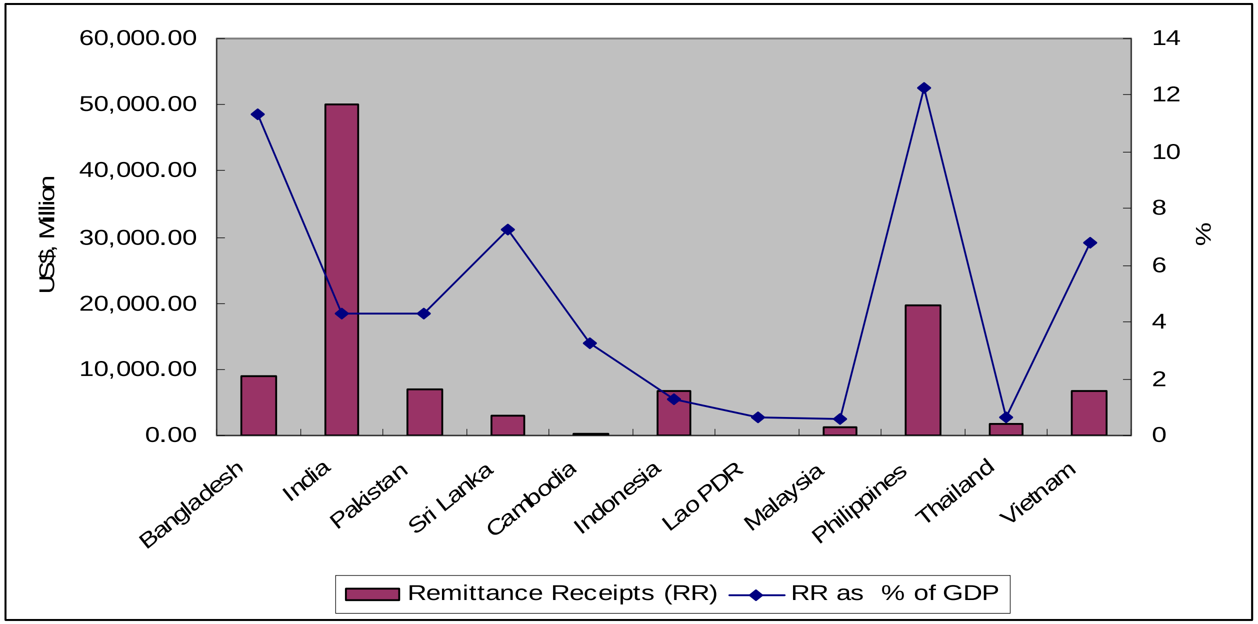
<u>ASEAN</u>

- Philippines most significant source country with similar mode 4 characteristics (profile and destination) as South Asian countries
- Malaysia and Singapore are destinations for workers from rest of ASEAN

<u>Both regions</u>

- For both regions, much of these outflows relate to employment in construction, transport, tourism, housework, IT, engineering, health, and various other services
- Remittance receipts are significant for most countries, 3 to 8% or more of GDP
- Main barriers to mode 4- immigration regulations, recognition requirements

# Remittances received in Asia by main countries of origin, (US $ billion and % of GDP)

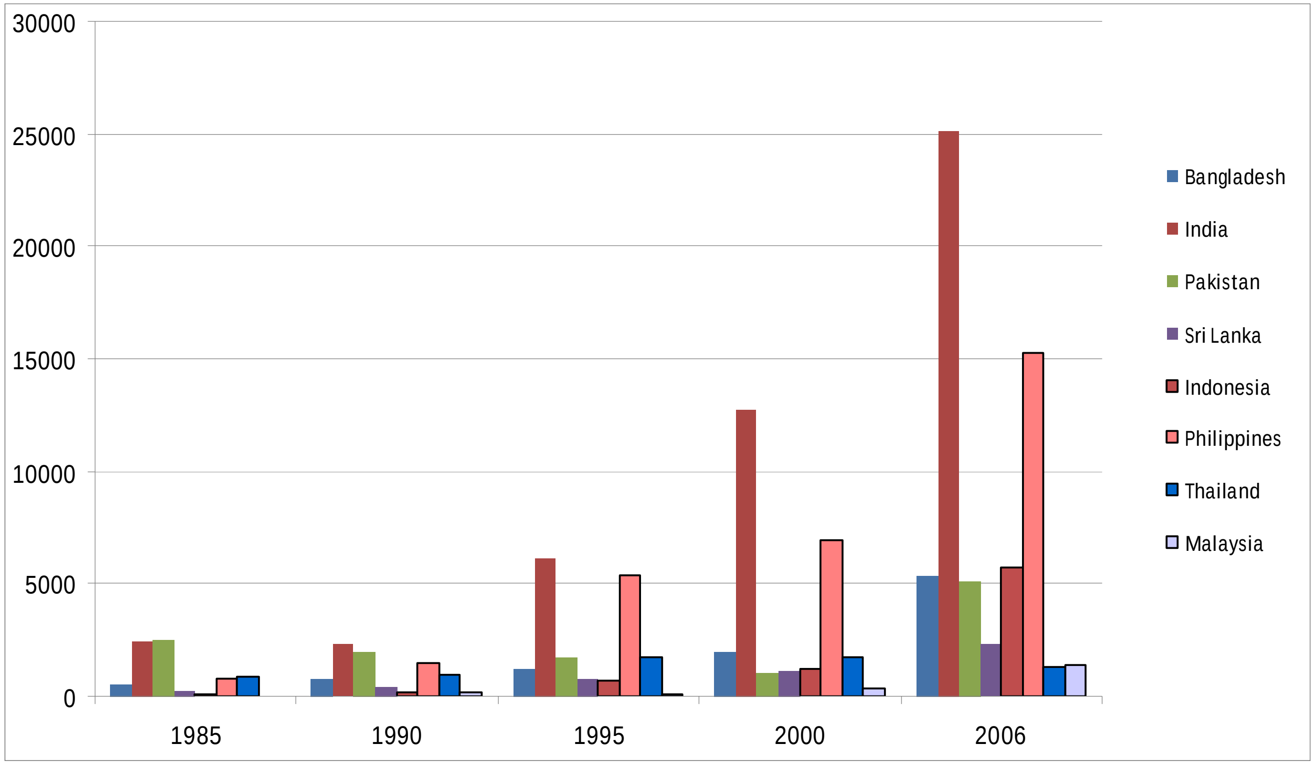


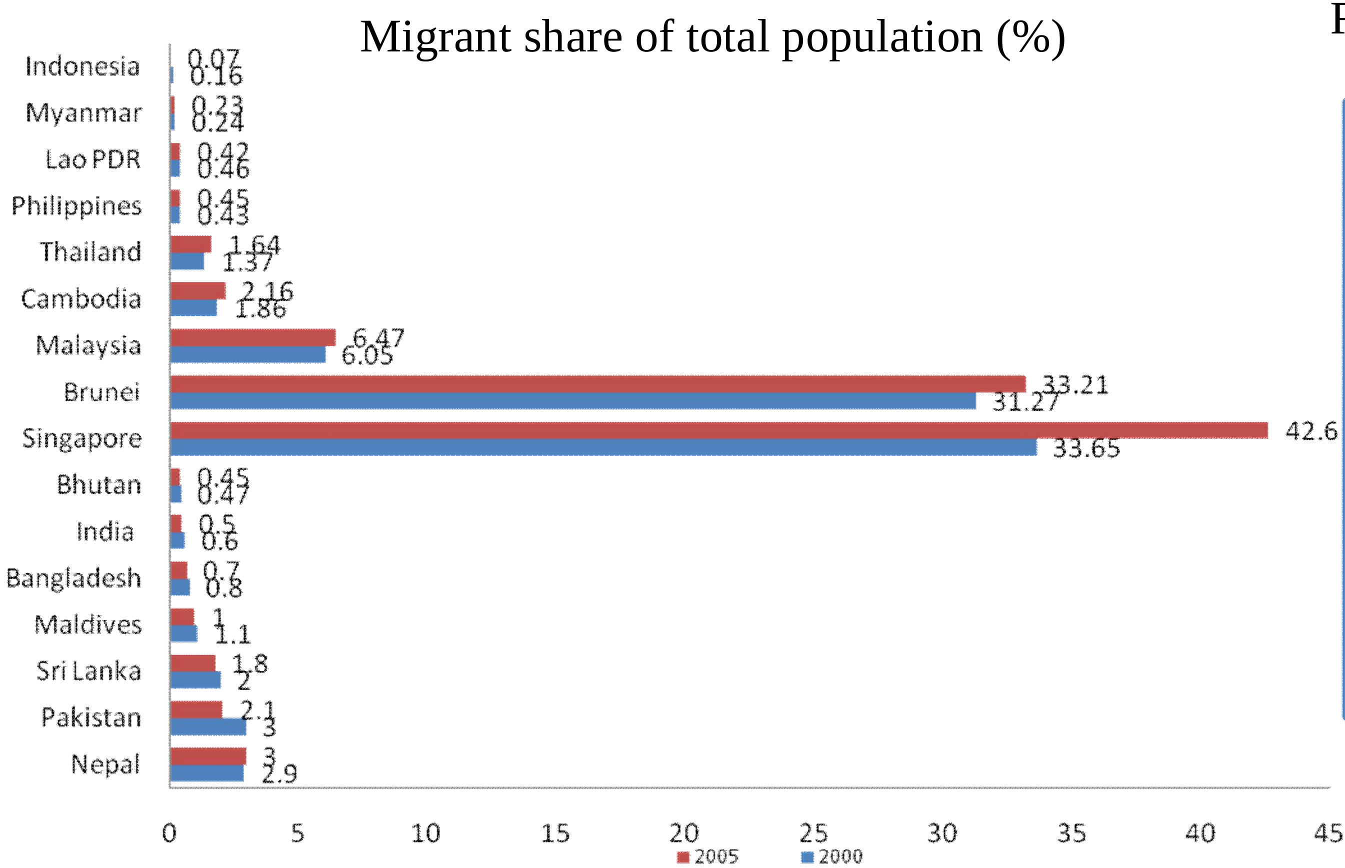

## Growth of remittances

- Fastest growth of remittances in India and Philippines

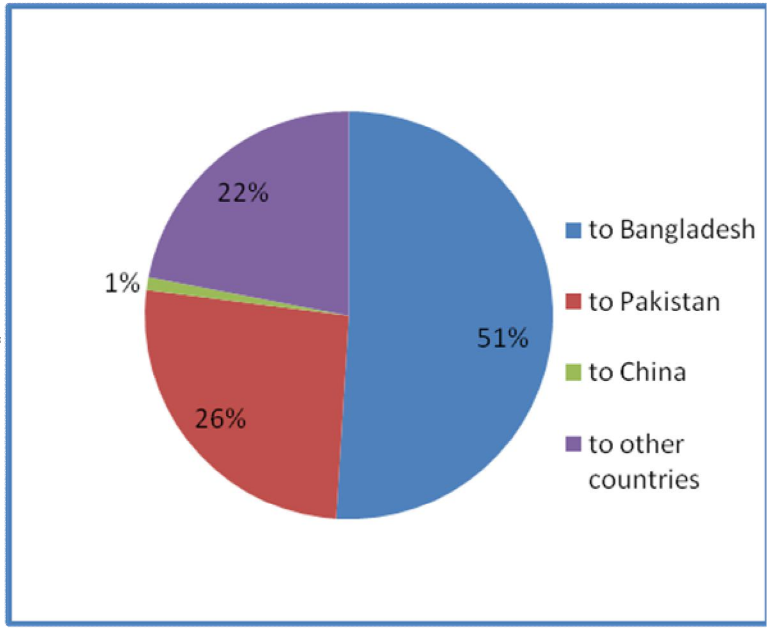
- India has highest volume of remittances in absolute terms

- Bangladesh and Philippines have highest as share of GDP

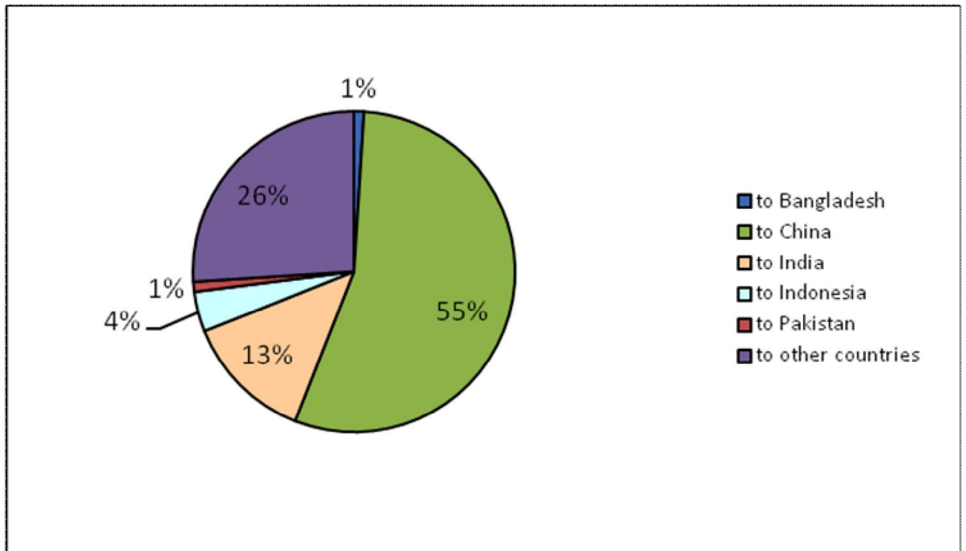




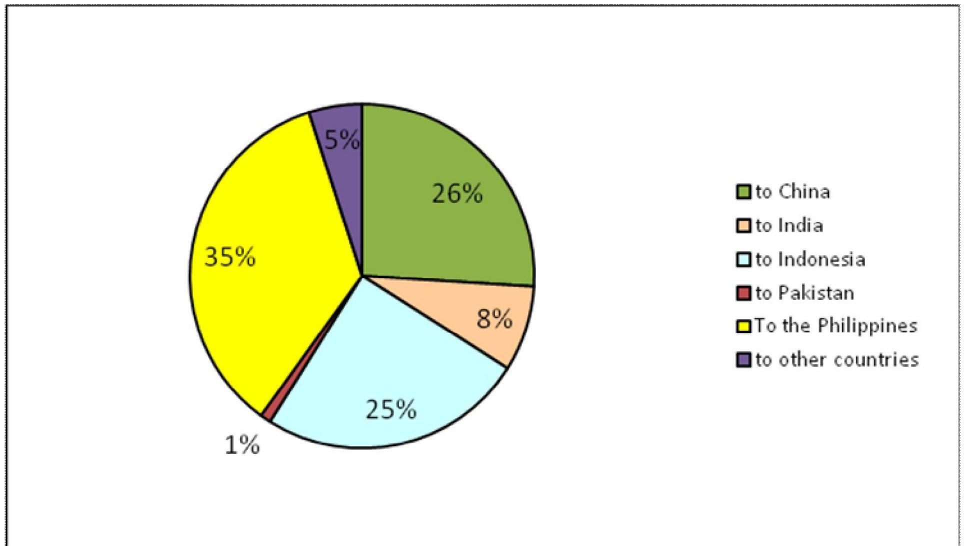

Remittance payments-India



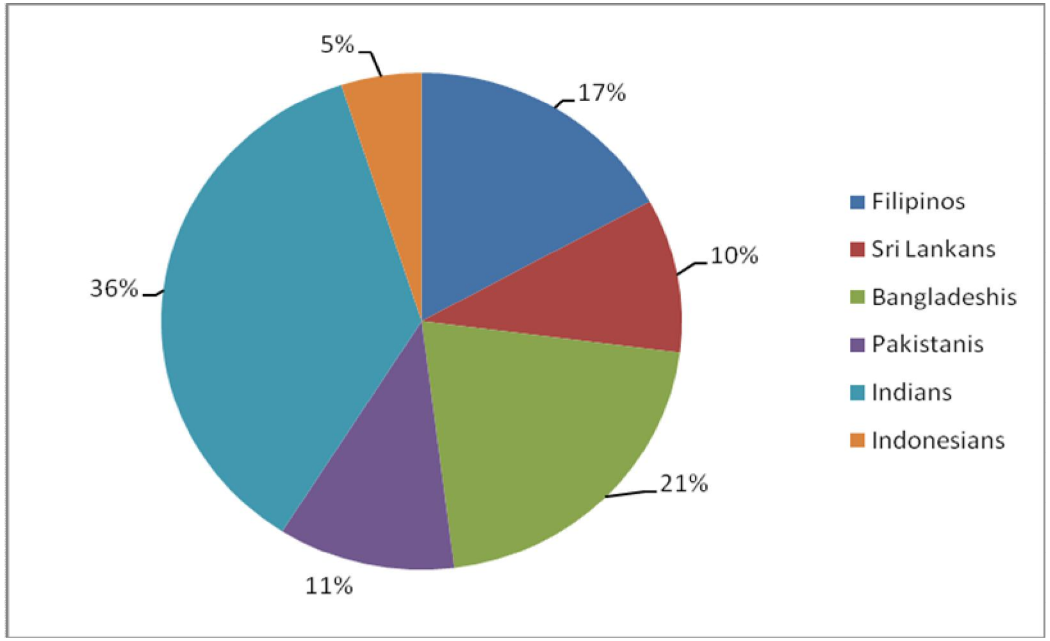

Remittance payments-Singapore




Remittance payments-Malaysia



Estimated stock of Asian origin temporary contractual workers in the Middle East (%)




Number of immigrants (25 or older) to the OECD by level of educational attainment, 2000

| **Country** | **Total Immigrants** | **Educational Level** | | |
|---|---|---|---|---|
| | | Primary or less | Secondary | Tertiary |
| **East Asia** | | | | |
| China | 722400 | 148029 | 185295 | 389076 |
| Indonesia | 142540 | 3910 | 32347 | 106283 |
| Philippines | 356134 | 27604 | 70079 | 258452 |
| **South Asia** | | | | |
| Bangladesh | 44417 | 3852 | 12902 | 27663 |
| India | 375283 | 18471 | 57199 | 299613 |
| Pakistan | 85668 | 6022 | 22458 | 57188 |
| Sri Lanka | 64143 | 1455 | 16741 | 45947 |
| **Total** | 4721944 | 539396 | 1263951 | 2918597 |

US Nonimmigrant admissions by country of citizenship, FY 2000-09

| Country | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|---|---|---|---|
| Bangladesh | 20,266 | 21,120 | 15,593 | 13,914 | 14,712 | 14,909 | 14,224 | 13,100 | 13,758 | 15,368 |
| India | 542,767 | 567,992 | 501,890 | 538,008 | 611,337 | 665,260 | 761,257 | 1,019,766 | 1,100,401 | 974,306 |
| Pakistan | 78,508 | 95,714 | 61,838 | 56,804 | 58,572 | 55,976 | 53,462 | 55,739 | 57,922 | 56,672 |
| Sri Lanka | 16,715 | 16,396 | 11,512 | 13,215 | 13,618 | 14,668 | 16,331 | 18,846 | 19,156 | 16,865 |

| Country of Citizenship | Total temporary workers and families | Workers in specialty occupations (H1B) | Seasonal agricultural workers (H2A) | Seasonal non-agricultural workers (H2B, H2R) | Workers with extraordi-nary ability/achievement (O1, O2) | Athletes, artists, and entertainers (P1 to P3) | Intra-company transferees (L1) | Treaty traders and investors (E1 to E3) | Other |
|---|---|---|---|---|---|---|---|---|---|
| Bangladesh | 915 | 389 | - | - | 4 | 158 | 46 | 6 | 312 |
| India | 262,654 | 123,002 | - | 133 | 930 | 2,165 | 54,556 | 197 | 81,671 |
| Pakistan | 4,537 | 2,176 | - | 4 | 25 | 126 | 388 | 183 | 1,635 |
| Sri Lanka | 1,260 | 630 | - | D | D | 20 | 249 | 17 | 328 |

Much of skilled mode 4 from S. Asia to US in IT and health services

Similar trends under UK's HSMP- Indians around half or more of those admitted in IT, health

## Policy issues concerning mode 4

- Mode 4 exporters in both these regions have pushed for greater market access for their contractual service providers, independent professionals, ICTs under GATS

- Mode 4 management through bilateral and regional arrangements
  - Under BLAs coordination with host country governments and major employers to address deployment, capacity building, welfare of migrant workers overseas, remittances, and repatriation
  - Focus of BLAs on low and semi skilled movement

- Several Asian RTAs aim to liberalize labour market in selected services and for selected service providers (India-Singapore CECA, India-Korea CEPA, AFAS, JPEPA)
  - Focus mainly on highly skilled workers- BVs, ICTs, independent professionals, CSS, complementing BLAs
  - Most progress in categories linked to investment flows or where labour shortages in member countries

# Summary and Concluding Thoughts

- Several similarities and differences across the two regions

1. Service sector has grown rapidly in most South and SE Asian countries, contributing to a growing share of employment
   - But concerns about quality, sustainability, productivity, pattern of this employment
   - Need greater policy thrust on service sector employment creation and more broad basing of services output and employment

2. IT-BPO services important contributor to services employment growth in Asia
   - But concerns about availability, quality, employability, cost of manpower and ability to retain competitive advantage in IT-BPO exports

3. Overseas employment (mode 4) important for several Asian countries in skilled and less skilled service activities , contributing via remittances, skill and knowledge transfer, investments
   - IT-BPO and health services important for mode 4 exports from these countries
   - But concerns about regulatory and other barriers to mode 4
   - Attempts to address through bilateral and multilateral agreements