Chapter 8

Summary and Conclusions

This dissertation attempts a legal and economic analysis of trade agreements. Our special references are activities and trade agreements covered under WTO. Given that these activities and agreements cover a wide range of subjects, the scope of this dissertation has been confined to the trade liberalisation of services and the agreement designed for that purpose, namely, General Agreement on Trade in Services. Part A was devoted to this purpose. Variety in the nature of services makes it necessary to analyse each service differently. We chose to further probe into the implications of trade liberalisation of one particular service, namely education service, in Part B.

Enhancement of economic welfare, raising living standards, creation of employment opportunities are viewed as desired objectives in the field of economics. Freedom or control of international exchange of goods, services and ideas are viewed as means to achieve one or more of these desired objectives. Economic theory suggests that freedom of trade can be claimed to enhance welfare only under certain conditions. Part A began with a search, in the literature in economic theory, for conditions under which trade liberalisation in services would raise welfare for all trading partners. We found that economic theory suggests that even under conditions where only goods trade is mutually welfare-raising for all trading partners, services trade may not be. The form in which the service is traded (final product or factor of production), the other goods that are traded, factor intensity of the service, whether the service in question is independently traded or in association with another good, whether comparative advantage depends on factor abundance or technology differences, size and structure of the market for the traded service and of other goods, cost of trading the service in question - are some of the factors that determine whether services trade can be mutually welfare enhancing for both trading
partners. Even in circumstances where liberalisation of services trade, which according to the theoretical literature is welfare enhancing, there are apprehensions especially among developing countries that it may not turn out to be so. Such apprehensions may not only arise due to liberalisation as such, but also due to the form of liberalisation in the present world scenario of imbalance in the power of negotiating of developed and developing nations and the inability of developing nations to structurally adjust to actually take advantage of a liberalised trade regime.

The above findings led us to investigate the objectives of WTO and particularly of GATS and how those objectives were being addressed through the formulations and interpretations of rules and disciplines under the GATS. Agreement establishing WTO mentions enhancement of production and trade, raising income and living standards, ensuring full employment as its objectives. Promotion of economic growth of all trading partners and the development of developing countries along with progressive liberalisation of trade among Member countries are mentioned as objectives of GATS. From a review of the rules and disciplines of GATS, the ambiguities therein and its case laws arrived at through the dispute settlement process involving claims of violation of general rules and principles of GATS, there appeared to be some primary principles that the agreement emphasises. These are progressive liberalisation of trade in services, enhancement of competition in the market and non-discrimination in treatment of suppliers from different Member countries. Apart from these, the agreement, in formulating and interpreting clauses, appears to accommodate developmental and social objectives and safeguards for crisis situations. But even in doing so, the primary principles of liberalisation, competition and non-discrimination are observed to be compromised as little as possible. Though economic theory identifies conditions under which liberalisation of trade, non-discrimination and competition can be means to raising welfare, employment and achieving other social objectives, given a Member's National Treatment and Market Access commitments, liberalisation of trade, non-discrimination and competition appear to have been treated as ends in themselves. The objective of progressive liberalisation appears most important and is pursued irrespective of whether this objective is consistent with the other objectives of growth, increasing income and employment and raising living standards of Members.

Liberalisation of trade in education services instigates debate and interest in policy issues as any other policy change does though the case of international trade in education services is distinguished from the case of trade in other goods and services in many ways. The primary concerns for education services are changes in pricing, access to and quality of education under a liberalised trade regime. Part B begins with a review of the process of trade negotiation in education services under WTO. Market access and National Treatment commitments made by WTO Members, in regard to education sector reveal that the least number of commitments among the sub-sectors of education have been made in the ‘primary’ and ‘other education
services' sectors where as the highest number of Members have made commitments in the tertiary sector. Interestingly the tertiary sector also holds the highest number of conditions for liberalising market access possibly manifesting the largest variety of apprehensions and concerns relating to the liberalisation of this sector. The highest number of full commitments are made in Mode 2 (Consumption Abroad) within each of the sub-sectors for both Market Access and National Treatment. Mode 2 being the oldest international mode of supply, its liberalisation possibly does not trigger as much apprehension as the other sectors. Mode 4 (Temporary Presence of Natural Persons) is the least committed mode of supply in each of the sub-sectors. The highest number of unbound limitations are found in Mode 4 in each of the sub-sectors. Relatively stringent restrictions on immigration and qualification requirements of professionals may be responsible for such low levels of commitments in Mode 4. Mode 3 (Commercial Presence) has instigated the highest number of conditional commitments within each sub-sector reflecting the variety of apprehensions in allowing market access in this mode. Under Mode 3 education is exported by universities / educational institutes by investing directly in setting up branch campuses or affiliate universities in foreign countries. Allowing import of education through Mode 3 practically entails inviting foreign profit earning education suppliers (institutions) in the domestic education system. Education being a ‘social service’ largely dominated by government or by non-profit institutions as providers, liberalising its trade and hence introducing profit motive in its supply brings in many apprehensions, as far as pricing, access to and quality of education are concerned. On one hand, there are expectations that affiliates of reputed universities will provide a superior quality of education than that available in most developing countries. On the other hand, there are also apprehensions that cost minimising ‘exporters’ might offer a poor quality of education. In either event alterations are possible in the access to education for different economic classes of students. In view of the fact that primary, secondary and tertiary education in many Member countries of the WTO are publicly provided with subsidised prices and that imported education is not expected to be subsidised, access to such education will be limited to higher income groups.

The final chapter of this dissertation develops a theoretical model to analyse the impacts of trade liberalisation in education, with particular reference to Mode 3 of supply of traded education services. The specific issues that we attempted to explore are (1) quality of education a branch campus or an affiliate university is likely to offer to its prospective students in the importing country; and (2) alterations in the access to education as result of trade in education. We choose to analyse these issues for an importing country with a subsidised system of education where, in the autarkic situation, access to education is restricted to relatively higher ability students irrespective of their economic background.
In this model our attempt has been to incorporate both quality of fellow students and educational facilities provided by the institute as determinants of the students perception of quality of education. As opposed to the students' perception of quality, the governments or the accreditation agencies assess quality of education provided by any particular institute as measured by the educational facilities it offers. We find that the affiliate university offers a quality of education (measured by the amount of educational resources incurred per student) that is relatively superior than the domestic university of the importing country if and only if (1) it can charge a price beyond some threshold value for a superior educational quality and (2) the domestic university, in order to select students, maintains a cut-off merit index that is neither too high or too low. In all other situations the affiliate university does not improve upon the domestic university in terms of quality (measured by the amount of educational resources incurred per student). As a result of this trade, education may become accessible to some students with superior economic background making distribution in the access to education biased towards them. Gain from trade is unambiguous for the exporting country. Profit earned by the affiliate university, if transferred to its home campus can be used to improve its educational quality either by raising educational resources offered to its students or by offering a lower price to some or all students and thereby expanding the pool of applicants and hence admitting students more selectively.

Economic theory so far have considered either students' quality or teaching quality as educational quality offered by an institution. Resources used on students, though is referred to as another dimension of educational quality in literature on education, it has not received attention from theorisation in the field of economics. Our model incorporates both students' quality and resources used on students as determinants of educational quality of an institution. Another distinction can be observed between the model and the existing literature on the issue. The volume of production or the size of schools, as found in the literature, is limited by the fixed 'establishment' costs incurred by the school, as is usual in many manufacturing sectors. This model shows that the size of a school can be limited even when the establishment cost is variable, or is an endogenous choice of the institute when quality of the product (education) as perceived by the consumers (students) depends on the quality of other consumers (peer quality) and all consumers (students) are not of identical qualities. In that case, the volume of production can be finite in order to maintain a certain level of product (educational) quality even if all costs are variable.

Nevertheless, the model is not devoid of restrictive assumptions. Relaxing these restrictive assumptions should open up avenues for further theorisation in the area. For example, that the domestic university is non-strategic and has a fixed cut-off merit index for admission of students and it does not alter in response to the choices of the affiliate university is a restrictive
assumption. Possibilities could be explored by introducing a strategically deciding domestic university. Furthermore, students in the importing country are assumed to consider only two options, namely, studying in either the home university or in the affiliate university. Realistically students are also expected to explore the option of moving to a foreign country for education. Exploring this possibility should make theorisation more realistic, particularly in view of existence of several modes of supply of service. These are some of the important ways this model can be used for further research in the area.