



Note

Trade in Health Services in the light of Covid-19: Actions Points for Developing Countries

By Parnika Jhunjunwala

Summary

Being faced with an unprecedented crisis, the most talked about issue today is health - health products, workers and services. Due to globalisation and the world's reliance on global value chains, trade has become an integral part of our lives and trade in the health sector even more so. This note aims to draw attention towards the less discussed trade in health services, its trends until now and how they might change in the light of the COVID 19. It also sheds light on the possible next steps that developing countries can undertake to enhance their post-pandemic trade in health services.

Introduction

Historically, trade in health services has been one of the less liberalised sector and even today comprises only 0.4% of the world trade in commercial services – though it is growing and has led to increased international mobility of patients.¹ This low level of trade is generally attributed to the existence of public monopolies, strict regulations upholding social objectives, need for contact between supplier and consumer of service² and a general lack of progress at the multilateral level in defining services even after the enforcement of General Agreement on Trade in Services (GATS, 1995).

Despite the miniscule share in world trade, health services trade is growing rapidly at around 10% on average per year.³ Trade in health services can also buttress efforts to meet SDG 3 (Good health and well-being), specifically sub-goals 3.7 & 3.8 (universal access to essential health care services) and 3.b (access to affordable essential medicines and vaccines in accordance with the Doha Declaration on Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement and Public Health).⁴ Due to the COVID 19 pandemic, certain services such as transport and tourism have been severely hit due to both demand and supply side shocks. UN World Tourism Organisation (UN WTO) estimates \$1.1 trillion loss in export revenue in international tourism while International Air Transport Association (IATA) predicts \$84.3 billion losses in 2020, resulting from both

dampening consumer enthusiasm as well as travel restrictions.⁵ However, some services like financial and medical are considered more resilient, allowing an opportunity to further expand the scope of such trade.⁶

Shortage of adequate health services in most parts of the world ensuing from Covid-19 has created an even greater need to revisit the issues of trade and terms of trade in the health sector. This is particularly important for developing countries who often struggle with provision of even basic health services to all of their populations. With this backdrop, this brief paper discusses the current state of trade in health services and the challenges and opportunities arising from the pandemic, specifically focusing on developing countries. Health services are categorised under the four modes as indexed in the GATS Agreement and summarised in *Figure 1*.

¹ WTO (2019). *World Trade Report 2019 Future of Services Trade*. [online] World Trade Organisation, pp.22–44. Available at: https://www.wto.org/english/res_e/booksp_e/03_wtr19_2_e.pdf

² Adlung, R. and Carzaniga, A. (2001). Health services under the General Agreement on Trade in Services. *Bulletin of the World Health Organization*, [online] 79(4), pp.352–364. Available at: <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC2566402/pdf/11357215.pdf/?tool=EBI>

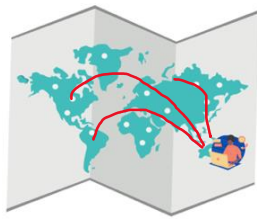
³ WTO (2019). *World Trade Report 2019 Future of Services Trade*. [online] World Trade Organisation, pp.22–44. Available at: https://www.wto.org/english/res_e/booksp_e/03_wtr19_2_e.pdf

⁴ WHO (2017). SDG 3: Ensure healthy lives and promote wellbeing for all at all ages. *World Health Organization*. [online] Available at: <https://www.who.int/sdg/targets/en/>

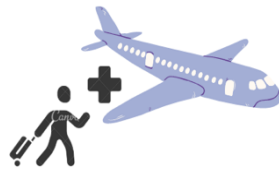
⁵ UNCTAD (2020). *Covid-19 & Tourism: Assessing the Economic Consequences*. [online] UNCTAD. Available at: https://unctad.org/en/PublicationsLibrary/ditcinf2020d3_en.pdf

⁶ Baldwin, R. and Weder Di Mauro, B. (2020). *Economics in the Time of COVID-19 Edited by A VoxEU.org Book*. [online] Available at: <http://dl.n.jaipuria.ac.in:8080/jspui/bitstream/123456789/2757/1/Economics%20in%20the%20Time%20of%20COVID-19.pdf>

Figure 1: Modes of Service Delivery under GATS



Mode 1: Cross-border trade
i.e. selling service from one country to a buyer in another



Mode 2: Consumption abroad, i.e.
physically travelling to another country (medical tourism)



Mode 3: Commercial presence, i.e. selling service in
territory of another member



Mode 4: Presence of natural persons, i.e. temporary movement
of people across borders

Source: Prepared by Author

Current Trends in Health Services Trade

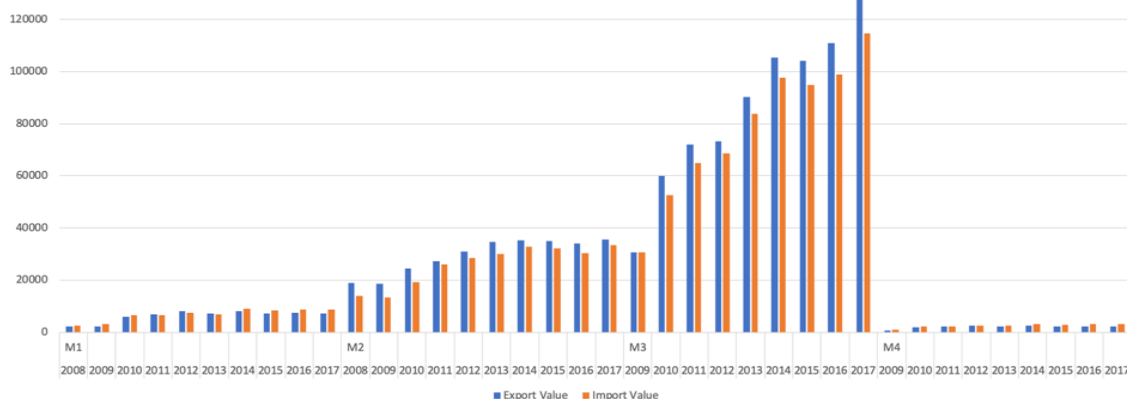
Data collected on trade in health services in the last decade (2008-17) when classified by their modes of delivery reveals that the bulk of health services trade is happening under modes 2 & 3, followed by mode 1 & 4, as can be seen in *Figure 2*.⁷ Commercial presence (mode 3) is growing most rapidly when compared to the other modes. The liberalisation commitments made by countries in the WTO under this mode are possibly driven by the intention to overcome skill shortages and promote efficiency by

increasing Foreign Direct Investment (FDI).⁸

As opposed to other services which are predominantly traded under modes 1 and 3⁹, health services mainly rely on modes 2 and 3.

In *Figure 3*, we see that at the regional level, trade in health services is dominated by developed countries, however Asia is emerging as a promising international player with Latin America also trying to expand trade under mode 2. Given the pandemic situation, modes 2 & 4 are likely to be largely paralysed creating an opportunity to increase cross-border trade in health services (mode 1) while continuing trade in mode 3.

Figure 2 : Trade in Health Services by Mode of Service Delivery



Source: Based on Author's calculations

⁷ A new dataset called Trade in Services by Mode of Supply (TISMOS) created by WTO has been used for this paper. WESP Country classification has been followed.

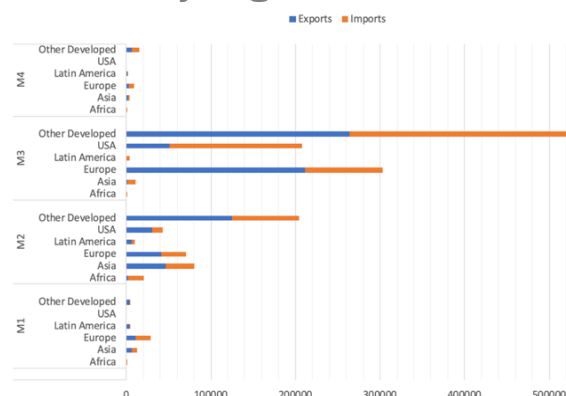
⁸ Adlung, R. and Carzaniga, A. (2001). Health services under the General Agreement on Trade in Services. *Bulletin of the World Health Organization*, [online] 79(4), pp.352–364. Available at:

<https://www.ncbi.nlm.nih.gov/pmc/articles/PMC2566402/pdf/11357215.pdf?tool=EBI>

⁹ WTO (2015). Trade in Services Brochure. [online] Available at:

https://www.wto.org/english/thewto_e/20y_e/services_brochure2015_e.pdf

Figure 3 : Trade in Health in Services by Region



Source: Based on Author's calculations

Impact of Covid-19 on Modes of Health-Services Trade

Mode 4: Movement of Natural Persons

Traded health services under mode 4 have remained miniscule even before the pandemic. The current commitments mostly allow highly skilled and regulated movement. The implications of such movement, however, differ for developing and developed countries. For the former, outcomes on local public health are directly affected by the temporary transfer of skilled personnel, (brain drain) as well as the shortage of quality healthcare services in the home country. This is usually not the case for developed countries, who also receive incoming health professionals in their country, mostly from developing countries.¹⁰

¹⁰Blouin, C., Gobrecht, J., Lethbridge, J., Singh, D., Smith, R. and Warner, D. (2006). Trade In Health Services Under The Four Modes Of Supply: Review Of Current Trends And Policy Issues. In: *International Trade in Health services and the GATS current issues and debates*. [online] World Bank, pp.203–234. Available at: <http://documents1.worldbank.org/curated/en/405551468150322567/pdf/347700PAPER0In101OFFICIAL0USE0ONLY1.pdf>

¹¹WTO (2019a). International Health Worker Mobility and Trade in Services. *WHO–WTO Joint Staff Working Paper*. [online] Available at: https://www.wto.org/english/res_e/reser_e/ersd201913_e.p

Sixty-nine World Trade Organisation (WTO) members have made at least one commitment relating to trade in health services under GATS. Members such as China, Nepal, Costa Rica employ the strategy of ‘unbound, except as indicated in the horizontal commitments’ to open up trade of health services under mode 4. Regional Trade Agreements (RTAs) on the other hand are rising significantly and generally contain deeper and more targeted commitments than GATS, especially regarding trade under mode 4.¹¹ A comparison of WTO member’s commitments under GATS and RTAs reveal that both developed and developing economies undertake more the route of RTAs to liberalise health services trade under mode 4 as opposed to GATS.¹²

The economic impact of this temporary transfer of health-workers is severe for developing countries. In a decade, Ghana lost US\$ 5 million in tuition costs alone after 61% health workers of a single medical school moved abroad.¹³ Given the economic costs and additionally the health risks in the post-pandemic world, mode 4 trade might remain bleak, however RTAs hold possibilities of continued liberalisation. Some countries for instance the US, have also authorised temporary medical licenses to foreign doctors dealing with Covid 19. .¹⁴

Mode 3: Commercial Presence

Mode 3 or commercial presence is the most widespread mode of trade for health services. Moreover, two-thirds of the global FDI stock is

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¹² Ibid.

¹³Jenkins, R., Baingana, F., Ahmad, R., McDaid, D. and Atun, R. (2011). International and national policy challenges in mental health. *Mental health in family medicine*, [online] 8(2), pp.101–14. Available at: <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC3178192/>

¹⁴State of New Jersey (2020a). *Governor Murphy Signs Executive Order to Remove Barriers to Health Care Professionals Joining New Jersey’s COVID-19 Response and Provide Protections for Front Line Health Care Responders*. [online] Available at: https://www.nj.gov/governor/news/news/562020/20200401_b.shtml

concentrated in the services sectors.¹⁵ According to United Nations Conference on Trade and Development (UNCTAD), global FDI flows are expected to contract between 30% to 40% during 2020-21.¹⁶ IMF announced that since the beginning of the pandemic, investors have already removed US \$83 billion from developing countries.¹⁷ The increased reliance of developing countries on inflow of FDI in the last few decades exposes them to more severe consequences of a global FDI contraction.¹⁸ Existing data revealed the heavy dependence of trade in health services on mode 3, however given these predictions, the expansion of health services trade through this mode stands threatened.

FDI's popularity is attributed to transfer of knowledge and technology, efficiency and cost gains and increased range of available services.¹⁹ Specifically in the health sector, FDI is generally targeted at the private sector, creating a 'two-tiered' system which also encourages internal brain drain (from domestic public to private sectors).²⁰ Thailand is a case in point, with an estimated internal drain of 240-700 doctors for every 100,000 foreign patients treated domestically.²¹ Governments also provide indirect subsidies to the private sector to establish state of the

art medical facilities. India provides prime land at low rates, tax exemptions on import of medical equipment and concessions to the private sector.²² This can lead to a diversion of scarce government resources away from the public health system, attracting more FDI but also creating more inequity domestically.

Mode 2: Consumption Abroad

Research has shown that geographic flows of medical tourism are mixed, including both North-South (seeking lower cost) and South-North (seeking higher quality) movement.²³ Countries promoting medical tourism generate greater foreign earnings, retain skilled labour and allow greater reinvestment into the public health sector. However, it also raises concerns regarding equity. In developing countries, expansion of medical tourism can lead to an internal brain drain, from public healthcare services to private health sector catering to the international and wealthy domestic clients.²⁴ Evidence from India indicates that increased medical tourism has led to unchecked growth of the private sector and their costs, creating inequitable access to health services.²⁵

More practical concerns regarding this mode of service delivery include issues of insurance

¹⁵UNCTAD (2017a). *World Investment Report 2017*.

[online] Available at: https://unctad.org/en/PublicationsLibrary/wir2017_en.pdf

¹⁶UNCTAD (2020c). Impact of Covid-19 Pandemic on Global FDI & GVCs. [online] Available at: https://unctad.org/en/PublicationsLibrary/diaeainf2020d3_en.pdf

¹⁷IMF (2020a). *The Great Lockdown: Worst Economic Downturn Since the Great Depression*. [online] IMF. Available at:

<https://www.imf.org/en/News/Articles/2020/03/23/pr2098-imf-managing-director-statement-following-a-q20-ministerial-call-on-the-coronavirus-emergency>

¹⁸World Economic Forum. (2020). *Foreign direct investments could contract by 40% this year, hitting developing countries hardest*. [online] Available at: <https://www.weforum.org/agenda/2020/06/coronavirus-covid19-economics-fdi-investment-united-nations/>

¹⁹ Mortensen, J. (2008). International Trade In Health Services Assessing The Trade And The Trade-Offs. *DIIS Working Paper*. [online] Available at: <https://www.files.ethz.ch/isn/93131/2008-11.pdf>

²⁰ Hazarika, I. (2009). Medical tourism: its potential impact on the health workforce and health systems in India. *Health Policy and Planning*, [online] 25(3), pp.248–251. Available

at:

<https://academic.oup.com/heapol/article/25/3/248/599687>

²¹Cattaneo, O. (2009). *Trade in Health Services What's in it for Developing Countries?* [online] Available at:

<https://openknowledge.worldbank.org/bitstream/handle/10986/4305/WPS5115.pdf?sequence=1>

²²Sengupta, A. and Nundy, S. (2005). The private health sector in India. *BMJ: British Medical Journal*, [online] 331(7526), pp.1157–1158. Available at:

<https://www.ncbi.nlm.nih.gov/pmc/articles/PMC1285083/>

²³ ILO (2019a). *The future of work in the health sector*.

[online] Working Paper No. 325. Available at: https://www.ilo.org/wcmsp5/groups/public/---ed_dialogue/---sector/documents/publication/wcms_669363.pdf

²⁴Beladi, H., Chao, C.-C., Ee, M.S. and Hollas, D. (2015). Medical tourism and health worker migration in developing countries. *Economic Modelling*, [online] 46, pp.391–396. Available at:

<https://doi.org/10.1016/j.econmod.2014.12.045>

²⁵ Hazarika, I. (2009). Medical tourism: its potential impact on the health workforce and health systems in India. *Health Policy and Planning*, [online] 25(3), pp.248–251. Available at:

<https://academic.oup.com/heapol/article/25/3/248/599687>

portability, visa and foreign exchange regulations.²⁶ The medical tourism industry in India alone is estimated to lose eight months of its revenue by September 2020 due to COVID 19.²⁷ Due to the ongoing pandemic and a predicted decline in exchange of health services via mode 2 (which is exactly where developing countries are expanding their investments); policy makers need to reassess their trade strategies in health services.

Mode 1: Cross-border Trade

Trade under mode 1 though underdeveloped, is gaining momentum. The telemedicine industry is estimated to grow at 18.5% annually between 2020-25.²⁸ As under mode 3, it allows transfer of knowhow and technology, while also expanding access to services within the country. It is allowing patients to track their health performance, enabling early identification and prevention of diseases, reducing health expenditure.²⁹ Additionally, telemedicine allows countries to deliver services to poor and remote locations. Moreover, use of Information & Communication Technology (ICT) services can be expanded to incorporate education and other social services reaping massive development benefits for developing countries.

Consuming cross-border telehealth services would however raise concerns on quality regulation, data privacy and cybersecurity.³⁰ Logistical roadblocks, especially for developing countries might include lack of stable internet connection or low bandwidth

and high costs. In these contexts, developing countries must undertake holistic assessments to carefully weigh both opportunities and challenges.

While greater investments in medical tourism and liberalising FDI reaps immediate and short-term benefits, investing in mode 1 will enable them to build crucial digital infrastructure that will not only generate direct benefits in the health sector but also positive externalities in others. The quarantine period has created a massive need for accessible and affordable mental-health services³¹ which can also expand the ambit of cross-border trade. Marking the shift to a 'new normal', such digital investment is an opportunity for low and middle-income countries to exploit the gains of trade and simultaneously improve social outcomes.

Even though trade of services is more resilient than that of goods in the wake of COVID 19³², modes 2 and 4 are also hard hit since they involve extensive movement of people. Mode 3 which until now was the fastest growing mode, might contract, as predicted, due to a global contraction in FDI. At the moment, a promising opportunity to countries, especially developing, would be to partly direct their resources to mode 1. This will not only expand trade of health services during and after the pandemic, but also allow countries to benefit from the positive spill overs of building crucial digital infrastructure.

²⁶WTO (2019). *World Trade Report 2019 Future of Services Trade*. [online] World Trade Organisation, pp.22–44. Available at: https://www.wto.org/english/res_e/booksp_e/03_wtr19_2_e.pdf

²⁷ETHealthworld (2020). *COVID- 19 proves fatal for the Medical Tourism Industry*. [online] Available at: <https://health.economicstimes.indiatimes.com/news/industry/covid-19-proves-fatal-for-the-medical-tourism-industry/74957104>

²⁸ Mordor Intelligence (n.d.). *Telemedicine Market - Growth, Trends, And Forecasts (2020 - 2025)*. [online] Available at: <https://www.mordorintelligence.com/industry-reports/global-telemedicine-market-industry>

²⁹ Ibid.

³⁰ ILO (2019a). *The future of work in the health sector*. [online] Working Paper No. 325. Available at: https://www.ilo.org/wcmsp5/groups/public/---ed_dialogue/---sector/documents/publication/wcms_669363.pdf

³¹Leite, H., Hodgkinson, I.R. and Gruber, T. (2020). New development: 'Healing at a distance'—telemedicine and COVID-19. *Public Money & Management*, [online] 40(6), pp.483–485. Available at: <https://www.tandfonline.com/doi/pdf/10.1080/09540962.2020.1748855?needAccess=true>

³² IMF (2017a). *World Trade in Services: Evidence from A New Dataset*. *IMF Working Paper*

Way forward: Some recommendations for developing countries

Predominantly, countries the world over have adopted immediate measures regarding trade in health products, including lifting or imposing restrictions on trade of masks, sanitisers or Personal Protective Equipment (PPE).³³ While countries are reassessing trade in financial, telecom and transport services,³⁴ limited attention is being given to trade in health services. Developing countries, especially emerging markets of trade in health services such as in Asia, Middle-East and Latin America, need to re-examine their approach towards the same. *Five recommended ways* in which they can proceed are discussed below; however, it is important to note that health policymakers must analyse the implications of health-services trade in their own national contexts.

► *Thorough review of the current national strategy*

Policy makers should re-examine the current national trade in health-services strategy, identifying modes receiving the greatest attention and investment, in the light of Covid 19. For instance, Thailand has been developing an e-health strategy since 2017 that will continue to be beneficial even after

the pandemic.³⁵ Greater investment can be directed towards providing mental-health services as well.

► *Exploring opportunities of health-services trade under Mode 1*

Countries must consider the establishment of tele-health services as a ‘business as usual’ mode instead of resorting to it during emergencies.³⁶ For instance, South Africa, Brazil and France have permitted the use of telemedical services on a temporary basis. Some countries like China (+900%) & Singapore (+160%) have witnessed a dramatic increase in using telemedicine platforms since the beginning of 2020.³⁷ This dramatic shift in patient behaviour indicates the potential of digital health tools and the need to match its demand. Establishing routine telemedicine services in the country opens up avenues for increased cross-border trade in health services as well as more egalitarian health outcomes domestically.

► *Inter-sectoral Approach*

ICT services are the third most traded services³⁸ where developing countries like India and China are among the leading exporters.³⁹ Such countries can exploit the gains from an interaction between ICT & telemedicine. Greater investments in one sector may determine exciting opportunities in another.⁴⁰ Advancements in health

³³ South Centre (2020b). *Trade Measures Adopted by Countries in Response to COVID-19*. [online] Available at: <https://www.southcentre.int/compilation-by-sc-trade-measures-adopted-by-countries-in-response-to-covid-19/>

³⁴WTO (2020f). *Goods measures - COVID-19: Trade and trade-related measures*. [online] Available at: https://www.wto.org/english/tratop_e/covid19_e/trade_rela ted_services_measure_e.htm

³⁵Thailand, Ministry of Public Health (2017b). *eHealth strategy, Ministry of Public Health (2017-2026)*. Editorial: Nonthaburi: Information And Communication Technology Center, Office Of The Permanent Secretary, Ministry Of Public Health.

³⁶Smith, A.C., Thomas, E., Snoswell, C.L., Haydon, H., Mehrotra, A., Clemensen, J. and Caffery, L.J. (2020). Telehealth for global emergencies: Implications for coronavirus disease 2019 (COVID-19). *Journal of Telemedicine and Telecare*, [online] 26(5), pp.309–313. Available at:

<https://journals.sagepub.com/doi/pdf/10.1177/1357633X20916567>

³⁷Bain & Company (2020a). *Covid-19 Accelerates the Adoption of Telemedicine in Asia-Pacific Countries*. [online] Available at: <https://www.bain.com/insights/covid-19-accelerates-the-adoption-of-telemedicine-in-asia-pacific-countries/>

³⁸WTO (2019). *World Trade Report 2019 Future of Services Trade*. [online] World Trade Organisation, pp.22–44. Available at: https://www.wto.org/english/res_e/booksp_e/03_wtr19_2_e.pdf

³⁹WTO (2019d). *World Trade Statistical Review 2019*. [online] World Trade Organization. Available at: https://www.wto.org/english/res_e/statis_e/wts2019_e/wts2019_e.pdf

⁴⁰ Timmermans, K. (2004). Developing Countries and Trade in Health Services: Which Way is Forward? *International Journal of Health Services*, [online] 34(3), pp.453–466. Available at:

technology, such as telepresence and robotic technology are already being used in developed countries like Japan.⁴¹

● *Redirect FDI flows from production to knowledge creation*

The reliance of trade in health services on commercial presence is palpable. While the pandemic does not relieve countries from this reliance, it allows them to pause and reflect on the current strategy anchored on commercial presence. Instead of allowing complete FDI in setting up chains of service centres, perhaps countries can stimulate inward R&D-intensive FDI. For instance, India has been observing declining Research & Development (R&D) investments in the health sector, indicating that it may not be benefiting from the supposed transfer of technology

since the parent firms are more focussed on production activities.⁴² Another finding is that Multi-National Corporations (MNCs) are less likely to invest R&D FDI in countries having poor enforcement of Intellectual Property Rights.⁴³

● *Enhancing regional trade*

Given that RTAs generally go beyond the commitments made under GATS, especially for trade in health services, more regional, bilateral or specific agreements can be pursued. This also supports current evidence which shows greater regional movement of medical tourists. Close to 70% of foreign patients seeking treatment in India come from Asian countries, followed by US & Africa (approximately 9% each).⁴⁴ In a post-pandemic world, regional trade is likely to crucial to increase trade in health-service



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⁴¹Japan METI (2017b). *Revision of the Priority Areas to Which Robot Technology is to be Introduced in Nursing Care (METI)*. [online] Available at:

https://www.meti.go.jp/english/press/2017/1012_002.html

⁴² Joseph, R.K. and Ranganathan, K.V.K. (2016). *Trends in Foreign Investment in Healthcare Sector of India*.

[online] ISID Working Paper 187. Available at: <http://111.93.232.162/pdf/WP187.pdf>

⁴³ Ibid.

⁴⁴ Government of India (2017a). *Export of Health Services A Primary Survey in India*. The Directorate General of Commercial Intelligence and Statistics, Ministry of Commerce and Industry

