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Expanding Exports of Developing Countries in the
Services Sector: Health Services
Geneva, 16-18 June 1997
Agenda item 3

INTERNATIONAL TRADE IN HEALTH SERVICES: DIFFICULTIES AND OPPORTUNITIES FOR DEVELOPING COUNTRIES

Chairman's summary*

A. A new scenario in the health services sector in a rapidly changing technological and economic environment

1. The economic importance of the health services sector was stressed. The health services market in OECD countries alone was estimated at $2 trillion. Experts identified various global trends in the sector such as increased demand for health care, the phenomenon of consumerism, relative shortage of health personnel in some developed countries, aging population requiring tailor-made products, information/technology revolution, increased mobility of consumers and service providers, and increasing medical costs and decreasing public health care budgets requiring containment of health care costs. These trends were major driving forces for the expansion of trade in health services.

2. Many experts emphasized the importance of striking a balance between the social and commercial aspects of health services to preserve the equity, accessibility and efficiency of the sector. Primacy of national health care

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* At its closing plenary meeting, on 18 June 1997, the Expert Meeting took note of the Chairman's summary of the informal discussions on agenda item 3 and agreed that it would constitute the substantive part of the report of the Meeting.

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policies was considered to be primordial. In this regard, foreign suppliers of health services needed to be supportive of national health development programmes, and benefits derived from trade in services should be used to contribute to improving the health and living conditions of the population.

3. It was noted that international trade in the health services sector also demonstrated the extremely vulnerable position of least developed countries and other structurally weak economies. Experts considered that the situation of the least developed countries required special attention to prevent further erosion of these countries' capacity in health services resulting from brain drain and lack of access to new technologies.

B. Participation, in particular of developing countries in the international trade in health services: opportunities and challenges

4. The discussion of opportunities and challenges revealed the complexity of the sector and pointed to a number of relevant elements. Experts believed that almost every country, irrespective of its stage of development, could have a market niche because of its comparative advantage in particular activities in health services. In this context, the need for improved data on trade in health services, as well as enhanced market information, was highlighted. This was particularly important for assessing export potentials and identifying opportunities for export. The point was also made that market conditions, such as supply of medical doctors, accounted for the success or failure of policies undertaken in certain countries.

5. It was pointed out that, although the balance-of-payments statistics were incomplete, available statistics demonstrated that health services were one of the service sectors in which developing countries had a revealed comparative advantage. Such an advantage resulted from lower production costs, including in the area of health education, provision of unique services, potential to combine health care and tourism, and natural resources with perceived curative benefits. But there seemed to be a lack of awareness in developing countries of their potential in the health sector. This significantly limited the expansion of trade in health services. It was also noted that health markets in developing countries were growing and therefore South-South trade could become an important element in expansion of trade in health services. It was stressed that a distinction should be made between the case of developing countries which indeed enjoyed some export competitiveness and the case of least developed countries whose health sectors were in extremely vulnerable positions and required special attention.

6. Lack of export strategies and trade promotion organizations, as well as weak cooperation among government departments and the private and public sector also constituted an impediment to the full realization of developing countries' potential. Moreover, disciplines on subsidies could increase the participation of developing countries in global trade in services. Thus promotion of exports of health services required the designing of strategies to improve domestic capacity, create export potential without adversely affecting national health services, identify excess supply of health services and potential markets for such services and overcome internal and external barriers.

7. The quality of health services was considered as a key issue for the protection of people's health and the safety of traded services. One fundamental aspect of quality related to the standards and qualification requirements imposed

on service providers. The issue of quality also involved an ethical dimension in the provision of health services. Article VI (Domestic regulation) and Article VII (Recognition) of the GATS were considered to be particularly relevant in this respect.

8. Experts also observed that, despite their limitations, the General Agreement on Trade in Services (GATS) commitments contained some market access opportunities in relation to health services, including on movement of persons. Experts stressed that opportunities offered by the GATS and regional and subregional arrangements should be fully used. Moreover, the enquiry/contact points established under Articles III and IV of GATS would provide more precise information and clarifications on regulatory regimes and requirements related to supply of services.

9. It was noted that some of the issues mentioned above could be addressed by the GATS. In this context, a few options were examined such as a greater participation in current WTO negotiations on professional services and active participation in the Uruguay Round WTO negotiations due to start in the year 2000, with a view to improving country schedules of commitments.

(i) Issues related to movement of service suppliers

10. Experts noted that the migration of health personnel was a long-standing problem for a number of developing countries which had suffered from an outflow of health personnel. While acknowledging that, ultimately, conditions in the home country of the professional accounted in large measure for the decision whether to stay abroad or return home, it was recognized that measures which permitted professionals to move across borders and practise their trade more freely could attenuate the impact of brain drain. Other measures suggested as a means to address the brain drain issue included: compensatory arrangements for loss of personnel, reimbursement of training costs to developing countries, incentives to encourage health personnel from developing countries to remain in their home countries and trainees to return to their home countries, and creation of regional training facilities, as well as use of new telecommunication technologies.

11. Experts concurred on the central role of quality in the consideration of relevant barriers to trade in relation to movement of health personnel. On barriers facing movement of services suppliers, experts found visa and entry regulation, nationality and residency requirements, and licensing and recognition of qualifications to be particularly restrictive. It was recommended that educational equivalence, harmonizing accreditation standards and mutual recognition of qualifications should be promoted, with the assistance of professional associations and regional and subregional groupings. The WHO regional offices could also play a role in facilitating this process. At the multilateral level, the promotion of transparency in standards and qualification requirements, as well as the development of global standards based on scientific knowledge, were considered crucial in facilitating movement of service suppliers.

12. Introduction of a special visa regime for temporary movement of service suppliers in the context of services contracts, and facilitation of entry requirements, were mentioned as means to lower barriers to suppliers. Developing international marketing mechanisms within ethical constraints was also suggested in this context.

13. Experts noted that some of the issues raised with respect to movement of suppliers could be addressed through the existing provisions of the GATS and the

negotiations of specific commitments in the new round of negotiations; for example, WTO members would be able to request the elimination of barriers to trade in this mode of supply as in others. Through the current negotiations on GATS Article VI on Domestic Regulations, countries could participate in and attempt to influence the adoption of provisions which facilitate licensing and the recognition of qualifications.

(ii) Issues related to treatment of foreign patients

14. Experts recognized the considerable export potential which the mode of supply of movement of consumers represented for developing countries. First and foremost, experts examined the portability of health insurance. It was widely acknowledged that the fact that health insurance was often not portable across borders, acted as a deterrent on the movement of patients and retirees wishing to be treated abroad. Portability could create important trade opportunities for developing countries. It was stressed that non-portability of health care insurance required further attention.

15. Portability involved both State and private insurance providers. Lack of information among insurer, insured and the health care provider was the main reason leading to non-portability. Accreditation and harmonization could ensure quality and thus enhance portability. Different approaches had been used to overcome the problem of non-portability, such as the one followed in the European Union and bilateral agreements which allowed total or partial portability of public health insurance. It was suggested that future work on this issue could include the examination of existing bilateral agreements and their relevance to development of a global agreement on portability of health care insurance.

16. The possibility of crowding out of nationals by foreign patients paying a premium for treatment was mentioned. On the other hand, this inflow could help to improve the quality of services offered. One important question that arose from the above was how to ensure that the services offered to foreigners were also available to nationals.

(iii) Foreign investment in development of service facilities, including new forms of business organization

17. It was noted that investment by health service providers, including insurance companies, from developed countries in developing countries was a growing trend. The Meeting attached particular importance to the need for strengthening the capacity of the LDCs in making available the specialized health services for their populations by procuring required modern medical and surgical equipment and training physicians and surgeons of the LDCs in delivering these specialized health facilities. Cooperation among the developing countries and the LDCs was also identified as one of the possible ways for strengthening the capacity and expanding exports of the developing countries in the health services sector. Many countries had opened their markets to foreign presence in various forms as a means of achieving better health services, reducing price escalation, and taking pressure off the public sector. Affiliation/partnership with reputable health service institutions in developed countries was considered to enhance the development of service facilities in developing countries, *inter alia* through improving the image and quality of services of such facilities, as well as enhancing research and development. In the areas of education and training, use of telemedicine had made such affiliation especially meaningful. Moreover, affiliation arrangements would facilitate sending of trainees to centres of excellence.

18. There was a considerable discussion around the notion of the dual system that could result from investment policies which differentiated between the public and the private sector, as well as between the domestic and export sector. Equity considerations were raised in this context. Investment by hospital chains in developing countries was found to be appropriate only if the host country had a sufficient number of physicians per capita, otherwise local people would suffer as physicians would be drawn to affluent patients. The phenomenon of "cream-skimming" whereby foreign investors would simply serve those who needed less but paid more continued to be an important policy consideration. The private sector could draw resources away from the public sector. On the other hand, the switch of patients from public to private health structures, with the consequent increase in the human and financial resources available to the public sector, would be especially positive in those countries which suffered from a shortage of medical personnel and health facilities. The challenge for governments was how to enforce the commitments made by foreign suppliers with regard to the social aspects of health care. This could be promoted through joint ventures and cooperative arrangements between private and public sectors. To assess the benefits and costs of foreign investment, additional information would be necessary concerning the experiences of countries in opening up their health care markets.

19. Experts noted that, although some developing countries could export health services competitively through establishment in developed countries, restrictions such as economic needs test for doctors and quantitative limits had made this mode of supply difficult to them. Another form of investment in developing countries was through partnership with firms from developed countries to establish specialized medical services combined with tourism services. However, it was noted that not all experiences of public-private partnership had been successful. Such business failures could have negative effects on public finance.

20. The contribution of foreign direct investment in the health services sector to the strengthening of domestic capacities and expansion of exports was addressed by the Meeting. A number of external and internal barriers to foreign investment were identified. It was suggested that studies could be undertaken on issues related to barriers such as: competition policy, internal barriers including discriminatory tax treatment, negative campaigning against private operators, incentives and impediments relating to investments by expatriates, and the duality between private and public health services, as well as domestic health services and exports. Moreover, more information was required on the magnitude of the market and main players in the sector to identify which types of foreign investments would improve the efficiency of health services in developing countries. Experts agreed that equity and trade in investment in health services were by no means mutually exclusive and should necessarily be considered in tandem by policy-makers.

21. Experts pointed out that liberalization of foreign direct investment and supply of services by the private sector called for considerable regulatory capability to ensure that the supply of services would mesh with national health policy, and would be a vehicle for the transfer of technology. It was noted that the capacity to regulate differed among different countries.

(iv) The role of new technologies and the new ways of delivering services, in particular development of telemedecine and health services on the Internet

22. Discussion on the provision of medical services using new computer based telecommunication technologies focused on the role of telemedicine and the Internet. Application of telemedecine was seen by experts as a promising way of addressing

issues such as equity, cost containment, optimizing the use expensive technology and specialized medical services, upgrading of health treatment, improving access of patients in remote areas to primary and specialized health services, and regional sharing of knowledge and cooperation. In addition, development of telemedical services enhanced growth of international and regional cooperation and international trade in health services. The development of the international market for telemedecine was based on the synergy of two service sectors, notably telecommunication and health services. However, experts underscored that only selected services were more likely to be provided by telemedical services.

23. The view was expressed that further development of telemedecine could have an impact on other modes of supply of medical services, given that by receiving cross-border consultations, patients would be less likely to travel abroad, and medical professionals and students would have access to medical education from foreign countries without the need to move abroad. It was also pointed out that liberalization of trade in services would require market opening for all modes of supply, since trade in services is often based on a combination of different modes of supply. In this context, it was proposed that a study could be undertaken on how efficient supply of services required combined use of various modes of supply and how this interdependence was affected by the use of new technologies.

24. Some experts were sceptical about whether telemedecine would become a major tool for international trade in health services since, apart from the substantial investment needed in the required technology and equipment, many problems of a technical and ethical nature remained to be overcome. Such problems related mainly to quality, liability, scientific reliability, recognition of qualifications, standards and licensing, insurance coverage, confidentiality of information. Similar concerns were raised in connection with Internet, including violation of national laws prohibiting advertising of health care services and pharmaceuticals. It was pointed out that an appropriate regulatory framework should be designed before full-scale application of telemedecine could proceed.

25. The usefulness of Internet in sharing information and knowledge, creating social support networks, which would in turn allow people to participate in their own health care system, and enhancing collaborative action in public health issues was noted by experts. Experts highlighted the need for further research on the impact of new technologies on, *inter alia*, ethics, liability and scientific reliability. This work could be undertaken by UNCTAD in collaboration with WHO. Social and trade aspects of bilateral and regional agreements were suggested for further analysis, to determine how such aspects were reconciled in the area of trade in services. The growing importance of electronic commerce was also highlighted.

26. It was suggested that a global server in Internet be established to provide information on health services, including trade-related issues, business opportunities and other market-related information. This would facilitate information flows, in particular, the content and management of such flows and access to all existing and potential users including health personnel in public and private sectors. Such a facility could be developed jointly by WHO and its regional offices with the support of UNCTAD and FUINCA.

C. Development of capacity for exportable health services: comparative experience of export strategies in this sector

27. Various participants emphasized that the balance between export of health services and the concerns of the domestic population must be carefully evaluated.

In particular, the development of export strategies should not be detrimental to pursuing the goals of the national health policy. Moreover, the proceeds of export activities should be used to strengthen the national health system. However, they also stressed the importance of developing the health care system not only as a domestic concern but also as an export-oriented industry. While some countries had proved successful in tapping export opportunities, in other cases this would require a cultural change in the perception of the health sector.

28. Experts pointed out that success in exporting health services could require an active export promotion policy and identified its key elements. The first one was the identification of niches, i.e. specific health care services, technologies and products in which the country had a specific comparative advantage. This could then lead to the determination of the optimal mix of different modes of supply of these services. The second one was the identification of target markets. In this regard, cultural and linguistic affinities and geographical proximity played a very important role. The third element was the development of marketing through: networking, collaboration with foreign institutions, information to the foreign public of the overall quality and cost advantage of the health care system. Another possibility would be to establish a link between tourism and provision of health services. The fourth element of the strategy was improving the accessibility of health institutions to foreign patients through agreements with insurance companies that guaranteed the portability of insurance. Lastly, the strategy had also to envisage a clear definition of liabilities among providers of health services and insurance in the exporting and importing countries.

29. International and multilateral public procurement provided another opportunity for exports of health services, which could be exploited by developing countries. Some experts suggested that these countries could be assisted by international organizations in gathering and spreading information on these opportunities. It was also stressed that this potential market had to be studied further.

30. The main obstacles that might be encountered in developing an export strategy were also identified. One of the most important ones was found to be the lack of international recognition of the quality of the services provided. In this connection, a system for international accreditation of medical personnel and health institutions was judged important. It was suggested that WHO could play a role in this field. Another obstacle was the inadequacy of infrastructure of potentially exporting countries. This could be tackled in various ways, including tax holidays for investments in health care and liberalization of investment in hospital and medical institutions, including financing by banks and financial institutions. Finally, another major barrier to the development of exports of health services was found to be restrictions to the movement of natural persons.

D. Lessons to be drawn from the health services sector for the development of capacity and expanding exports of services in other sectors

31. Experts stressed the advantages of having an exchange of views and experiences between health service exporters and providers and trade experts. This allowed a rich exchange of views on commercial and non-commercial issues in the health sector. Experts underlined that a number of features of the health services sector could be applicable to the other services sectors. The health services sector, like any other services sector, was affected by the globalization of markets and technological development. Investment and movement of personnel were closely associated and a combination of different modes of supply was required to export successfully.

32. There was an urgent need to reconcile the objective of freer trade with non-economic factors such as consumer protection, equity, standards, cultural and national security considerations. This allowed countries to benefit from international trade not only through new ways of capturing foreign exchange but also by expanding the supply of new health services to their own population, improving quality and reducing costs. The need to improve information on measures affecting trade in health services, the market potential of this sector, and statistics was underlined. Finally, the importance of regional cooperation schemes in the area of health services was seen as a first major step towards the strengthening of multilateral cooperation.

33. Experts expressed the view that issues such as subsidies, safeguards and government procurement deserved more attention in the future. The role of government in the development of health services was underlined. Some experts emphasized that national policies should be enhanced so as to provide adequate health services to the poorest segment of the populations in developing countries. Therefore, the tradeable aspects of health services should not lead to neglecting the social dimension.

34. Experts believed that one of the positive contributions of the Expert Meeting was to demonstrate the importance of trade in the health services sector, which, while covered by the GATS, had not received any particular attention during the multilateral negotiations. It was also stressed that developing countries had an important potential for trade in health care services. It was therefore suggested that similar meetings be convened for other sectors. Given the inevitable trend in favour of increasing trade in health services, experts insisted that the internationalization of health services could take place in the framework of a well-planned development strategy. UNCTAD had a role to play in this respect.

35. Given the asymmetry of information or the lack of information as observed in health services, some experts stressed the need for a better system of information, in particular for consumers. Also, experts insisted on the role of research and development as a vehicle of transfer of technology in the health services. Suggestions were made for internationalization of efforts to face the tremendous needs for research and development in this area. Strategies were needed to ensure that the results of joint research and development projects would be retained in developing countries.