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**POVERTY, TRADE AND HEALTH:
AN EMERGING HEALTH DEVELOPMENT ISSUE**

Report of the Regional Director

EXECUTIVE SUMMARY

1. The General Agreement on Trade in Services (GATS) is one of the most important multilateral trade agreements to emerge from the Uruguay Round of negotiations that created the World Trade Organization. It is the multilateral legal framework through which WTO members will approach the progressive liberalization of trade in services, including health-related services. There is now an animated international debate about the impact of GATS on public services in general, and health in particular.
2. Health is critical for long-term economic development and prosperity. Improved health is beneficial to development, while development and the increased resources that it generates are vital for promoting public health. Poverty breeds ill-health which further perpetuates poverty. Ill-health also reduces human capital and productivity. Economic growth (with redistribution) is the primary means by which countries reduce poverty.
3. Trade liberalization can be a powerful tool for fostering development and reducing poverty. By providing incentives for an efficient allocation of resources, an open and transparent trade regime is an important precondition for broad-based and sustained growth.
4. Sub-Saharan Africa is the only region in the world where poverty steadily increased in recent years. The deepening poverty has created ground for the spread of ill-health. Trade liberalization can affect health either directly or indirectly. It can work for or against national developmental objectives in the health sector.
5. Ministries of health need to accurately assess and respond to the risks and opportunities for human health and development associated with the increasing openness of health services under GATS. Health systems in countries of the African Region are not adequately equipped to handle trade-related issues effectively.
6. The challenge for countries in the Region is to find ways to take advantage of the emerging global opportunities offered by trade in health services while also mitigating the adverse effects of this trade.
7. The Regional Committee is invited to review this document and adopt the proposed way forward.

CONTENTS

	Paragraphs
INTRODUCTION	1–4
OVERVIEW	5–14
SITUATION ANALYSIS.....	15–20
THE WAY FORWARD	21–22
CONCLUSION.....	23–24

INTRODUCTION

1. The General Agreement on Trade in Services (GATS) is one of the most important multilateral trade agreements to emerge from the Uruguay Round of negotiations that created the World Trade Organization (WTO). It is the multilateral legal framework through which WTO members will approach the progressive liberalization of trade in services, including health-related services. There is now an animated international debate about the impact of GATS on public services in general, and health in particular.

2. Trade in services has grown rapidly over the last couple of decades. Between 1980 and 2004, the total value of service exports increased by over 500%, from US\$ 363 billion to US\$ 2.1 trillion. Trade in services now accounts for approximately 20% of total world exports. The economic importance of the health sector is on the rise. Global expenditures on health are estimated at US\$ 3 trillion. Trade in health services is presently estimated to be about 1% of the total global health expenditures, or US\$ 30 billion, and it is growing.¹

3. Though trade in health services in the African Region is low at present, it is likely to increase as countries liberalize their economies. There is an urgent need for greater understanding of the implications for trade in health services for social and developmental objectives and the potential trade-offs between these and commercial considerations. This understanding would enable countries to take advantage of the emerging global opportunities provided by trade in health services and to mitigate any potential adverse effects.

4. This paper discusses the implications of trade in health services on poverty and public health objectives and proposes a way forward for the African Region.

OVERVIEW

Poverty, trade liberalization and health

5. Health is critical for long-term economic development and prosperity.² Improved health is beneficial to development, while development and the increased resources that it generates are vital for promoting public health. Ill-health reduces human capital and productivity, two key factors that are crucial for attracting investment, competing in international markets, and economic growth.

6. Poverty is the world's greatest killer and the major cause of ill-health and suffering.³ The ill-health bred by poverty further leads to work absenteeism, reduced productivity and diminished earnings. The combined effect is to trap households in a vicious cycle of poverty and poor health.

7. Trade liberalization can be a powerful tool in fostering development, reducing poverty and improving health. Growth in trade through trade liberalization has been found to induce a significant increase in productivity.⁴ Pressure on domestic industries by competing imports stimulates technological innovations and productivity. Trade openness contributes significantly to

¹ WHO, Meeting report of the international consultation on assessment of trade in health services and GATS, research and monitoring priorities, Geneva, 9–11 January 2002, World Health Organization.

² WHO, *Macroeconomics and health: investing in health for economic development*, Geneva, World Health Organization, 2001.

³ WHO, *The world health report 1995: bridging the gaps*, Geneva, World Health Organization, 1995.

⁴ Frankel J-A, Romer D, Does trade cause growth? *American Economic Review* 89(3): 379–399, 1999.

productivity gains and impacts on a country's risk premium.⁵ The major gains to developing countries accrue from improved allocative efficiency; access to superior technology and intermediate inputs; greater variety of goods; advantages of economies of scale and scope; increased domestic competition; and creation of growth externalities through knowledge transfers.

World Trade Organization agreements and their implications in health services

8. The WTO provides the legal and institutional foundation for multilateral trading among countries. It manages 29 multilateral trade agreements covering all matters of trade. Four of these agreements have implications for health: the Agreement on Trade-Related Aspects of Intellectual Property Rights; WTO Agreement on the Application of Sanitary and Phytosanitary Measures; Agreement on Technical Barriers to Trade; and the General Agreement on Trade in Services (GATS).

9. The Trade-Related Aspects of Intellectual Property Rights (TRIPS) sets the minimum standards for the protection of intellectual property rights, including patents, copyrights, trademarks and industrial designs. The patent protection of medicines and other health-related products could potentially lead to high prices for medicines, thereby affecting affordability and accessibility. The Doha ministerial conference in November 2001 adopted a declaration allowing members to take measures to protect public health (a waiver providing this flexibility was agreed on 30 August 2003). The agreement also has implications on traditional medicine. Many countries in the African Region have a rich heritage of traditional systems of medicine which are part of national health systems. The poor extensively use these systems.

10. The Agreement on the Application of Sanitary and Phytosanitary Measures deals with national policies for food safety. To apply measures more stringent than those set by the Codex Alimentarius Commission, a country must show evidence of risks to health. However, the agreement provides exceptions if the measure is to protect public health. A main concern for developing countries is that developed countries might bar imports through unnecessarily stringent food safety conditions, thereby adversely affecting poverty and nutrition.

11. The Agreement on Technical Barriers to Trade addresses the production, labelling, packaging and quality standards of pharmaceuticals, biological agents, foodstuffs and other consumer products. The agreement stipulates that products must be compared to similar products, production methods and practices notwithstanding. There are fears that this will create a potential bias against the adoption of health and safety regulations if they add to production costs.

12. GATS is the multilateral legal framework through which WTO members will approach the progressive liberalization of trade in services, including health-related services. It defines four ways (called *modes*) of international trading in services:

- Mode 1 Cross-border supply: non-resident suppliers supply services across a border into the country;
- Mode 2 Consumption abroad: consumers or firms make use of a service in another country;
- Mode 3 Commercial presence: a foreign company sets up subsidiaries or branches to provide services in another country;

⁵ Stoeckel A, Tang K, McKibbin W, The gains from trade liberalization with endogenous productivity and risk premium effects, Technical paper prepared for the seminar: Reason versus emotion: Requirements for a successful WTO round, Seattle, Washington, 2 December 1999.

Mode 4 Presence of natural persons: individuals travel from their home country to supply services in another country.

13. Under GATS negotiations, countries make or request specific commitments relating to market access in various services sectors, including health services. For the health sector, GATS applies only to health-related services provided for profit; it excludes public-provided services not available on a commercial basis or in competition with others.

14. Animated international debate continues about the impact of GATS on public services in general and on health in particular. Given that commitments are binding, policy-makers need to be cautious and take careful stock of their capacity at national level to take advantage of the benefits of trade in health services.

SITUATION ANALYSIS

15. There is a dearth of information concerning trade in health services in the African Region. Cross-border supply exists, although the magnitude is hard to quantify. People seek medical treatment within countries of the Region and also go elsewhere. Countries send some of their nationals abroad for medical and paramedical training. Many countries have foreign-owned clinics, hospitals and services. There is also substantial movement of health professionals into and out of countries.

16. Trade liberalization in the health sector can help countries address issues regarding equity, efficiency, quality and access. Countries can acquire the services of health professionals from other parts of the world through e-Health and telemedicine to improve the quality of patient diagnosis and management, particularly in remote and rural areas. In addition, countries can upgrade the skills of their nationals through interactive electronic means. Some countries can provide lower-cost treatment of equal or better quality, exclusive therapies or more specialized medical services for foreigners.

17. Additional domestic resources and foreign exchange earned through trade in health services can be used to strengthen national health systems. Shortage of physical and human resources, particularly for specialized health services, can be overcome while additional resources can be generated for investing in and upgrading health-care infrastructure and technology. Finally, countries will be afforded an important means to improve the quality and accessibility of health-care services while containing costs.

18. On the other hand, patent protection for medicines and other health-related products under the TRIPS agreement will potentially lead to high prices of medicines, thereby adversely affecting accessibility and affordability. Patent rights for traditional medicines might hinder access to health care by the poor who extensively use this system in Africa.

19. Liberalization of the health sector could also shift resources away from rural and primary care towards specialized centres catering for the affluent few and foreigners in countries, thus creating a two-tier system in the country. This can worsen the already inequitable distribution of health-care resources within countries. Migration of health-care professionals adversely affects equity, quality and availability of health services in the source countries and imposes significant costs on them.

20. Ministries of health need to accurately assess and respond to the risks and opportunities for human and health development associated with the increasing openness of health services under GATS. Health systems in countries of the Region are not adequately equipped to handle trade-

related issues competently. Table 1 summarizes the key opportunities and risks of increased trade in health services.

Table 1: Opportunities and risks of trade in health services

	Opportunity	Risk
Mode 1 Cross-border supply	Increased care to remote and underserved areas	Diversion of resources from other health services
Mode 2 Consumption abroad	Much-needed foreign exchange earnings for health services	Crowding out of local population and diversion of resources to service foreign nationals
Mode 3 Commercial presence	Opportunities for new employment and access to new technologies	Development of a two-tiered health system with an internal brain-drain
Mode 4 Presence of natural persons	Economic gains from remittances of health-care personnel working abroad	Permanent outflows of health personnel, with loss of investment in educating and training such personnel

THE WAY FORWARD

21. Countries in the Region need to position themselves strategically to take advantage of the opportunities offered by liberalization of health services and address adequately any attendant risks. To that end, they should:

- (a) form or strengthen regional cooperation frameworks or agreements that take advantage of the opportunities offered by liberalization;
- (b) establish or strengthen existing national coordinating mechanisms for appropriate harmonization of work between ministries responsible for health, trade, commerce and legislation so as to ensure that public health concerns are duly taken into account;
- (c) provide training and orientation for senior and middle-level administrators working in the health, commerce and legislative sectors in matters concerning international development or the implications of multilateral trade agreements on health, trade and other social areas;
- (d) identify and promote the work of regional and national centres of excellence on globalization, trade and health that would specifically deal with research and training in multilateral trade agreements; these institutions should establish networks at national and regional levels.
- (e) explore how they can reinforce and complement mutual trade in health services within the existing regional and subregional blocs.

22. WHO and relevant partners should:

- (a) ensure that health is taken into account when trade policies are developed;
- (b) continue to provide information and advice to Member States on matters pertaining to trade and public health;

- (c) support the strengthening of national capacities to effectively negotiate and implement trade agreements and other health-related conventions in a way that promotes and protects public health.

CONCLUSION

23. Countries need to fully appreciate the potential effects of multilateral trade agreements, particularly those relating to health, and take appropriate measures to deal with them. Trade in health services presents potential opportunities that countries can exploit. However, the opportunities have attendant risks. Countries should take advantage of the emerging global opportunities offered by trade in health services while striving to mitigate the adverse effects of the trade.

24. The Regional Committee is invited to review the document and adopt the proposed way forward.