

A NOTE ON THE STATUS OF APTA TRADE IN HEALTHCARE SECTOR RELATED PRODUCTS IN THE CONTEXT OF THE RESPONSE TO THE COVID-19 PANDEMIC¹

The Asia Pacific Trade Agreement (APTA) is one of the oldest preferential trade agreements in the region (signed in 1975 as the Bangkok Agreement) and is open for membership to all the developing countries in the ESCAP region. The current members include Bangladesh, China, India, Lao PDR, Republic of Korea and Sri Lanka. Mongolia's accession will be implemented in early 2021. The 5th round of negotiations on tariff liberalization as well as on the liberalization of trade in services, investment promotion and trade facilitation started in 2018. The outbreak of the COVID-19 pandemic in early 2020 has forced the postponement of face-to-face meetings of APTA Participating States (PS) and resulted in a de-facto temporary pause in negotiations.

The COVID-19 pandemic has reaffirmed the importance of international trade for making healthcare sectors equipped to fight the spread of the pandemic and to treat the sick as well as to prepare exit strategies. Not surprisingly, many countries have opted for a combination of trade measures focusing at balancing national demand and supply of products in this sector.² For instance, since the beginning of 2020 the vast majority of governments have lowered import taxes, while also taking steps to ban or limit the export of medical equipment and medicines.³ The increase in trade restrictions on medical products such as personal protective equipment (PPE)⁴ and

¹ This note has been prepared under the APTA secretariat's own responsibility and is without prejudice to the positions of Participating States. It serves as an information brief and is issued without formal editing.

² Although some of the countries imposed measures related to the food sector too, these are not covered in the note.

³ Among several references demonstrating the rise of such trade measures, the most recent is the Global Trade Alert's report entitled "Tackling COVID-19 Together" and available at <https://www.globaltradealert.org/reports/51>

⁴ In the context of COVID-19, the PPE includes gloves, medical masks, goggles or a face shield, and gowns, as well as for specific procedures, respirators (i.e. N95 or FFP2 standard or equivalent) and aprons. See more details in the WHO Interim Guidance issued on 19 March 2020 (available at https://apps.who.int/iris/bitstream/handle/10665/331498/WHO-2019-nCoV-IPCPPE_use-2020.2-eng.pdf).

medical products, including test-kits and components for medicines, may have grave consequences for countries which do not have sufficient or any domestic production capacity.

Currently, the applied MFN tariff rates on healthcare-related products⁵ are averaging about 5.2% in APTA PS which is higher than in the world and in the Asia-Pacific region where these averages are 3.4% and 3.6%, respectively.⁶ Furthermore, when applying a definition given by the World Customs Organization (WCO) for COVID-19 related products,⁷ the tariff rates average is 6.4% in the APTA PS which is also higher than the world and Asia-Pacific which have averages of 4.3% and 3.8%, respectively. Although these COVID-19 related tariffs are lower than each PS's national applied MFN tariff average, at the time of a health emergency these tariffs are potentially harming as they make imported healthcare products less affordable and thus may obstruct the fight against a pandemic such as COVID-19.

The concessions of the 4th round of negotiations in APTA (in implementation since 1 July 2018) included only 3 to 16 COVID-19 related items out of the total 41 products (detailed in table 1), depending on the PS, while the average margin of preference (MOP) ranged from 12% to 34%. Moreover, exports of COVID-19 related products between APTA PS amounted to approximately \$2.7 billion in 2018 – accounting for 4.8% of their total exports to the world. In a broader group of healthcare sector-related products, APTA concessions include between 12 to 38 healthcare sector-related items out of a total of 207 products, while the MOP ranges from 19% to 35% across APTA PS. Additionally, exports of healthcare sector-related products between APTA PS amounted to about \$10 billion in 2018 – or 13% of their total exports to the world. These findings highlight that the proportional coverage of healthcare products in APTA liberalization efforts remains low, although trade in these products between APTA PS

⁵ The HS coverage for this sector uses the definition first offered by Matthias Helbe (2012), More trade for better health? International trade and tariffs on health products. WTO Staff Working Paper ERSD-2012-17. Available at https://www.wto.org/english/res_e/reser_e/ersd201217_e.pdf. In the WTO report issued on 3 April 2020, this definition was broadened mostly by including items from PPE and soap - see details in https://www.wto.org/english/news_e/news20_e/rese_03apr20_e.pdf.

⁶ The WTO report mentioned above provides the applied MFN average globally at 4.8% because the definition is broader than in this note.

⁷ WCO (2020). HS classification reference for COVID-19 medical supplies. Available at http://www.wcoomd.org/-/media/wco/public/global/pdf/topics/facilitation/activities-and-programmes/natural-disaster/covid_19/hs-classification-reference_en.pdf?la=en.

is distinctly large.

The COVID-19 pandemic is set to considerably hamper various aspects of life, both social and economic. It is now well established that flattening the pandemic curve through various health policies (mostly on restricting the movements of people and requesting them to observe various hygienic practices) is essential to enable healthcare systems to cope with the number of sick people in hospitals. It is equally important to quickly equip the healthcare sector with the necessary resources (PPE, medicines, diagnostic equipment). Therefore, the continuation of tariffs and other import and export barriers on essential products not only does not make economic sense but puts every government in a position of being accused of not providing appropriate care for its people.

Once the COVID-19 pandemic is under control globally, each government should be reviewing the set of policies that were in place which impacted their readiness to act in such an emergency. Apart from health and various stimuli policies, the main policies to be reviewed are trade and trade facilitation policies. How helpful were the protective measures (import restrictions) in APTA PS over the long term in building local capacity to supply essential products in quantity and quality when needed? What was the experience of Sri Lanka (with no tariff protection on any of the examined products) vis-à-vis Bangladesh's experience (with rather high import tariffs on almost all the relevant products)? What are the lessons in moving forward, especially in making the results of the 5th round of tariff liberalization among APTA PS an effective tool for rebuilding their economies into inclusive, sustainable, and more resilient ones?

In addition to reviewing border taxes and traded quantity limits, governments of PS should review their trade facilitation processes. In many cases, these governments realized (perhaps late?) that they should open special "green" or "humanitarian" channels for processing all COVID-19 related imports and exports in order to meet demand. Moreover, despite the evidence⁸ that digitalized trade in vital foods and medical products substantially enables commerce at a higher speed, scale and efficiency in this time of global crisis, only 46% out of 139 countries globally accept or process electronically the data required for release of shipments in advance of their

⁸ Case studies of paperless trade as trade policy is available at <https://unnext.unescap.org/policy-briefs>

arrival, while China and the Republic of Korea are the only APTA PS that are applying digital measures.⁹ In fact, enabling “green” channels to expeditiously deliver those vital goods to consumers and hospitals has become essential in many cases, and in this context, provisions related to facilitating and expediting customs clearance have proved to be of crucial importance. Accordingly, when considering the preparedness for the future, the Framework Agreement on Trade Facilitation being discussed in the 5th round of negotiation under APTA needs to be improved by covering the substantial provisions which proved to be of use this time.¹⁰

The 4th session of the Ministerial Council of APTA reaffirmed the importance of information exchange on non-tariff measures (NTMs). However, the 5th round of negotiations have yet to determine the scope of NTMs to be considered under APTA negotiations, if any. Reducing NTMs would go well together with the various other efforts undertaken to reduce protectionism in international trade globally, such as increased transparency and trade facilitation.¹¹ In particular, inclusion of these provisions are recommended for healthcare-related products (and services), especially in times of pandemics such as COVID-19.

The 5th round of negotiations needs to pick up speed as soon as possible. All PS are encouraged to enhance their ambition level in the negotiations. The world is (finally) starting to understand the importance of smooth and uninterrupted trade in tackling COVID-19 and even more so in the recovery from the collapse of production and employment. Trade negotiations should promote in-depth and wide-scope discussions. ESCAP, in its role as the APTA secretariat, can provide the right platform to coordinate a timely response to developing countries’ interest in trade negotiations by sharing best practices and raising trade-related capacities of PS.

⁹ Global Express Association’s Customs Capability Database Available at <https://global-express.org/index.php?id=4>

¹⁰ In this regard, UN Regional Commissions conduct a survey about trade facilitation as well as initiatives on paperless trade or e-trade aiming at providing insightful information for policy makers to harness trade as a key means of implementation of the 2030 Agenda for Sustainable development. Available at <https://untfsurvey.org/group?id=APTA>

¹¹ See many calls issued by the heads of governments (e.g. G20), business (e.g. ICC) and various international organizations (e.g. the latest by the IMF and WTO on 24 April 2020 available from https://www.wto.org/english/news_e/news20_e/igo_15apr20_e.pdf

Table 1. COVID-19 related trade between APTA PS and their applied tariff rates

Categories	HS code	Exports between PSs (\$, million, %)	Imports between PSs (\$, million, %)	Applied tariff rates under APTA					
				Bangladesh	China	India	Lao PDR	ROK	Sri Lanka
Covid-19 test kits/diagnostic test	382200	71.1 (9.6)	72.5 (2.5)	5.0	4.0	6.0	5.0	0.0	0.0
	300215	3.8 (0.4)	26.4 (0.4)	0.0	3.0	10.0	5.0	0.0	0.0
	902780	-	-	1.0	9.3	0.0	5.0	5.4	0.0
Protective garments and the like	630790	255.6 (4.5)	248.8 (53.7)	25.0	14.0	10.0	10.0	10.0	0.0
	902000	6.8 (8.4)	9.5 (7.8)	1.0	8.0	4.1	5.0	5.6	0.0
	900490	55.9 (4.01)	43 (47.2)	25.0	16.0	9.3	5.0	8.0	0.0
	392620	122.4 (4.7)	43.9 (49.3)	10.0	10.0	10.0	10.0	6.5	14.3
	401511	4.3(1.5)	11.1 (20.3)	9.0	8.0	7.0	5.0	5.6	15.0
	401519	10.6 (2.7)	18.7 (4.9)	22.5	18.0	7.0	10.0	5.6	30.0
	611610	36.5 (2.6)	27.5 (37.3)	20.0	14.0	10.0	8.0	8.0	0.0
	621600	14.7 (3.1)	20.9 (57.8)	25.0	14.0	10.0	8.0	8.0	0.0
	650500	186.4 (6.5)	102.8 (52.3)	25.0	6.5	10.0	20.0	8.0	22.5
	621010	17.2 (1.8)	19.9 (49)	25.0	10.4	10.0	10.0	13.0	0.0
	621020	5.9 (2.6)	7.4 (49.1)	25.0	10.4	27.5	10.0	9.1	0.0
	621030	2.2 (2.6)	2.2 (21.5)	25.0	10.4	21.8	10.0	13.0	0.0
	621040	20 (1.2)	34 (15.9)	25.0	10.4	10.0	10.0	9.1	0.0
	621050	18.4 (1.5)	24.1 (21)	25.0	10.4	10.0	10.0	9.1	0.0
	392620	122.4 (4.7)	43.9 (49.3)	10.0	10.0	10.0	10.0	6.5	14.3
Thermometers	902511	3.7 (6.2)	1.3 (16.5)	5.0	4.0	10.0	5.0	0.0	0.0
	902519	51 (6.9)	72.7 (13.6)	4.3	3.6	8.5	5.0	6.0	0.0
Disinfectants / Sterilization products	220710	1.5 (1.1)	0.1 (0.03)	25.0	40.0	150.0	0.0	10.0	0.0
	220890	43.6 (5.5)	93.6 (40.2)	25.0	8.8	150.0	0.0	20.0	0.0

	380894	11.1 (8.6)	12.9 (7.5)	5.0	9.0	10.0	5.0	6.5	0.0
	841920	7.3 (4.9)	6.0 (5.2)	1.0	4.0	5.3	5.0	0.0	0.0
	284700	24.2 (26.1)	38.1 (38.5)	10.0	5.5	7.5	5.0	5.5	0.0
	300490	529.9 (3.8)	242.4 (1.5)	25.0	3.9	10.0	10.0	5.6	0.0
	380894	11.1 (8.6)	12.9 (7.5)	5.0	9.0	10.0	5.0	6.5	0.0
Other medical devices	902212	62.7 (12.9)	60.5 (6.1)	1.0	2.8	6.8	5.0	8.0	0.0
	901890	216 (8.2)	232 (5.1)	5.0	2.6	7.5	5.0	5.6	0.0
	901920	37.1 (5.1)	35.4 (7.2)	0.0	4.0	7.5	5.0	0.0	0.0
	901819	58.5 (7.2)	36.3 (6.7)	1.0	1.8	4.5	5.0	5.6	0.0
Medical consumables	300590	55.8 (5.2)	48.1 (28.1)	10.0	3.0	6.0	3.3	0.0	30.0
	901831	27.8 (3.2)	29.3 (8.9)	8.5	5.2	5.3	5.0	6.0	0.0
	901832	34.2 (8.9)	17.4 (3.6)	4.3	5.2	5.3	5.0	6.0	0.0
	901839	103.8 (6.0)	84.5 (3.3)	25.0	4.0	7.5	5.0	8.0	0.0
	901890	216 (8.2)	232 (5.1)	5.0	2.6	7.5	5.0	5.6	0.0
	481890	54.7 (13.7)	44.2 (57.6)	25.0	7.5	10.0	15.0	0.0	15.0

Notes: The numbers in parentheses show the proportion of the total exports (imports) to the world in the exports (imports) between APTA PS; coloured cells are the APTA concessions.