

Case 1. Global Medical Tourism

Health care seems to be in the news constantly—from the cost of health care to the quality of delivering health care. The United States prides itself on having the best health care, but it is also the most expensive health care provider in the developed world. The United States spends roughly \$10,000 per person annually on health care, while Switzerland, as the second highest-spending country, allocates just over \$6,000 annually. Interestingly, health care has always been viewed as an industry that is local to the country in which people live.

You might even think that health care is one of the industries least vulnerable to dislocation from globalization. Like many service businesses, surely health care is delivered where it is purchased. If an American goes to a hospital for an MRI scan, a local radiologist is likely to read the scan, right? If the MRI scan shows that surgery is required, surely the surgery will be done at a local hospital in the United States? Until recently, this was true, but we are now witnessing globalization in this traditionally most local of industries. This globalization of health care—“medical tourism”—has resulted in more than 8 million patients from across the world seeking treatment in a foreign country each year, spending upward of \$40 billion.

Consider the MRI scan. The United States has a shortage of radiologists, the doctors who specialize in reading and interpreting diagnostic medical images, including X-rays, CT scans, MRI scans, and ultrasounds. Demand for radiologists is reportedly growing twice as fast as the rate at which medical schools are graduating radiologists with the skills and qualifications required to read medical images.

This imbalance between supply and demand means that radiologists are expensive. An American radiologist earns, on average, about \$400,000 a year. To solve this supply and demand problem, an Indian radiologist working at the prestigious Massachusetts General Hospital, Dr. Sanjay Saini, thought he had found a clever way to deal with the shortage and expense—send images over the Internet to India where they could be interpreted by radiologists. This would reduce the workload on America’s radiologists and cut costs. A radiologist in India might earn one-tenth what his or her U.S. counterpart earns. Plus, because India is on the opposite side of the globe, the images could be interpreted while it was nighttime in the United States and be ready for the attending physician when he or she arrived for work the following morning.

As for the surgery, here too we are witnessing an outsourcing trend. Consider Howard Staab, a 53-year-old uninsured, self-employed carpenter from North Carolina. Mr. Staab had surgery to repair a leaking heart valve—in India. Mr. Staab flew to New Delhi, had the operation, and afterward toured the Taj Mahal, the price of which was bundled with that of the surgery. The cost, including airfare, totaled about \$10,000. If Mr. Staab’s surgery had been performed in the United States, the cost would have been some \$60,000, and there would have been no visit to the Taj Mahal.

Howard Staab is not alone. Driven by a desire to access low-cost health care, about 150,000 people from a variety of developed nations visit India every year for medical treatments. In general, medical procedures in India often cost only about 10–25 percent of what it costs in the United States. The Indian industry generates more than \$3 billion in revenues every year from foreign patients, an increase of more than a billion in just the last few years.

In another example, after years of living in pain, Robert Beeney, a 64-year-old from San Francisco, was advised to get his hip joint replaced. After doing some research, Mr. Beeney elected instead for joint resurfacing, which was not covered by his insurance. Instead of going to a nearby hospital, he flew to Hyderabad in southern India and had the surgery done for \$6,600, a fraction of the \$25,000 the procedure would have cost in the United States.

Mr. Beeney had his surgery performed at a branch of the Apollo hospital chain. Apollo, which was founded by Dr. Prathap C. Reddy, a surgeon trained at Massachusetts General Hospital, runs a chain of 50 state-of-the-art hospitals throughout Asia. Eight of Apollo's hospitals have the highest level of international accreditation. Apollo's main hospitals in India are estimated to treat some 50,000 international patients from 55 countries every year, mainly from nations in Southeast Asia and the Persian Gulf, although a growing number are from developed countries in Europe and North America.

This increased medical tourism trend begs the question: Will demand for American health services, or even health care services from most developed nations where prices are higher, soon collapse as work moves offshore to places like India? At the outset, that seems unlikely. Regulations, personal preferences, and practical considerations mean that the majority of health services will most likely be performed in the country where the patient resides. For example, the U.S. government-sponsored medical insurance program, Medicare, will not pay for services done outside the country. But, medical tourism represents an interesting trend and plausible alternative for many patients.

At the same time, in an interesting countertrend, U.S. medical providers also benefit from medical tourism, in particular from China. Chinese medical tourists often go to the United States because their own country's health care services are poor and lag far behind U.S. levels. Over the past decade, middle-class Chinese have flocked to South Korea for plastic surgery and to the United States, Singapore, and India for treatment of life-threatening conditions. For example, when Lin Tao was diagnosed with a lethal spinal tumor, rather than risk treatment in his native Hangzhou, China, he flew to San Francisco and paid \$70,000 for treatment at the University of California, San Francisco Medical Center. UCSF Medical Center says that its Chinese population has grown by more than 25 percent in each of the past few years. Similarly, Massachusetts General Hospital is expecting its Chinese patients to more than double annually for the next few years. As China gets wealthier, ever more Chinese are apparently willing to spend more to get better treatment overseas, and America's world-class hospitals are benefiting from this trend.

Case Discussion Questions

Q1-1. What are the benefits to American medical providers of outsourcing certain well-defined tasks such as interpreting an MRI scan to foreign providers based in countries such as India? What are the costs?

Q1-2. On balance, do you think that the kind of outsourcing undertaken by American health care providers is a good thing or a bad thing for the American economy? Explain your reasoning.

Q1-3. What are the practical limits to outsourcing health care provision to other countries?

Q1-4. Who are the primary beneficiaries of the growth of medical tourism? Who might lose from this trend?