

# Covid and consumption abroad: a Mode 2 crisis

Blog post by Senior Director Stephen Adams, 16 April 2020

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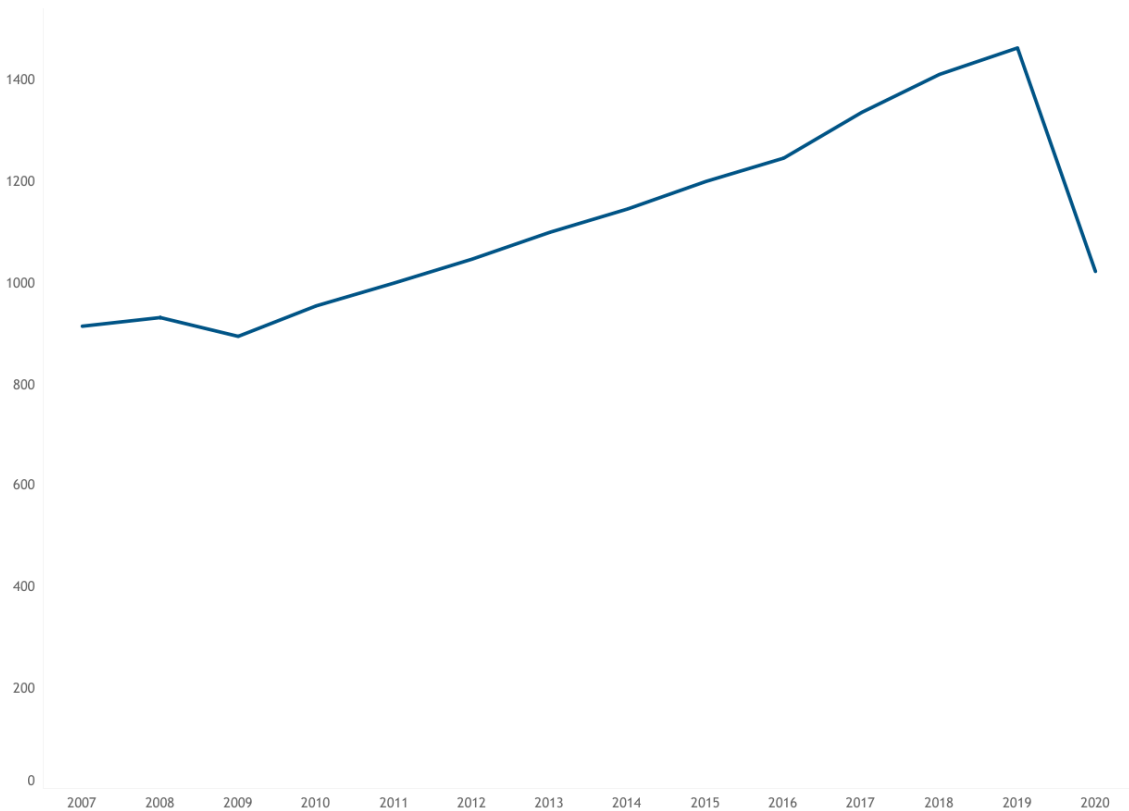
One of the first things services trade specialists learn is that trade in services is not like trade in goods. One of the most fundamental ways in which it is different is that the consumer and supplier of an internationally traded service are often physically in the same market. It is their economic nationality that matters, not their location on different sides of a border.

Often a service will be exported via an economic transaction that stays entirely within the jurisdiction of the exporter. The exemplars of this are international tourism and foreign students buying higher education. In both cases, the supplier exports to a consumer who has travelled to their jurisdiction for that purpose. In the jargon of trade policy this is 'consumption abroad'. In the even more technical jargon of trade policy, this is Mode 2. In practice, non-specialists often do not even think of this activity as trade at all.

Covid-19 is already by far the biggest crisis in Mode 2 trade in the modern period. One of the other things that services trade specialists learn is that Mode 2 tends to be among the least problematic forms of export. Because the consumer is travelling to your market, restrictions are your prerogative, not that of the importer, as is more generally the case. Most states do not try to limit the travel abroad of their citizens, and what they do when they travel is even harder to police.

A world of pandemic control collapses this logic. Suddenly states are imposing widespread restrictions on incoming travellers and issuing strict guidance on the outward movement of their own citizens. International tourism is around 6-7% of total international exports. The World Tourism Organisation [estimates](#) that international tourist arrivals could fall by 20-30% in 2020. This could wipe out between \$300-450 bn in revenues, which is about a third of estimated total tourism revenues for 2019. The 2009 global economic crisis reduced international tourist arrival for 2009 by 4%. The SARS outbreak of 2003 by 0.4%. For some developing countries, these revenues are their largest source of exports and cutting them off for public health reasons is a painful choice. For developed countries like France, the UK, Greece and New Zealand they are a core part of the export mix.

International tourist arrivals  
millions (2019/2020 estimates)



Source: UNWTO

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The higher education impact has been less immediately acute for revenues but has similar long-term implications. Many international students have repatriated in the middle of a northern hemisphere term and moved onto online teaching. While many students will be hoping that face to face teaching resumes in the autumn, how many students will now be wondering if a degree might be interrupted by public health measures? For a country like the UK, which hosts around half a million foreign students in an academic year - perhaps a fifth to a quarter of them from China alone, this is a big question.

What this implies in the medium term is only just starting to emerge. At one level, sectors will need to adapt to this potential for disruption in the years ahead. Tourism operators will need to anticipate it, and probably be insured in new ways against it. Scope to manage social distancing protocols may become a more integral part of the design tourist facilities. Higher education institutions will need to be ready to move courses online and may find that willingness to commit to long periods studying abroad falters, or at least needs to be hedged with high quality and reliable online alternatives.

The trade policy response is also an open question. There will inevitably be the question of whether the WTO as the governance body for international trade could encourage forms of cooperation designed to manage this new contingency on Mode 2 trade. There is perhaps a role for the WTO in helping define best practice for designing, consulting on and communicating Mode 2 restrictions, both outgoing and incoming, perhaps as part of a wider response to the pandemic. In any case, if Mode 2 exports were one of the more invisible parts of the trade policy picture before covid-19, they will be an important part of how we think through its implications.