AN ANALYTICAL STUDY OF FDI IN INDIAN HEALTH CARE SECTOR

PROF. RENUKA SAGAR*; P.LALITHA PRAVEENA**

*DIRECTOR
DEPARTMENT OF BUSINESS MANAGEMENT,
RBVRR WOMEN'S COLLEGE,
NARAYANGUDA

**ASSISTANT PROFESSOR
DEPARTMENT OF BUSINESS MANAGEMENT,
RBVRR WOMEN'S COLLEGE,
NARAYANGUDA

ABSTRACT:
Healthcare is one the fastest growing service sector in India. Given the growing importance of the health care sector and the significant development of trade in health services, foreign direct investment (FDI) in this sector has gathered momentum in the recent years. Since January 2000, FDI is permitted up to 100 percent under the automatic route in hospitals in India. Therefore, there is growing interest among foreign players to enter India's healthcare sector through capital investments, technology tie-ups, and collaborative ventures across various segments, including diagnostics, medical equipment, hospitals, and education and training. The objective of the paper is to present the current status of FDI in Health care, to identify some of the challenges and opportune

KEY WORDS: FDI, Healthcare, Hospital, Sector

Introduction:

India, one of the biggest emerging markets, is currently an important destination for Foreign Direct Investment ("FDI"). Despite India's potential to become one of the most dominant economies in the world, yet its economic progress since its independence in 1947 has generally been masked by its perception of being a closed, developing country. However, this perception has changed in the recent past and India is accepted as one of the most stable and robust economies.

The healthcare sector as an industry is expanding rapidly and has not been as severely impacted by recent economic slowdown as some of the other industries. It comprises of hospital services, diagnostic services, diagnostic products, medical technology, clinical trial services and clinical research organizations. This sector is predominantly privatized and accounts for more than 80% of total healthcare spending in India with almost 75 to 80 % of hospitals being managed by private sector.

The paper is divided into four sections:

Section 1: Enumerates the significance and concept of FDI in Health care Sector.
Section 2: Deals with facts, SWOT analysis, issues and challenges in Health care sector
Section 3: Deals with the empirical analysis on professionals and general public.
Section 4: Presents the findings and conclusions.

Health Care Industry Structure

The health care sector consists of independent, privately-run hospital and health care centers. Private health care centers accounts for the major share. Nearly 63% of the total spend is accounted by the private health care sector. . Noted service providers in this sector include Apollo Hospitals, Escorts Group and Fortis Healthcare

Government of India Policy

To encourage investment in the health care sector, government of India has allowed 100% FDI under the automatic route. Government has also accorded the infrastructure status to the hospitals and Lower tariffs on medical equipment. Government has also announced tax holiday for five years for the hospitals in rural areas

Market Drivers of Health Care Sector

Health awareness is rising .Health insurance sector is also on the rise. Private sector companies are growing fast in terms of owning and managing hospitals.

Table 1.Top Private Healthcare Providers in India

Player	Revenues ($ million)	Number of Hospitals	Beds
Apollo Hospitals	151 (2005)	35	6,400
The Escorts Group	NA	10	1,170[1]
Fortis Healthcare	NA	4	600

Source: NIPER, Ahmedabad CHALLENGES

A few trends emerge that will define the way forward for the healthcare sector. Growth—faster, sustainable and inclusive; these are the mantras of the Planning Commission for the 12th five year plan, which aims to increase public health spending to 2.5% of GDP by 2017. Some of the levers that the government will employ to achieve this: - A broader vision for National Rural Health Mission. According to the Rural Health Statistics (RHS) 2010, there is shortage of 19,000 sub-centres; 4,000 primary health centres (PHCs) and 2,000 community health centres (CHCs). Moreover, there is no systematic public health infrastructure available to the aam aadmi in urban slums and settlements. Establishment of 6 new AIIMS like institutions. The government has allocated approximately $1.2 billion for establishment of these hospital complexes and up gradation of 13 existing medical colleges. These hospital complexes were expected to be complete by October 2012. Increased coverage through social health insurance

schemes like the Rashtriya Swasthya Bima Yojna. Moreover, in a first time move two private trusts have been given approval to enroll their beneficiaries into the RSBY scheme which will add 2.5 lakh families to the existing covered population. These measures will have far reaching implications for the healthcare delivery sector in terms of infrastructure, manpower and health service delivery protocols and bring with them numerous opportunities and challenges. The demand for health services will increase but the existing infrastructure is unable to meet even the demands of the current system; about 127 million below poverty line (BPL) families which were previously 'outside the system' now have some form of basic health insurance coverage and are availing healthcare services.. The Indian hospital industry was estimated to be worth about USD 44 billion as of 2010 and is predicted to be worth around USD 280 billion by 2020. Further, the Indian hospital service industry is projected to grow at a compounded annual growth rate of more than 9%. It's undergoing metamorphosis by broadening focus of the services by using technology, deliverables and newer applications. The hospitals that were confined to a specified area with limited infrastructure and services are now expanding mainly due to the foreign investment being received by the sector.

Excerpts from the Draft National Health Bill, 2009 being promoted by the Ministry of Health and Family Welfare provides a near exclusive list of constitutional and international obligations for India with respect to healthcare.

"The Constitution of India places obligations on the Government to ensure protection and fulfillment of right to health for all, without any discrimination, as a Fundamental Right under Articles 14, 15 and 21 (rights to life, equality and non- discrimination), and also urges the State, under the Directive Principles of State Policy, to eliminate inequalities in status, facilities and opportunities (Article 38); to strive to provide to everyone certain vital public health conditions such as health of workers, men, women and children (Article 39); right to work, education and public assistance in certain cases (Article 41); just and humane conditions of work and maternity relief (Article 42); raised level of nutrition and the standard of living and improvement of public health (Article 47); and protect and improve environment (Article 48A). The Union of India has also signed various international treaties, agreements and declarations specifically undertaking to provide right to health including but not limited to: Universal Declaration of Human Rights (UDHR): Article 25 (1); International Covenant on Economic, Social and Cultural Rights (ICESCR): Article 12; Convention on the Rights of the Child (CRC): Article 24; Convention on the Elimination of All Forms of Discrimination against Women (CEDAW): Article 12; UN Convention on Rights of persons with disabilities (UNCRPD): Article 25; Declaration of Alma Ata (1978); Principles for the Protection of Persons with Mental Illness and the Improvement of Mental Health Care (1991); Declaration on the Elimination of Violence against Women (1993), Programme for Action of the International Conference on Population and Development, Cairo (1994); Platform of Action for the Fourth World Women's Conference, Beijing (1995) and the Millennium Development Goals (2000); Declaration of Commitment on HIV/AIDS, 'Global Crisis-Global Action' (2001), WTO Doha Declaration on TRIPS Agreement & Public Health (2001), International Health Regulations, 58th World Health Assembly (2005); and several other declarations and conventions on health." Therefore, it is clear that providing healthcare to all is the duty of the Central and State Governments, 'health' being a state-subject und1er Indian Constitution. Unfortunately, India is far from providing a universal healthcare coverage. Not only the improvements in health indicators "Universal Health Coverage (UHC) ensures promotive, preventive, diagnostic, curative and rehabilitative health services without financial hardship" as defined by the High Level Expert Group (HLEG) Report on Universal Health

Coverage for India, Planning Commission of India, 2011 has not only been slow, India lags far behind in world, including most developing countries and few least developed countries with respect to health indicators

SWOT ALAYSIS:

In this section an attempt is made to understand the strengths, weaknesses, opportunities and threats that are associated with FDI inflows in health care sector in India. A focus on the various factors that might help in understanding the need an relevance of encouraging FDI inflows into the country.

Strengths	**Weaknesses**
• Potentially huge market with growing urban middle class population • Growing private hospital sector aiming to attract health tourists	• Low per capita expenditure • Lack of implementation of government policies and infrastructure • Untapped rural markets • Excessive dependency on imports • Academic know-how not well developed • Support system from R & D not available
Opportunities o Overseas companies investing in India to set up research units and develop new products o Increasing joint ventures and agreements o Overseas aid assisted projects to improve o healthcare infrastructure • Regulations to improve market for domestic manufacturers	**Threats** • Regulation policies may slow down the development of the market • Unorganized market for medical disposables • Lack of regulations in Medical disposables and surgical items leading to spurious products

Table : SWOT Analysis of HEALTH CARE Industry

Empirical Analysis:

In this section an attempt is made to understand FDI in health care sector. The healthcare system has experienced a transition towards creation of market payment and incentive systems in public provision (marketisation) and shift over time in the balance of assets between public and private through investment (privatization) (Semboja and Thirkildsen, 1995).According to recently released National Health Accounts (NHA) statistics in India, public

health expenditure as a share of GDP increased from 0.96 per cent in 2004-05 to just 1.01 per cent in 2008-09 as compared to five per cent for high-income countries (Chanda, 2002). The public health sector is plagued by inefficiencies and lack of physical infrastructure. The mismatch between demand and supply of healthcare services and infrastructure has triggered the emergence of private participation in the provision of healthcare. For example, the private sector accounts for around 80 per cent of healthcare delivery in India. An estimated 60 per cent of hospitals, 75 per cent of dispensaries, and 80 per cent of all qualified doctors are in the private sector (Chanda, 2008). Outreville (2007) identifies some of the determinants of foreign investment of the largest MNCs operating in the healthcare industry.

Evidence on the changing pattern and extent of foreign direct investment (FDI) in health care is erratic since it is difficult to distinguish health care investment from other service sector FDI (Fujita 2002). However, some anecdotal evidences suggest rising investment (Chanda 2002). In India, reportedly at least 20 international players are competing for a share in the hospitals and medical devices segment; about 90 per cent of the demand in the hi-tech medical devices segment accounting for $770 million is met by imports from the US, Japan, and Germany (Chanda, 2008).However, empirical evidence on the likely impact of FDI in health service is virtually non-existent. Most of the literature is analytical in nature, with an apparent polarization of views for and against FDI in the sector. The impact of FDI depends on the structure of the healthcare market, that is, whether it is 'commercial'3 or not (White and Collyer, 1998); the regulatory environment in healthcare (Lipson, 2001a,b) like standards of health care, establishments, professional accreditation and mutual recognition, cross-subsidization policies, pro- poor regulations, etc.; the status of the health sector in neighbouring countries, since it may also provide opportunities for more regional trade in health services via FDI, as evident the provision of hospital services across countries in South East Asia(Chanda, 2002; Janjararoen and Supakankunti, 2002). 'Commercialisation' of health care refers to the increasing provision of health care services through market relationships to those able to pay; the associated investment in and production of those services for the purpose of cash income or profit; an increase in the extent to which health care finance is derived from payment systems based in individual payment or private insurance (Mackintosh, 2003).

Objectives of the Study:

1. To study the opportunities available for FDI in health care sector.
2. -To study the need of FDI in health care sector.
3. To understand the constraints to FDI flow in health Care sector

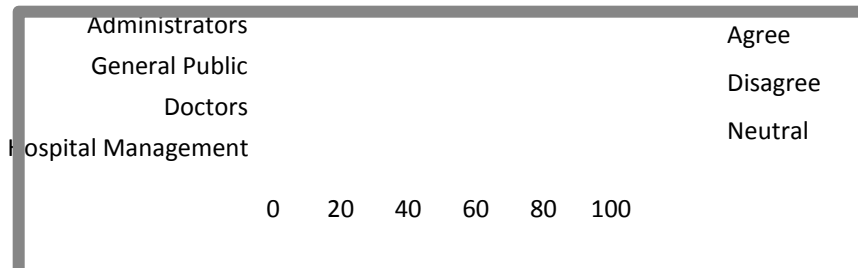
Design and scope of primary study:

The scope of the study is confined to hospitals in Hyderabad Secunderabad. The fieldwork consisted of a survey that was carried out for 4hospitals in Hyderabad and Secunderabad. A structured questionnaire, based on pilots conducted in twin cities, was administered to hospital administrators and finance personnel in these 4 hospitals. Most of the information was collected through questionnaire interviews. The target also included customers and patients of these hospitals. The questionnaire aimed at collecting information on the key features of hospitals, including their infrastructure, human resources, healthcare facilities, prices, technology and equipment, and financials. The criteria for selecting hospitals were size, i.e., all hospitals had a minimum of 100 beds, and multi-specialty.

Sources of Data: The study is based on primary data. Primary data has been collected from professionals and general public in India by filling up a well structured questionnaire.
Sampling Process: Census survey could not be done due to numerous consumers and hence convenient sampling was used. In this research , questionnaire was given to 100 respondents who were accompanying the patients and professionals (doctors)
Limitations of the Study: The study was limited to Hyderabad an Secunderabad. All the information furnished by the respondent was treated as correct.

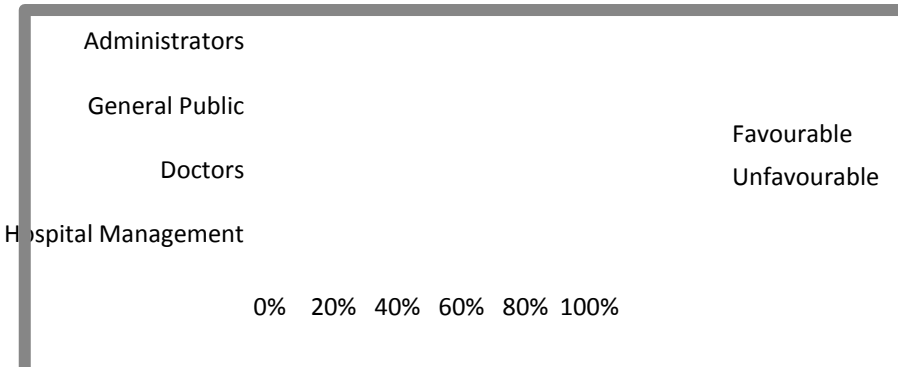
Analysis and Data Interpretation:
India has come a long way since 1991 in so far as quantum of FDI inflow is concerned. But it is still a mere USD 4 billion per year, and seems to have stagnated at that level. Indeed, FDI inflow in 2002 was just 3.2 percent higher than FDI inflows in2001.

Role of FDI in facilitating better services in Indian Health Care Industry



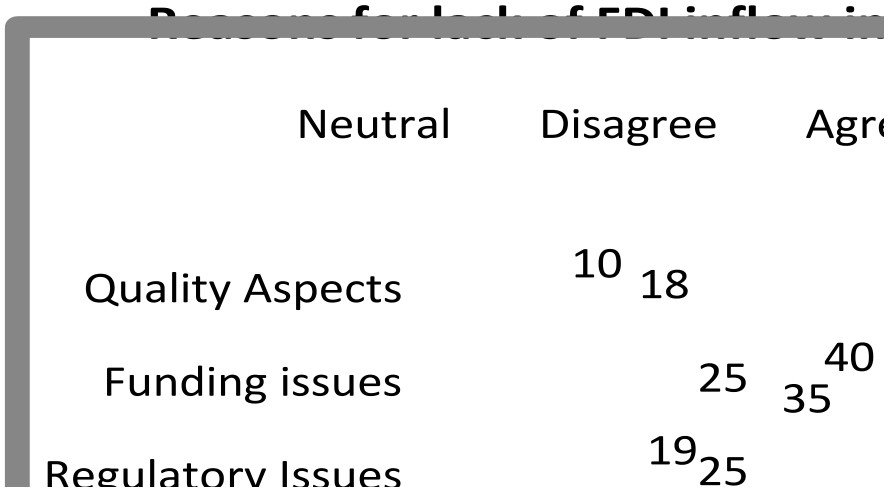
However it is been believed that FDI inflow allows to facilitate better services in health care industry.

Perception of people towards FDI inflows

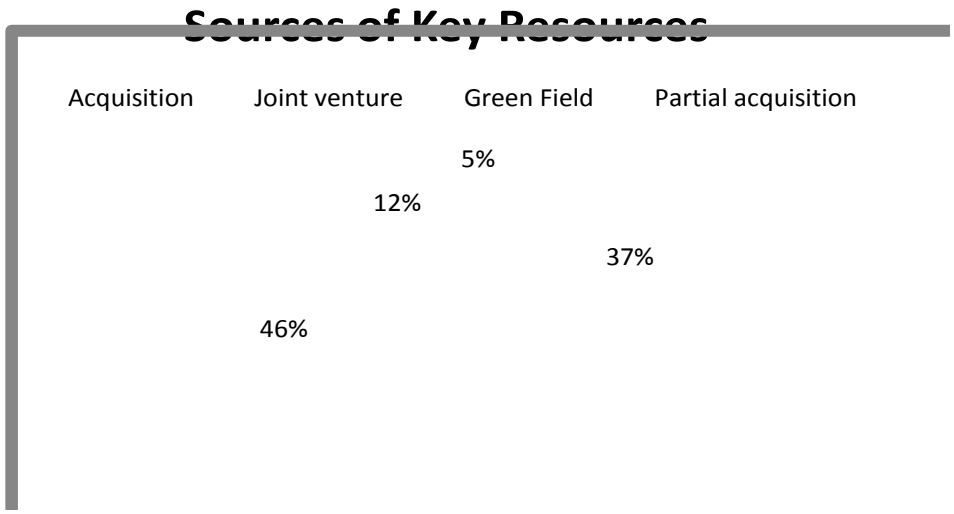


Though Foreign Direct Investment is characterized by many challenges and limitation most of the respondents has a favourable attitude towards FDI and believe that FDI definitely adds to the economic development of the country. Under such circumstances government should take necessary measures to encourage FDI inflows into health care sector.

India's healthcare sector falls below international benchmarks for physical infrastructure and manpower, and even falls below the standards existing in comparable developing countries. It is estimated that over a million beds have to be added to attain this 1.85 ratio, which translates into a total investment of $78 billion (Rs. 350,830 crores) in health infrastructure. An additional 800,000 physicians are required over the next 10 years, which translates into huge investments in training facilities and equipment. In order to reach even 50-75 percent of the present levels of infrastructure as well as human resources



Mostly, FDI presence in Indian hospitals seems to be limited at present, in spite of the very liberal investment policy on FDI in hospitals. According to one estimate, foreign investors have tapped only 10 per cent of the Indian healthcare market and thus the scope for FDI in healthcare sector remains large



Given the growing demand, the emergence of reputed private players, and the huge investment needs in the healthcare sector, in recent years, there has been growing interest among foreign players and non resident Indians to enter the Indian healthcare market. There is also growing interest among domestic and international financial institutions, private equity funds, venture capitalists, and banks to explore investment opportunities across a wide range of segments. This changed outlook has created an excellent. opportunities for the investors to provide much needed managerial and financial support.

Findings:

There are external and domestic factors, which challenging foreign investment, especially foreign direct investment in India‟s hospital segment. Suneeta Reddy, Director, Finance, Apollo Hospitals Enterprise Ltd, Chennai says "While there are clearly many drivers to foreign investment in hospitals in India, there are external as well as domestic constraints, which explain the limited presence of foreign investment in India‟s hospital segment."

EXTERNAL CHALLENGES

- One of the factor is that notwithstanding trends towards privatization in healthcare in major developed countries, this is a sector that is undergoing reform and internal problems in those economies. In many countries, the number of private players who can establish hospitals overseas is limited. Hence, the potential number of overseas institutions that can invest in emerging markets may be rather limited.
- A second factor that was commonly noted was that the hospital business requires localized and in-depth knowledge of the host country's market and thus entry as an independent overseas institution is very difficult. Joint ventures may be a better way of entering a foreign market when setting up hospitals. But there are problems in maintaining partnerships, as there are issues of financial control and differences in expectations and management styles.
- A third fact is that foreign investors would consider many competing destinations and would tend to go to markets which they are more familiar with and where there is clarity about policies not only regarding FDI but also regarding the healthcare sector

overall. The Indian government does not have a clear roadmap for the healthcare sector, has not considered it as a core sector, and is perceived to be non transparent in terms of its regulatory environment and corrupt and inefficient in its procedures for establishing business, all of which do deter foreign investors.

- The main factors that make India unattractive is the uncertainty of its regulatory environment, issues of income flow, license and red tape, difficulties in developing business, and corruption. Investing in service industries is different from that in production industries…There are two reasons why investors are waiting and watching. One is the lack of infrastructure and the second is the bureaucracy for setting up"

DOMESTIC CHALLENGES

- The domestic factors that are specific to the hospital business that have limited the extent of FDI in India's hospitals include initial establishment related factors as well as post-establishment related operational issues, which affect the returns to investment.
- The single most important constraint is the high cost involved in setting up hospitals, the long gestation period of such investment, and the relatively low returns on investment. Several senior persons at leading corporate hospitals stated that hospitals are a very expensive business involving huge upfront very capital-intensive investments and very high running costs. According to many, it takes some 4 to 5 years to break even and some 7 – 8 years to make reasonable profits, although depending on the model adopted and efficiencies, it may be possible to break even and make profits in a shorter period.
- In addition, rising operating costs (due to shortages and high procurement costs of certain inputs as discussed later) further squeeze margins. Thus, investment in hospitals is characterized by low returns, high capital intensity, and long term commitment. This is not the most attractive combination for foreign investors when also coupled with the various external factors discussed earlier. Most foreign investors, of course, find it risky to invest in developing nations like India, where only a few can afford private treatment and/or insurance. It is therefore more common to see FDI through joint ventures with local partners to ensure access to qualified personnel and a better understanding of local culture and characteristics. As well as this commercial risk, there are also political and foreign exchange risks, which are generally interrelated.

ConclusionS:

There are many positive implications of foreign investment in hospitals. One of the major impacts foreign investment would have is the creation of the necessary infrastructure. Investments are also needed beyond the metros to expand access to healthcare. In addition to helping increase physical capacity in the health care sector, such as increasing the number of hospital beds, diagnostic facilities, and increasing the supply of specialty and super-specialty centers, foreign investment can also help in raising the standards and quality of healthcare, in upgrading technology, and in creating employment opportunities, with potential benefits to the health sector and the economy at large. However few things to be kept in mind for achieving success in hospital sector are that the cost of medical care should be affordable most importantly

in the tier-II and tier-III locations; the hospitals in tier- II and tier-III locations should concentrate on the ailments which are geography specific.

References

Adlung, R and A Carzaniga (2002). Health Services under the General Agreement on Trade in Services. In N Drager and C Vieira (eds.), Trade in Health Services: Global, Regional, and Country Perspectives, PAHO, Washington, DC.

Blouin, C, N Drager and R Smith (eds.) (2006). International Trade in Health Services and the GATS. World Bank, Washington, DC.

Chanda, R (2001). Trade in health services. Commission on Macroeconomics and Health WHO, Geneva.

Chanda, R (2002a). Trade in health services. Bulletin of the World Health Organisation, 80, 158–163. WHO, Geneva.

Chanda, R (2002b). Trade in health services. Paper presented at Assessment of GATS and Trade in Health Services: An International Consultation on Monitoring and Research Priorities. WHO, Geneva, January 9–11, http://www.who.int/health-services-trade/.

Chanda, R (2002c). Trade in health services. In N Drager and C Vieira (eds.) Trade in Health Services: Global, Regional and Country Perspectives. Washington, DC: IAHO. Centre for Monitoring the Indian Economy (2006). Prowess database (www.cmie.com/database) CMIE, Mumbai.

CRISIL Research (2007). Hospitals: Annual Review. Industry Information Service, CRISIL Mumbai, February.

Drager, N and C Vieira (eds.) (2002). Trade in Health Services: Global, Regional, and Country Perspectives. PAHO, Washington, DC.

Dunning, JH (1988). The eclectic paradigm of international production: A restatement and some possible extensions. Journal of International Business Studies, 19, 1–31.

Dutta, R (2006). Bangalore's new USP: Healthcare. Express Healthcare Management. Indian Express Newspapers Mumbai, September. http://www.expresshealthcaremgmt.com/200609/ bangalorediscovered01.shtml. 142 R. Chanda

FICCI–Ernst & Young (2007). Opportunities in Healthcare: Destination India. New Delhi.

India Brand Equity Foundation. www.ibef.org.

McPake, B (2002). The globalisation of health sector reform policies. In Health Policy in aGlobalising World, K Lee, S Buse and K Fustukian (eds.). United Kingdom: Cambridge University Press.

Outreville, JF (2007). Foreign direct investment in the health care sector and most-favoured locations in developing countries. European Journal of Health Economics, 8, 305–312.

Outreville, JF (1998). The health insurance sector: Market segmentation and international trade in health services. In UNCTAD–WHO joint publication, International Trade in Health Services: A Development Perspective. UNCTAD–WHO Geneva.

Peters, D and VR Muraleedharan (2008). Regulating India's health services: To what end? What future? Social Science and Medicine, 66, 2133–2144.

Reserve Bank of India (2007). Note on foreign investments in India, Mumbai, April 1.

Sharma, A (2008). Needed: Lots of patience, Indian hospitals are learning to grow healthy. Outlook India. http://www.outlookindia.com/article.aspx?238340.

Smith, R (2004). Foreign direct investment and trade in health services: A review of the literature. Social Science and Medicine, 59, 2313–23