

Role of Fdi in India’s Health Care Sector: Major Issues and Challenges.

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ABSTRACT: *India is one of the most lucrative health care markets globally in terms of revenue and employment. Delivering affordable health care to India’s billion-plus population itself presents enormous challenges and signifies giant opportunities for the medical community and other service providers. Backed by several growth drivers including the prevalence of various diseases, untapped market, increasing urbanisation and active private sector participation are some of the leading factors supporting the industry’s growth. Multinational players have consistently been focusing on the Indian health care market landscape and trying to enlarge their presence through partnerships and investments. One of the most notable features of economic globalization has been the increased importance of Foreign Direct Investment around the World. FDI has the potential to generate employment, raise productivity, enhancing competitiveness of the domestic economy through transfer of skills and technology, enhance exports and contribute to the long-term economic development of the nations. FDI in health care sector has gathered momentum in the recent years. Since January 2000, FDI is permitted up to 100 per cent under the automatic route in hospitals in India. The present paper discusses the role of FDI on Indian health care sector.*

Keywords: *FDI, Healthcare, Hospitals, Liberalisation, Medical Tourism*

I. INTRODUCTION

The health care industry in India is mounting fast. This is because people are becoming more conscious about diseases and ailments. They want their health to stay in proper condition and a disease free existence. A proper investment in the field of medical care will help entrepreneurs deal with health related affairs. The health care industry in India is thriving with scopes and opportunities each and every day. Medicines or pharmaceuticals have a significant role in the health care industry. The costs of medicines are increasing per day. As a part of the health care programme a huge section of the population are becoming prone to therapeutic treatments. These treatments are highly beneficial and curative and they can surely help you have the best health status.

II. INDIAN HEALTH CARE SECTOR –FOREIGN PRESENCE (FDI)

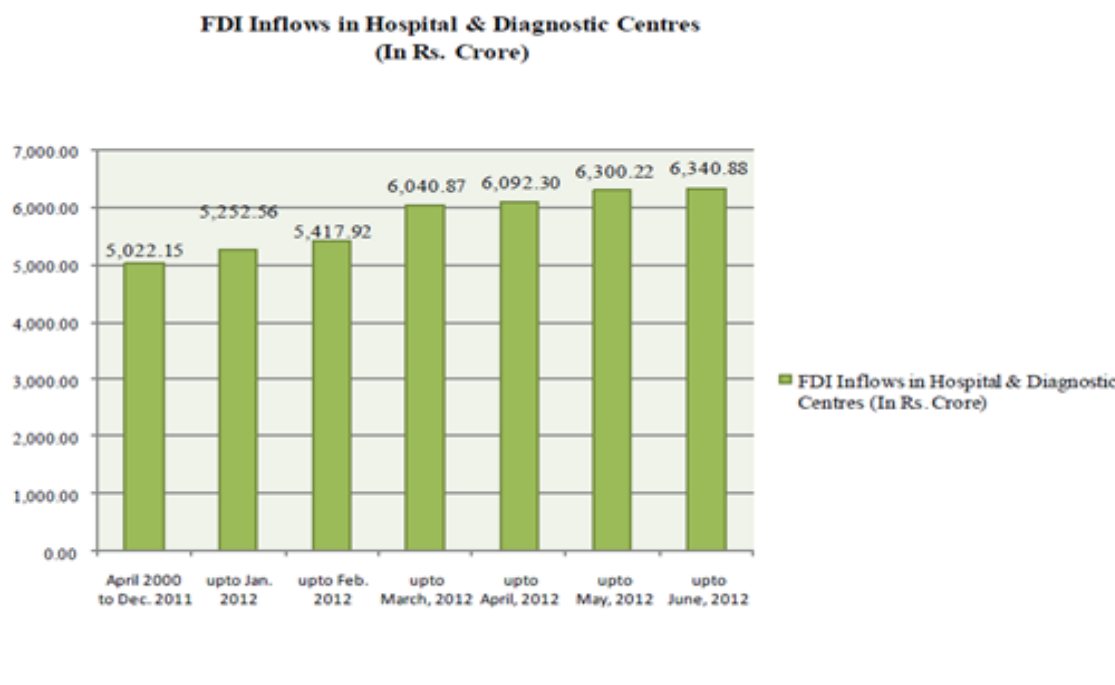
Foreign investors play significant role in the development of the hospital sector. In recent years, there is growing interest among foreign players to enter India’s health care sector through capital investments, technology tie –ups, and collaborative ventures across various segments including diagnostics, medical equipment, hospitals, education and training. India’s foreign investment policy is liberal for hospitals. Since January 2000, FDI is permitted up to 100% under the automatic route for the hospitals sector in India. Approval from the Foreign Investment Promotion Board (FIPB) is required only for foreign investors with prior technical collaboration, but allowed up to 100%. This is evident from the fact that private equity funds have invested over \$2 billion in health care and life sciences sector over the past five years. Further, India has received USD 1,32,837 million as aggregate FDI from April, 2011 and specifically hospital and diagnostic centres have received FDI of USD 1030.05 million from April 2000 up to April 2011 constituting 0.78 % of the total FDI in to India. In order to understand the extent and nature of Foreign Direct Investment in hospitals, a list of all FDI approved projects in hospitals and diagnostic centres during the January 2000 to July 2006 periods was obtained from the Department of Industrial Policy and Promotion. This list consisted of 90 projects, for a total approved FDI amount of \$53 million, and covering a wide range of countries, such as Australia, Canada, UK, US, UAE, Malaysia, Singapore etc.

Table 1: Statement On Fdi Inflows In Hospitals And Diagnostic Centres April 2000 To June 2012

S. No	period	sector	Amount of FDI inflows		Total FDI Inflows (+)		% with total FDI Inflows(+)
			In Rs.crore	In US \$ million	In Rs. crore	In US \$ million	
1	April 2000 To December 2011	Hospital & Diagnostic Centres	5,022.15	1,138.16	713,078.99	158,090.60	0.72
2	April 2000 To January 2012	Hospital & Diagnostic Centres	5,252.56	1,183.04	723,366.76	160,094.45	0.74
3	April 2000 To February ,2012	Hospital & Diagnostic Centres	5,417.92	1,216.67	734,240.45	162,306.04	0.75
4	April 2000 To March 2012	Hospital & Diagnostic Centres	6,040.87	1,340.47	775,005.97	170,407.08	0.79
5	April 2000 To April 2012	Hospital & Diagnostic Centres	6,092.30	1,350.40	784,625.58	172,263	0.78
6	April,2000 To May,2012	Hospital & Diagnostic Centres	6,300.22	1,388.56	791,854.12	173,590.69	0.80
7	April 2000 To June,2012	Hospital & Diagnostic Centres	6,340.88	1,395.82	798,825.59	174,834.96	0.80

Source: Compiled from Fact Sheet on Foreign Direct Investment (FDI)

The above table shows that, FDI equity inflows received by Hospitals and Diagnostic centres have been increasing positively. The health care sector received Rs.5, 022.15 crores of amount FDI inflows during April 2000 to December 2011 and it was increased up to Rs.5, 417.92 crores by accounting 0.75% in total FDI inflows. The growth rate in FDI inflows in hospital and diagnosis sectors is significantly high during this period. The percentage share of FDI in hospital and diagnostic sector, in total FDI in India has been increased from 0.72 in December 2011 to 0.80 June 2012.



Source: Fact Sheet on Foreign Direct Investment Department of Industrial Policy Promotion, Ministry of Commerce and Industry, GOI

III. MAJOR CHALLENGES

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 points out that "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".

IV. EXTERNAL CHALLENGES

One of the external factors is the trends towards privatization in health care 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 has a limited scope. 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 the health care sector but also the overall situations. The Indian government does not have a clear roadmap for the health care 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.

V. DOMESTIC CHALLENGES

The domestic factors, specific to the hospital business, have limited the extent of FDI in India's hospitals include initial investment 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.

VI. OPPORTUNITIES

One of the main opportunities is increase in the space of medical tourism in India. Medical tourism in India is growing at a compounded annual growth rate of over 27 per cent during 2009-2012. Due to the increasing medical tourism and greater clinical trial activities in India, there is a need to upgrade the service standards and provide facilities to bring the service levels on par with global standards. This changed outlook has created excellent opportunities for the investors to provide much needed managerial and financial support. The following three major sectors have significant opportunities for the health care investors in India. They are: I, hospitals and infrastructure ii, health insurance iii, technology driven services – investment in manufacturing of medical equipment.

VII. CONCLUSION

There are many positive implications of foreign investment in hospitals. The major impact of Foreign Direct Investment is the creation of the necessary infrastructure. Investments are also needed beyond the metros to expand access to health care. 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 speciality and super-speciality centres, foreign investment can also help in raising the standards and quality of health care, upgrading technology, and 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 should concentrate on the ailments which are geography specific.

Considering the need of proper health care facilities, it would act as a major boost to the health care sector if the same is included under the ambit of the 'infrastructure' sector. Such policy move would allow health care facilities to receive more tax benefits. For the purpose of direct taxation it would be eligible for tax benefits under section 80-IA of the Income Tax Act, 1961. This section provides for a ten year tax holiday is to enterprises engaged in the business of development, operation and maintenance of infrastructure facilities. Such tax holiday may help in reducing the input costs involved in the establishment of a hospital. Such additional money could be used for further investments in to the sector which in turn may result in more people receiving proper health care and more job opportunities for health care workers.

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