



Available through Online

www.ijptonline.com

REND OF FOREIGN DIRECT INVESTMENT (FDI) INTO HEALTHCARE SECTOR OF INDIA

Mrs. Sanghamitra Samal*, D.Venkatrama Raju

Ph.D. Scholar, Bharath University, Selaiyur, Chennai, Pin-600073.

Professor, Bharath University, Selaiyur, Chennai, Pin-600073.

Email: sanghamitra.samal2011@gmail.com

Received on 20-05-2016

Accepted on 15-06-2016

Abstract:

Foreign Direct Investment (FDI) is the driving force to any country to grow faster. It is an important source of Economic development in India, because it helps to bring close the different economies of the country by investing capital through FDI in various resources like manufacturing, Infrastructure, Transport, technology, services, Productivity and hospitality, healthcare etc. Healthcare industry is growing at a tremendous pace owing to its strengthening coverage, services and increasing expenditure by public as well private players. During 2008-20, the market is expected to record a CAGR of 16.5 per cent. The total industry size is expected to touch US\$ 160 billion by 2017 and US\$ 280 billion by 2020. Hence an attempt has been made to study about the trends and patterns of FDI into Healthcare sector from 2012 to 2015. To fulfill this objective the data collected from secondary sources which is purely an Empirical study which reveals that that total FDI inflow into healthcare sector of India from 2012 to 2015 has shown a positive trend as well as it continuously improving its contribution to total FDI.

Keywords: Economic Development, FDI, Healthcare

1. Introduction:

Healthcare has become one of India's largest sectors - both in terms of revenue and employment. Healthcare comprises hospitals, medical devices, clinical trials, outsourcing, telemedicine, medical tourism, health insurance and medical equipment. The Indian healthcare sector is growing at a brisk pace due to its strengthening coverage, services and increasing expenditure by public as well private players. Indian healthcare system is categorized into two major components – public sector and private sector. The Government, i.e. public healthcare system comprises limited

secondary and tertiary care institutions in key cities and focuses on providing basic healthcare facilities in the form of primary healthcare centers (PHCs) in rural areas. The private sector provides majority of secondary, tertiary and quaternary care institutions with a major concentration in metros, tier I and tier II cities. India's competitive advantage lies in its large pool of well-trained medical professionals. India is also cost competitive compared to its peers in Asia and Western countries. The cost of surgery in India is about one-tenth of that in the US or Western Europe.

2. Literature Review:

Sunitha L F, Ajil Babu R [2013] in their research article “ Role of FDI in India’s Health Care Sector: Major Issues and Challenges” found out that the major impact of Foreign Direct Investment is the creation of the necessary infrastructure such as increasing the number of hospital beds, diagnostic facilities, and increasing the supply of 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.

Sowmya P Paul, Amulya M [2014] in their research paper “Foreign Direct Investment in Indian Healthcare Sector” concludes that the healthcare sector which is the second largest recipient of FDI inflows in India has significant growth potential and can contribute significantly to India’s growth. There are many positive implications of foreign direct investment in hospitals like infrastructure, technological advancement, new venture, employment opportunities, etc. Investments are also needed beyond the metros to expand access to healthcare. One of the major impacts of foreign investment would have is the development of Human Resources in the Hospitals. 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 also helps in raising the standards and quality of healthcare, in upgrading technology, and in providing training and development programmes, career planning programmes, fringe benefits to employees with potential benefits to the health sector and the economy at large.

R.B. Teli [2013] in his article “A critical analysis of foreign direct investment inflows in India” found that FDI inflows in India show a positive trend over the period under study. Gross inflows of FDI include 63% share of direct investment in equity and 37% share of portfolio investment. FDI increased due to adoption of more liberal foreign policy and series of measures undertaken by GOI. It is observed that Mauritius and Singapore had 48% cumulative inflows of FDI. While, from a sectoral perspective, it is found that the service sector tops in attracting the highest FDI in equity inflows, followed by

manufacturing sector. Even in recent global crisis, FDI inflows showed increasing trend. FDI is expected to grow in coming years. It was hypothesized that , the FDI inflows show positive growth trend during the period from 1991-92 to 2011-12'. From the above data analysis and discussion this hypothesis has to be accepted. Correlation analysis results indicated that there is a very high correlation between the FDI inflows and the other related economic indicators as it was hypothesized. Opening FDI in multi-brand retailing has mixed consequences on retail in India.

Rjdeep Kaur , Nikita, Reena [2014] in their research article “Trends and flow of Foreign Direct Investment In India” focused on the trends of FDI Flow in India during 2000-01 to 2013-14 (up to November, 2013). The study also highlights country wise approvals of FDI inflows to India and the FDI inflows in different sector for the period April 2000 to Nov 2013. The study based on Secondary data which have been collected through reports of the Ministry of Commerce and Industry, Department of Industrial Promotion and Policy, Government of India, Reserve Bank of India, and World Investment Report. The study concludes that Mauritius emerged as the most dominant source of FDI contributing. It is because the India has Double Taxation Avoidance Agreement (DTAA) with Mauritius and most of the foreign countries like to invest in service sector.

3. Problem Formulation:

This paper refers to study the flow of FDI into healthcare sector. The present study tries to assessing the determinants, trends and patterns of FDI into Healthcare sector, and role of FDI in expansion of healthcare sector in India.

3.1objectives of the Study:

To study the trend and pattern of FDI into healthcare sector.

4. Research Methodology:

The researcher has proposed to examine FDI inflows for a period from 2000 to 2015 in to healthcare sector in India. In order to accomplish the said objective the researcher compares each year data with the previous year data to study the correlation in between them.

4.1sources of Data Collection:

The data is collected from secondary sources which is purely an Empirical study like published research papers, journals, magazines, websites such as www.tradingeconomics.com RBI websites, Government of India websites, and various issues of DIPP, Central Statistical Organization, and Handbook of Statistics on Indian Economy.

5. Period of Study: This paper analyzed FDI inflows from 2000 to Dec'2015 into healthcare sectors.

5.1 Brief Overview of Healthcare Sector:

Healthcare sector especially hospital service is dominated predominantly by privates sector which comprises of individual doctors or group of doctors running clinics or private nursing homes as well as various corporate or trusts running single specialty to multi specialty hospitals.

The overall Indian healthcare market today is worth US\$ 100 billion and is expected to grow to US\$ 280 billion by 2020, a Compound Annual Growth Rate (CAGR) of 22.9 per cent. Healthcare delivery, which includes hospitals, nursing homes and diagnostics centers, and pharmaceuticals, constitutes 65 per cent of the overall market. Deloitte Touche Tohmatsu India has predicted that with increased digital adoption, the Indian healthcare market, which is worth US\$ 100 billion, will likely to grow at a CAGR of 23 per cent to US\$ 280 billion by 2020.

As per various researches conducted the scope for enhancing healthcare services considering that healthcare spending as a percentage of Gross Domestic Product (GDP) is rising. Rural India, which accounts for over 70 per cent of the population, is set to emerge as a potential demand source. India requires 600,000 to 700,000 additional beds over the next five to six years, which shows an investment opportunity of US\$ 25-30 billion. Whereas the average investment size by private equity funds in healthcare chains has already increased to US\$ 20-30 million from US\$ 5-15 million, as per PriceWaterHouseCoopers. A total of 3,598 hospitals and 25,723 dispensaries across the country offer AYUSH (Ayurveda, Yoga & Naturopathy, Unani, Siddha and Homoeopathy) treatment, thus ensuring availability of alternative medicine and treatment to the people. The Indian medical tourism industry is pegged at US\$ 3 billion per annum, with tourist arrivals estimated at 230,000. The Indian medical tourism industry is expected to reach US\$ 6 billion by 2018, with the number of people arriving in the country for medical treatment set to double over the next four years. All these data making a conclusion of more hospitals needed to be accredited and greater awareness on the need to develop their quality to meet international standards to attract more FDI as well making India healthcare hub in coming years.

5.2 FDI and Healthcare Sector:

From 1991 the economic reform brings in substantial economic growth and the integration of Indian economy into the global economy. With the opening up of the Indian capital markets to Foreign Institutional Investors in 1993, the FDI regime too has been progressively liberalized. In recent years, foreign investors play significant role in the development of

the hospital sector because there is the sensation among foreign investors to enter India's health care sector through capital investments, technology tie-ups, and collaborative ventures across various segments including diagnostics, medical equipment, hospitals. 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%. The hospital and diagnostic centers attracted Foreign Direct Investment (FDI) worth US\$ 3.41 billion between April 2000 and December 2015, according to data released by the Department of Industrial Policy and Promotion (DIPP).

Some of the major investments in the Indian healthcare industry are as follows:

- Versante Software Technologies, an Indian subsidiary of US-based IT consulting and software engineering services company Versante Technologies LLC, is in the process of raising US\$ 1 million in its first round of external funding by March 2016, the proceeds of which would be used for initial promotion, and pan-India marketing and distribution of hand-held and portable patient care devices.
- Abraaj Group, a Dubai based Private Equity (PE) investor, has planned to buy a majority stake in an Indian firm Quality CARE India Ltd, which runs CARE Hospitals.
- Qatar-based Non-resident Indian's (NRI) including medical professionals and businessmen, are planning to set up a huge world-class healthcare project in Kochi worth Rs 1,300 crore (US\$ 190.74 million)
- American multinational technology and consulting corporation, IBM has announced that Manipal Hospitals' corporate and teaching facilities will adopt 'Watson for Oncology', a cognitive computing platform trained by Memorial Sloan-Kettering that analyses data to identify evidence-based treatment options, helping oncologists to provide cancer patients with individualised healthcare.
- Apollo Hospitals Enterprise (AHEL) plans to add another 2,000 beds over the next two financial years, at a cost of around Rs 1,500 crore (US\$ 220.08 million).
- Malaysia-based IHH Healthcare Berhad has agreed to buy 73.4 per cent stake in Global Hospitals Group, India's fourth-largest healthcare network, for Rs 1,284 crore US\$ 192.84 million.
- Apollo Health and Lifestyle Limited (AHLL), a wholly-owned subsidiary of Apollo Hospitals Enterprise, acquired Nova Specialty Hospitals at an estimated cost of Rs 135-145 crore (US\$ 20-21 million).

5.3 Current FDI Policies:

- 100percent FDI is allowed under the automatic route for Greenfield projects
- For Brownfield project investments, upto 100 percent FDI is permitted under the government route
- Demand growth, cost advantages and policy support have been instrumental in attracting FDI
- During April 2000- May 2015, FDI inflows for drugs and pharmaceuticals stood at USD 13.28 billion

Inflows into hospitals and diagnostic centers, and medical appliances stood st USD 3.11 billion and USD 0.96 billion, respectively, during the same period

5.4 Road Ahead:

India is a country full of opportunities for any participant in the medical devices industry for high-end diagnostic services with tremendous capital investment for advanced diagnostic facilities, thus catering to a greater proportion of population. Now-a-days Indians become more conscious towards their healthcare. India's competitive advantage also lies in the increased success rate of Indian companies in getting Abbreviated New Drug Application (ANDA) approvals. India also offers vast opportunities in R&D as well as medical tourism. 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. To sum up, there are vast opportunities for investment in healthcare infrastructure in both urban and rural India

6. Trend and Pattern of FDI into Healthcare Sector:

The following table provides the status of foreign investments in healthcare sector in India, more specifically in hospitals and diagnostic centre's from April 2000 to December 2015:

Sl. No.	Year	Sector	Amount of FDI inflows		%age growth yearly	%age to total FDI
			In Rs. Crores	In US\$ million	In Crores.	
1	From April'2000 to March'2012	Hospital & Diagnostic centers	6,040.87	1,340.47	----	0.79

2	From April'2000 to March'2013	Hospital & Diagnostic centers	7,437.93	1,597.33	(+)23.13	0.83
3	From April'2000 to March'2014	Hospital & Diagnostic centers	11,432.53	2,281.91	(+)53.71	1.05
4	From April'2000 to March'2015	Hospital & Diagnostic centers	15,505.12	2,945.12	(+)35.62	1.19
5	From April'2000 to Dec'2015	Hospital & Diagnostic centers	18,553.88	3,409.56	(+)19.66	1.23

Source: DIPP, Ministry of commerce and industry, government of India

The above data depicts that FDI flows received in India in healthcare sector during April 2000 to April'2012 1,340.47 US\$ million. From the year 2012 to 2015 FDI inflows into healthcare sector has shown a increasing trend as well as its share to total FDI also presents a positive. Further, FDI inflows rose by 53.71% in the year 2014 as compared to 2013. This may be the result of the government's priority to proposals which are of greater social relevance such as hospitals, life saving drugs and equipment. Whereas, FDI inflows rose by 35.62% from March'2015 as compared to March'2014, but the share of healthcare sector to total FDI has shown a good increment. It reached to a percentage growth 1.19%. Similarly cumulative FDI inflows upto Dec'2015 shows a positive growth of 19.66% as compared to previous year. The share of healthcare to total FDI also a significant improvement of 1.23% according to the latest data released by the Department of Industrial Policy and Promotion (DIPP).

7. Conclusion:

Private expenditure accounts for over 75 percent (including FDI) of the total healthcare expenditure, which is one of the highest in the world. So foreign investment plays a crucial role in improving healthcare sector. The present study found

that total FDI inflow into healthcare sector of India from 2012 to 2015 has shown a positive trend as well as it continuously improving its share to total FDI. As a result Foreign Direct Investment plays its crucial role in the creation of the necessary infrastructure 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 health care, upgrading technology, and creating employment opportunities, with potential benefits to the health sector and the economy at large.

References:

1. Sunitha L F, Ajil Babu R 2013 , Volume 2 Issue 5.
2. Sowmya Paul P, Amulya 2014, Volume : 4 Issue: 3.
3. Nishith Desai Associates (NDA) is a research based international law firm [2013] “Investment in Healthcare sector in India”.
4. Sailendra kumar Hooda [2015] “ Foreign Direct Investment in Hospital Sector in India: Trends, Patterns & Issues ” a working paper.
5. Rjdeep Kaur , Nikita, Reena 2014, Volume 3, Issue 4.
6. R.B. Teli 2013
7. www.data.gov.in
8. GOI (2015), FDI Statistics, (DIPP), Ministry of Commerce and Industry.
9. DIPP, Ministry of Commerce and Industry, Government of India <http://dipp.nic.in>
10. <http://www.ibef.org/industry/healthcare-india.aspx>

Corresponding Author:

Mrs. Sanghamitra Samal*,

Email: sanghamitra.samal2011@gmail.com