15 STATUS AND IMPACT OF FOREIGN DIRECT INVESTMENT (FDI) ON HEALTH SECTOR IN INDIA

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ABSTRACT

The present paper highlights the issues surrounding trade in health services especially Foreign Direct Investment in health sector in India. As it is a well established fact that in the modern era of globalization, the contribution of services to the global economy is increasing comparative to tangible goods. Today, heath sector is among the most rapidly growing service sectors in the world economy, estimated at $4 trillion yearly in the OECD countries alone. As per the World Trade Report, 2008, the annual percentage change in the trade in commercial services was reported to be 18 percent while the annual percentage change in trade in merchandise goods was 15 percent. The sector has seen new and rapidly evolving forms of cross-border transactions, spurred by factors such as wide-ranging technology, demographic transition, increasing costs of medical care, skill up gradation, growing private sector participation, natural endowments etc. An effort has been made in the present paper to assess the various trade related barriers, which may create hurdle towards FDI in health sector as well as the opportunities which may arise in this sector for future advantage. Besides, the paper also attempts to assess the potential impact of FDI in health sector. Paper ends with future prospect and policy recommendations.

Keywords: Globalization, GATS, OECD, FDI.

BACKGROUND

The world trade has undergone a significant change during the last decade due to liberalization, privatization and globalization. The traditional concept of the factors of production in Economics has also undergone a change in the present era, particularly with the establishment of the World Trade Organization in 1995. The establishment of WTO involved eight rounds on trade negotiations. There are four WTO agreements which have public health implications such as Agreement on Technical Barriers to Trade (TBT), Agreement on Application of Sanitary and Phytosanitary (SPS) Measures, Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) and General Agreement on Trade in Services (GATS). These agreements have impact on public health issues such as infectious disease control, food safety, tobacco control, environmental health, access to drugs, health services, food security, and nutrition and emerging issue in biotechnology. These services play important role in the protection of public health (e.g., sanitation services) and the delivery of health care to individuals (e.g., hospital services). GATS affect health-related services in many ways that are essential for planners and policy-makers in health sector.

The health care sector is among the most rapidly growing sectors in the world economy. The globalization of healthcare is also evident from the growing foreign equity participation in this sector and establishment of joint ventures, alliances and management tie-ups among health care establishments, resulting in the transfer of technology, skills and practices.

Globalisation of health services involves various modes of transactions. Mode-III of GATS, involves the establishment of hospitals, clinics, diagnostic and treatment centers, and nursing homes. Developing countries like India, Srilanka, Indonesia and Thailand have become increasingly open to FDI. In India, several speciality hospitals have been built in

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collaboration between Indian and foreign companies. Between August 1991 and August 1997, the FIPB approved FDI proposals worth Rs. US $ 100 million in the Indian health care sector. The major chunk of this FDI goes to Delhi helping in the development of superspeciality hospitals and diagnostic centers. Other places (Guntur, Bhuwaneshwar, Kolkata and Bangalore etc.) mostly focused on diagnostic centers and bring with them high-tech care, advanced medical tehnology and trained Indian medical manpower (B.C.Purohit 2001).

Besides the high tech medical electronic equipment industry is the another area attracting FDI following globalization and liberalization. In recent years, a reduction on import duties on individual components and high rate import duties (31-37%) on high tech finished products (CT Scan etc.) have encouraged MNCs to assemble imported components in India at economical rate.

Thus there is tremendous scope for FDI in health care industry in India, which is progressing rapidly. The GATS negotiations provide India with an opportunity to strengthen it's domestic regulatory and institutional frameworks in health sector and tackle various domestic constraints that hurt its trade and investment potential in the rapidly growing service sector.

By encouraging more FDI in health sector, India can make possible quality improvements through the introduction of advanced management techniques. However, the portion of the population who benefits is the small group with high ability to pay (Janjaroen, WS.;Supakankunti, S.2001). Unless the Government regulates the private health sector the policy of encouraging FDI in health sector may not benefit the poor. The poor might benefit from better access to health care only if resources were reallocated within the public sector.

CURRENT STATUS

Under the ongoing negotiation of the GATS, under the auspices of the World Trade Organisation (WTO), there is a persistent demand to liberalize the Indian Healthcare Services Sector, particularly under Mode III (i.e. Commercial Presence). Despite under the Revised Office where 74% FDI is being proposed (as against the present 51%), there is a pressure to make it 100%.

In India, FDI is freely allowed in all sectors including the services sector, except a few sectors where the existing and notified sectoral policy does not permit FDI beyond a ceiling. FDI for virtually all items/activities can be brought in through the Automatic Route under powers delegated to the Reserve Bank of India (RBI), and for the remaining items/activities through Government approval, which is accorded on the recommendation of the foreign Investment Promotion Board (FIPB).

In order to firm up position vis-à-vis allowing unconditional 100% FDI under GATS-Mode III in the health services sector, an assessment of status and impact of hospital projects under Automatic Route and that with FIPB approval would be of great help. Such projects will have impact on consumers with respect to affordability, accessibility and quality in health care services. Moreover such projects may cause internal brain drain of skilled personnel from public to the private sectors causing different standard for different population group. The impacts of such projects would be a harbinger of things to come, once India decides to oblige itself to fully liberalize its health services sector under WTO/GATS.

AVAILABLE LITERATURE

Health being a service sector is attracting the foreign investment mainly in developing nations. The recent developments in this regard have been the initiation of health sector reforms in these countries and recognition of the influence of trade on efficient and equitable provisions of health services. The International Trade in health services is increasing significantly and GATS has been instrumental in stimulating current thinking on the implications of globalization and opening up of trade in health services, posing new challenges and creating new opportunities for the health system as well as health professionals.

Many of the WTO agreements are binding multilateral agreements. GATS, however, which is one of the binding agreements, imposes only general obligations. Members can voluntarily choose to commit, at any level, to any specific mode and sector of services. However, the commitments must conform to the principles of Most Favored Nation (MFN) and National Treatment (NT). The commitment should progressively be increased in the following round of

negotiations (progressive liberalization). Governments may modify or withdraw their commitments three years after their entry into force, subject to negotiated compensation. Governments also maintain the ability to introduce regulations in the pursuit of quality and other domestic policy objectives [WHO, 2002].

There are four main modes of international trade in services:

Mode 1: Cross-border supply (CB). This includes telemedicine, teleconferencing, teleconsultation, tele-education, and subscription to journals and databases on the Internet. This CB has been greatly facilitated through rapid expansion of e-commerce.

Mode 2: Consumption abroad (CA). This includes travelling abroad, including via health tours, to seek high-technology treatments or cheaper health services

Mode 3: Commercial presence (CP). This includes foreign investment in hospital operation, medical and dental services and management of health care.

Mode 4: Temporary movement of natural persons

A Study in Thailand (WibulpolprasertSuwitetal 2004) concludes that international service trade can have significant negative implications on health care systems, particularly HRH. The main implications include internal and external migration of HRH; inequitable tiered health care systems and erosion of professional ethics, with a wider gap between patients and health professionals. Some countries, such as Canada, for example, campaigned for application of Article 1.3 in GATS to exclude health services from GATS negotiation. Article 1.3 (b) states that "services" under GATS includes any service in any sector except services supplied in the exercise of the government. These countries faced enormous pressure from their trade partners, however Schwartz B., 1999; Sinclair, S 2000; Sanger, M.2001]. Some positive implications include influx of foreign currencies and capital, better opportunity for professional training, improving quality of care and access to high technology equipment.

In a ten-country study in Eastern Mediterranean

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Mode 4: Temporary movement of natural persons (NP). This includes temporary emigration of doctors from developing to developed countries, and import of specialists from developed countries into facilities invested in by foreign capital in the developing countries.

Of 12 service sectors included in GATS, at least five are directly related to health care systems [Wibulpolprasertetal 2000], i.e., the business, distribution, education, finance, and health and social services sectors. The professional services under the business service sector deal with services of health professionals. The distribution service sector relates to services in pharmaceutical retailing. The education service sector involves the training and education of health professionals. The financial sector deals with health insurance and flows of foreign capital for investment in private hospitals. The health and social services sector includes hospital services, medical and dental services, diagnostic services and management of health service facilities.

There are various kinds of barriers to trade in health services [Wibulpolprasert, S.; Pitayarangsarit, S, 1999]. These include entry visas, work permits, professional and premises licenses, investment permits and insurance reimbursement. Commitment to services trade agreements can reduce some or all of these barriers.

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In a ten-country study in Eastern Mediterranean Region (SameenSddiqi 2006) which focused mainly on four modes of trade in services, the following points emerged:

- none of the countries had a well developed tele-health services program.
- there is a lack of policy coherence between Ministry of Trade and Health in most countries.
- policy coherence among Ministry of Health and Ministry of Trade in partnership in essential
- despite limited data, policy makers are informed about public health implications of TiHS.
- methodological framework provides a useful tool for assessing TiHS.

FOREIGN DIRECT INVESTMENT IN HEALTH SECTOR IN INDIA

India's healthcare system is skewed towards private medical services. A WHO study points out that the private health care accounts for 70 percent of medical care and employs about 80 percent of the country's medical professionals. There are growing numbers of joint ventures and tie-ups, such as Apollo Gleneagles, Max India and Fortis Healthcare. India is also emerging as a source of foreign direct investment (FDI) in health services, as shown by the regional expansion plans

of major players, such as the Apollo group (Rupa Chandra 2001). However, India has barely tapped its true potential in the global healthcare market.)

India accounts for 1.4% of global service trade compared to 0.9% in the case of global merchandise trade. It has registered the highest growth rate in service exports among all countries in recent years. Currently Indian healthcare industry is valued at US$23 billion and is expected- to grow by around 13 percent per year for the next four years (R.Chandra 2006). The growth of our healthcare industry is evident from the fact that though government finance on healthcare has shrunk to 0.9% of GDP, private healthcare has grown exponentially, widening its range of activities. Not only general and specialists hospitals, nursing homes and individual practice have grown, but there has also been a proliferation of sophisticated diagnostic and pathological centers.

The growth matrix is also evident from the fact that India has become a preferred destination for medical tourism, clinical trials and cutting-edge R&D. Clinical trial business according to FICCI in 2003-04 was US$59.5 million, with an increase of 104 percent from the previous year. And according to CII, India can attract one million health tourists every year, which can contribute US$5 billion to the economy (R.Chandra 2006).

Apart from this a number of other players in this sector have entered the market such as CDR, Wockhardt, Kamineni, Parkway, Jardine, Sedgwick, Medinova, Duncan, Ispat, Escorts, Mediciti, and Nicholas (B.C.Purohit 2001). The presence of these corporate players in the Indian health sector shows a move towards corporatization of health care industry with a focus on high profit margin, super-specialty and diagnostic care in major metropolitan cities.

Indian Pharmaceutical Industry in terms of Investment: The table 1 below shows the trend of investment in pharmaceutical industry. It is evident that there is magic growth in the investment in this sector over the previous years. Increase in the investment in the research and development gives good sign from the viewpoint that in the era of Intellectual Property Rights and patent regime it is a necessary investment, which can never be ignored if a country is to survive in the complex world of competition.

Table 1: Investment under Indian Pharmaceutical Industry

Indian Pharmaceutical Industry (Rs. In Crores)		
	1965-66	2000-01
Capital Investment	140	2900
Production		
Formulation	150	18354
Bulk Drugs	18	4533
Imports	8.2	2980
Exports	3.05	8730
R&D Expenditures	3	370

Source: Southern Economist, Sept.1, 2004.

The table 2 below shows the share in percentage of different sectors in the pharmaceutical industry from the year 1970 to 1998. It is clear that in the decade of seventies and eighty the transnational corporations have been the major giants in this sector with more than half of the share. Presently the trend has shifted towards Indian Private Sector, which occupies more than half of the total share. The fact that MNCs are having highest share in Indian market is not true in the case of pharmaceuticals industry; here the total market share of Indian private players is more than that of MNCs.

Table 2: Share-wise Share of Investment under Indian Pharmaceutical Industry

Indian Pharmaceutical Market (1970-1998)			
Sector	1970(%)	1980(%)	1998(%)
Transnational Corporations	80	50	39
Indian Pvt. Sector*	10	48	60
Indian Public Sector	10	02	01

Source: Southern Economist, Sept.1, 2004.

*It includes original production as well as under license.

Regulation of Private Health Care Providers One of the central points highlighted by various country studies on the policy implications of trade in health services is the importance of a regulatory framework.

Indeed the regulations are recognized as a key when it comes to mitigating the potential negative impacts of globalization and liberalization. For instance a study conducted in Argentina by Salvador and Quiliconi, highlighted the weaknesses in the regulatory framework and it's enforcement in Argentina, especially regarding the regulation of private practitioners. The study pointed out the need to, first " put the house in order" and then evaluate the costs and benefits of liberalization in the multilateral negotiations. The need for a stronger regulatory framework was seen especially in the health insurance sector.

The corporatisation of our healthcare system started in the nineties, but the big fillip came in the form of the National Health Policy 2002. Private hospitals were given concessional land, customs exemption and liberal tax breaks against a commitment to reserve beds for poor patients for free treatments. But unfortunately no procedures exist to monitor this and the disclosure systems are far from transparent, redressal of patient's grievances is poor and allegations of cuts and commissions to promote needless procedures are common.

Similarly, a Planning Commission study says that the bulk of private healthcare units are run by doctors and doctors-entrepreneurs and remain unregulated either in terms of facility of competence standards or quality and accountability of practice and sometimes operate without systematic medical records and audits. And on their part, doctors argue that medical education has become more expensive with rapid technological advances. But the reward expectations in private practice, earlier spread out over career long earnings, are squeezed into a few years, which become possible only by working in hi-tech hospitals. A line must be drawn not so much between public and private roles, but between institutions run as business or those run as a social enterprise with an economic dimension. In a market economy, healthcare is subject to three links one, between the state and the citizen's entitlement for health; second between the consumer and the provider of health services; and, lastly the link between the physician and the patient. None of these should become out of balance with the other and ethical issues are mandatory to be kept in mind.

However currently many services sectors including health care sector, are undergoing regulatory reform. This usually entails two features: deregulation, which involves removal of outdated and costly regulations, sometimes reflecting the traditional role of government in the services sectors; and re-regulations, i.e., the adoption of more appropriate, market oriented regulations. Both deregulations and reregulations are linked to liberalization

Opportunities and Challenges of FDI in Health Sector in India

Opportunities	Challenges
• Can generate additional resources for investment in and upgrading of health care infrastructure, create employment opportunities and reduce under-employment of health personnel • Can enable the provision of specialized medical services and increase the competitive capacity, quality and productivity of health care services • The availability of private (foreign) capital can reduce the total burden on government resources and help relocate government expenditure towards the public health care sector • Can make possible quality improvements through the introduction of advanced management techniques • Foreign commercial presence can create positive externalities for national training institutions, when allowing nationals exposure to advance technical and managerial practices	• Pressure on movement resources may be offset by the large initial public investments that may be needed to attract foreign direct investment in the health care sector • May result in a two-tier health care system consisting of a corporate segment and a public sector segment, which may also create a problem of internal brain-drain, with more qualified health care professionals moving from the public health care segment to the corporate segment for better pay and superior infrastructure • Foreign direct investment may be concentrated on high-eng technologies and not the kid of services which address the broader social needs of the population, which may result in crowding out of poorer patients and a 'cream-skimming' phenomenon whereby those who need less but can pay more are served at the expense of the poor and more deserving

POTENTIAL IMPACT OF FDI ON HEALTH SERVICES

Once the nature of the health system, regulatory framework and FDI is established, the country is in a position to estimate both the potential and actual impact of undergoing in to TiHS and FDI. Importantly it could address efficiency and equity measures, as well as health and other areas. Again it is of utmost importance to establish the potential health and economic impact in terms of costs and benefits of FDI. For this impact assessment, the following are to be taken into account:

1. **Health:** This will be difficult to establish, at least in the short run, but the key variable is the impact of FDI of "health". This may be measured, for example, through routinely collected statistics on mortality or morbidity, or could be obtained in more detail through survey or other work to estimate, for example, Disability Adjusted Life Years (DALYs).
2. **Equity of Access to Health Care Services:** Given that most government intervention in health care is due to concerns over equity of access t services, this is a key questions: to what extent will equity of access to health care services be affected by FDI? In order to map this, a series of indicators showing the types of changes that are taking place in the health care sector as a result of FDI would be required (these might include, for examples, "cream-skimming," a two-tier system, or exploiting "niches").
3. **Health Services Provision:** FDI will be encouraged principally because of its perceived effect on health services. Here, one needs to assess changes that occur in: (1) the quantity of health service provision, whether capacity increases, and more broadly what services are provided and to whom (for example, although overall capacity may increase, it may be that this increase is wholly concerned with high technology services provided only to the wealthy of a country, and the total capacity increase could mask a deterioration in one area, such as services to the poor); and (2) the quality of health service provision. Although capacity (quantity) may be increased, this may be at the expense of reduced quality of service, either of the new services delivered or in existing services (e.g., if FDI attracts the better professional away from public services, the quality of these public services may fall).
4. **Health Service Financing:** Health care finance is typically through some form of social or commercial health insurance, together with various levels of out-of-pocket payment. At the most basic level, there is a need to establish the change that might result in the public/private mix of health care financing (e.g., what FDI supplements or replaces domestic government or private finance), which might occur especially though increased FDI in the insurance market. Within the private sector, however, there may also be changes in the level of "competition," such as between hospital services, which may be assessed, for example, by measures of market concentration. There may also be changes in the way in which private services are financed. Within the health care market, there may also be changes in levels of efficiency of service provision, with impacts on financing, as well as relative prices. Finally, there may be an impact on financing of research and development.
5. **Wider Socioeconomic Effects:** Trade in health services, and FDI, will have wider economic effects; these will also require assessing as they will be of particular importance to ministries of trade in their negotiations concerning GATS commitments, and liberalization of trade more generally. Although by no means exhaustive, some key areas where measurement of impact will be required will include foreign exchange, currency, and income (especially of inward FDI); local employment (e.g., is the internal "brain drain" hastened or lessened, whether the jobs created are unskilled or skilled?); changes in domestic skills and technology (e.g., are they upgraded or depleted? What is the impact on "human capital"?) ; and infrastructure in general (e.g., in terms of telecommunications, roads, and power generation). Much of this will need to be captured in some form of "FDI-specific" multiplier effect, as the effect of inward FDI should be to increase the size of the domestic economy more indirectly.

In all of the five areas highlighted above, the perception of the information (i.e., whether or not FDI is seen favorably) will depend upon the perspective taken and it might therefore be useful to envisage some form of "summary of FDI impact" categorized according to perspective.

FUTURE PROSPECT AND RECOMMENDATIONS

As the role and contribution of Foreign Direct Investment particularly in health care sector in increasing in India, therefore, this sector needs to be assessed in various aspects. In light of this fact, the recommendations proposed pertain to proper research in this sector so that the opportunities and threats relating to this area may be well identified and timely addressed. Keeping in view this position, the following is proposed for this sector:

- There is need to undertake research to understand the status and assess the impact of hospital projects in India with 100% FDI particularly through Automatic Route as well as through FIPB approval in order to firm up country position with respect to the ongoing GATS negotiations.
- The research should enter-alia focus on finding out the number of foreign hospital projects approved under Automatic Route and by FIPB since year 2000 and how many of them have actually set up their shops.
- The "geographical gap", which such hospitals could able to minimize in healthcare delivery system should also be assessed.
- Further, the "kind" and "range" of investment that such hospitals have brought in India should be understood. Also the kinds of technologies which such projects have brought in, should be examined.
- The study may also analyse the reasons for those foreign investors who did not chose to set up their shops despite approval.
- The micro-impact of on consumers with respect to affordability, accessibility, availability, quality and equity in health services may also be assessed.
- The sectoral impact of FDI in hospitals on functioning of Government hospitals, demand and supply of health services and health personnel should be assessed.

CONCLUDING REMARKS

Currently,trade in health services/ FDI in health sector is primarily arising as new and important component in international trade for many countries. No country can avoid from getting linked with the world economy and society. Therefore, the government must frame suitable foreign and international policies, which will enable the protection of the interest of the country and further enable the policy decision makers to negotiate in the trade agreement of WTO. Thus, for the purpose, there is urgent need for research studies in this upcoming area in order to assess the impact of international trade liberalization on health and health system of the country.

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