

# FDI in Hospitals and Diagnostic Centers and Challenges and Opportunities in Healthcare Sector

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## Abstract

India's health care industry is expanding rapidly, making it one of the world's most profitable health care marketplaces and a top employer. From 2000 to 2014, the period of liberalized foreign investment, this report analyzes the current state and developments of FII into India's healthcare industry, focusing on the most pressing growing challenges. During this time period, a large number of global companies prioritized the Indian hospital industry, investing heavily in joint ventures and forming partnerships to increase their footprint in the country. Although the influx of foreign investment into hospitals increased by a factor of one hundred during the period in question, an analysis of a sample of the largest corporate hospitals in India reveals that international investments constitute only a small share within total financing, with long-term domestic borrowing predominating instead. Affordable healthcare for all citizens, including those living in rural regions, would need a significant increase in federal expenditure on healthcare. The medical community and other service providers in India have huge problems in meeting the needs of India's billion-plus population.

**Keywords:** FDI, Hospital Sector, Foreign Financing, Super Specialty Hospital, India.

## 1. INTRODUCTION

What is meant by the term "foreign direct investment"? For the purposes of determining FDI, the International Monetary Fund Manual (BPM6) suggests using a cutoff of 10% of the stock in a company. India's current method of categorizing foreign direct investment (FDI) departs from this criterion (to the extent that the threshold limit of 10 per cent is not strictly adhered to). Foreign direct investment (FDI) is a type of international investment in which a person or organization based in one economy acquires a controlling interest in, or a position of significant influence over, a company based in another economy. Specifically, FDI refers to an investment in a foreign company made by a person or organization based in one economy (the direct investor) with the intention of acquiring a long-term stake in the direct investment firm.

While the era of colonization did not officially begin until the early 18th century, the history of inward foreign direct investments (IFDIs) into India can be traced back to the 16th century with the founding of the East India Company of Britain (EICB) or Britain's East India Company (BEIC). Britain rose to prominence as a global economic and colonial superpower as a result of the 17th and 18th century British Industrial Revolution, often known as the First Industrial Revolution. During the time when Britain was colonizing India, a large influx of British cash entered the country. Many British companies invested heavily in India, setting up shop in the mining industry and other areas that suited their commercial goals. Following WWII, Japanese companies expanded their trade with India by entering the Indian market. While there were many foreign investors in India, the United Kingdom was by far the largest. Taking into consideration national interests, policymakers devised a strategy for (I/O) FDI policy that utilizes IFDI as a means of acquiring cutting-edge technology and raising necessary funds in foreign currency markets.

Foreign direct investment (FDI) in the health sector is determined by the same factors that influence FDI elsewhere: proximity in terms of both location and culture, the quality of the regulatory framework, the degree of political stability, the level of economic development, and the accessibility of high-quality inputs. Private companies' healthcare operations are driven mostly by market considerations and tactics, whereas efficiency-oriented companies take advantage of the marketability of healthcare commodities. Across OECD and developing nations, cross-border investment flows in the health sector have expanded significantly, while they

still account for a fraction of total greenfield FDI (1-4%). East Asia and the Pacific get the lion's share of these investments within the developing world.

However, emerging Europe, Central Asia, and Sub-Saharan Africa have also seen sustained rise in the FDI flows in the industry over the last fifteen years. Greenfield FDI in the health sector in South Asia peaked (at roughly USD 16 billion) in 2011 and has steadily fallen down to levels comparable to the early 2000s, a pattern that has been bolstered in other emerging areas. Over 90% of worldwide greenfield FDI projects in the healthcare industry in 2019 were related to pharmaceuticals, biotechnologies, and medical devices, reflecting the global nature of their respective value chains. Foreign direct investment (FDI) in healthcare products has more than quadrupled over the last fifteen years, with the majority of this growth coming from medical equipment and technology despite the pharmaceutical industry still accounting for the vast majority of FDI. This increase has been most pronounced in poorer nations, where foreign direct investment (FDI) in the pharmaceutical industry has actually decreased.

## 2. LITERATURE REVIEW

**Ramaiah Itumalla et al (2012)** The healthcare industry in India is one of the fastest expanding service industries in the country. Foreign direct investment (FDI) in the healthcare sector has gained steam in recent years, reflecting the increasing significance of the industry and the rapid expansion of trade in health services. Since January 2000, India has allowed FDI of up to 100 per cent in hospitals under the automatic approach. Capital investments, technological tie-ups, and joint ventures across categories such as diagnostics, medical equipment, hospitals, education and training, and so on are all ways in which foreign businesses are showing increasing interest in entering India's healthcare industry. This paper aims to provide an update on foreign direct investment (FDI) in hospitals and to highlight some of the possibilities and threats that exist in this sector. Secondary data from books, papers, publications from the Department of Industrial Policy & Promotion, and other legitimate web sources were used to compile this descriptive research. This research shows the present state of foreign direct investment (FDI) in healthcare facilities such hospitals and diagnostic centers, as well as the possibilities and threats facing the healthcare industry.

**Sarbajit Chaudhuri et al (2014)** To fulfill their promises to their citizens, governments in underdeveloped nations have traditionally provided public funding for healthcare. In spite of the seeming division of opinions for and against FDI in healthcare, the majority of the empirical research on the topic is analytical in character. While FDI in health care has the potential to improve care, there is a lack of data to support this claim. In this chapter, we use a three-sector, full-employment general equilibrium model with a non-traded sector that produces healthcare services whose consumption directly raises the efficiency of the workers to formally explore the effects of FDI in the healthcare sector on the welfare and human capital formation of a developing economy. Although the study shows that healthcare-focused FDI increases the economy's human capital endowment, it may have a negative impact on social welfare. Another kind of FDI, one that is implemented across the board, has the potential to increase economic prosperity under appropriate circumstances. These findings raise concerns about the wisdom of welcoming foreign investment into the healthcare industry, which creates externalities.

**Bijoya Roy (2016)** Large numbers of for-profit medical facilities have opened throughout India by the turn of the century. They embody a unique blend of universal and regional forces. According to Habermas, the values held by corporations have a ripple effect on society at large. When it comes to health care, corporations prioritize profits above patient well-being, which implies high costs for patients and a focus on risk management and healthism rather than public health. This article follows the path that this new industry has taken to influence the public's conception of women's health care. This is uncovered by inspecting the web pages of for-profit medical organizations that cater specifically to women and their needs. They market women's health services selectively, even though the clinic is designed with female patients in mind. Market-driven technology and its need are normalized via a variety of services provided by the platform.

**Gandhimathi Amirthalingam (2019)** As more and more medical services include cutting-edge technology, safeguarding sensitive patient information has emerged as a critical issue. As a result of widespread healthcare data adoption, it is more usual for doctors to access patient records on tablets and make necessary changes there. An encrypted authentication mechanism is required to access healthcare records to ensure patient confidentiality. Despite this, even when users use Health apps to treat a chronic ailment, these applications often do not come under federal or regional health privacy rules. In this study, we use a deep learning classifier to conduct multi-biometric authentication, which might help alleviate the problem. In this research we investigate how well on-line signature and fingerprint authentication may work together to provide secure user

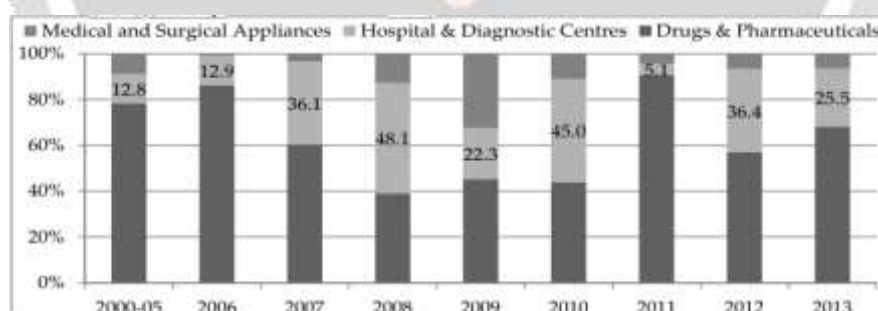
authentication. We use a string-matching method called dynamic temporal warping (DTW) to ensure the authenticity of signatures. Because it relies on phase correlation, the suggested minutiae-based matching algorithm only has to keep track of a tiny number of minutiae points, drastically reducing the storage need. Here, the biometric fusion procedure is carried out using a weighted sum method for matching score level fusion. In this paper, we present a deep learning classifier for multi-biometric authentication to improve authentication performance. Upon receiving a biometric authentication request, the suggested authentication system would employ deep learning to choose a suitable matching picture automatically. In the study, healthcare data from the UCI database was subjected to biometric authentication. On the authentication side of things, we made advantage of multi-biometric verification.

### 3. METHODOLOGY

As was previously indicated, India's healthcare sector benefits from FDI equity inflows via SIA/FIPB (other than acquisition), the purchase of existing shares, and the Reserve Bank of India's automatic pathways. A list of authorized FDI projects in hospitals and diagnostic centers from April 2000 to October 2014 was received from the Department for Industrial Policy and Promotion (DIPP), Government of India, using the aforementioned three procedures. In all, 1378 items/projects are covered, including FDI equity inflow on 50 SIA/FIPB route, 162 purchase of existing shares, and RBI's automatic route joint ventures, therefore the data on real FDI equity inflow received is extremely comprehensive. It details the equity inflow from foreign direct investment in various regions of India and in various currencies (Indian Rupees and US Dollars). Also, the purpose of this article is to help readers comprehend the most pressing issues surrounding FDI in India's healthcare industries.

### 4. FOREIGN INVESTMENT INFLOW INTO INDIAN HOSPITAL SECTOR: STATUS AND TRENDS

The influx of FDI is held up as the silver bullet that would finally bring India into the 21st century. As part of the process of liberalization and globalization, the government has implemented new policies to entice foreign direct investment (FDI) across a wide range of industries. Foreign direct investment (FDI) may take several forms, including the contribution of equity capital, the reinvestment of profits from the host nation, and the provision of long- and short-term intracompany loans. Intertwining the economies of two countries over the long term with the hope of gaining a secure foothold in the "investee" nation is what this phrase refers to. Hospitals and diagnostic centers received a relatively small percentage of the total foreign direct investment (FDI) equity inflow into the healthcare sector (which includes three sectors: drugs and pharmaceuticals; hospitals and diagnostic centers; medical and surgical appliances) between January 2000 and December 2013.



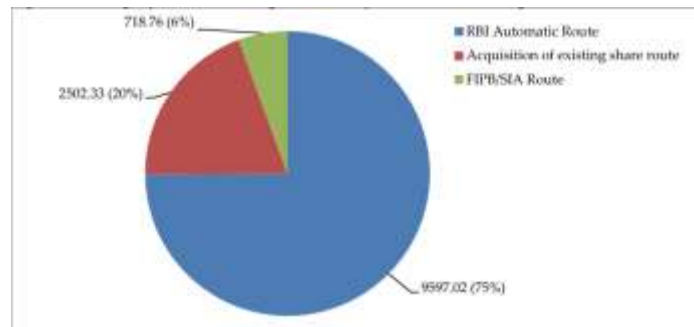
Source: Department for Industrial Policy and Promotion (DIPP), Government of India.

**Figure 1: Distribution of FDI Equity Inflows in Health Sector (in %) (January 2000 to December 2013)**

Foreign direct investment (FDI) may now enter the healthcare industry via three channels: the SIA/FIPB route, the purchase of existing shares, and the RBI's automatic method. It can be shown in Figure 2 that the healthcare sector as a whole received a total of US\$2514.13 million in FDI equity inflow between April 2000 and October 2014. The automated channel of the RBI attracted FDI worth 9,597.02 crore (US\$1865.10 million), according to the breakdown of FDI across multiple pathways. The total sum is 718.76 crore (US\$ 159.67 million) for the SIA/FIPB (other than acquisition) route, and 2,502.33 crore (US\$ 489.36 million) for the purchase of existing shares. About 80% of the entire FDI equity inflow comes via the RBI's automatic method, with 20% coming through the acquisition share and just 6% coming through the FIPB route. One of the most important ways money comes into the nation is via FDI. However, its potential effects vary depending on whether foreign direct investment (FDI) was attracted via greenfield or brownfield strategies. Brownfield FDI often refers to cross-

border mergers and acquisitions, whereas greenfield FDI refers to investments that generate new activities/facilities in the host nation (such as launching a new plant/activity).

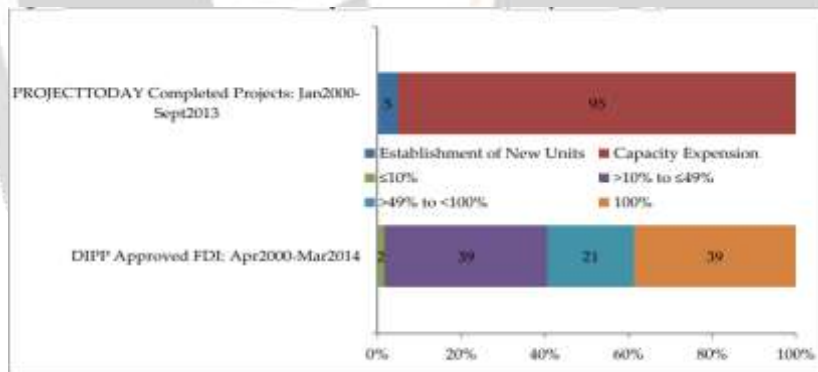
Six percent of FDI tracked via the FIPB method (non-acquisition) is classified as greenfield investment, whereas twenty percent of FDI tracked through the purchase of existing shares is classified as brownfield investment. The other 75% of FDI equity inflow, totaling roughly US\$ 1865.10 million, was obtained mostly via Indian and foreign company joint ventures and was channeled through the RBI's automated mechanism.



Source: Detail break-up for FDI equity inflow received during April 2000 to October 2014 in hospital and diagnostic centre under different routes provided by DIPP.

**Figure 2: FDI Equity Inflows in Hospital Sector by Different Routes: April 2000 to October 2014**

However, as previously mentioned, the research has used the projecttoday data set for both international and domestic private investments in the healthcare sector from January 2000 to September 2013 in order to get an understanding of brownfield and greenfield investments. Ninety-five percent of the money spent during that time frame went toward establishing brand new hospital departments, while just five percent went toward increasing overall capacity. As a result, the majority of private (foreign and local) investments were greenfield investments, which is an indicator of the progress made in the country's healthcare infrastructure.



**Figure 3: Nature of Investment in Hospital Sector in India (Composition in %)**

**5. Hospitals and diagnostic centres witness 39% growth in FDI in 2020-21**

During the fiscal year 2020-21, the country's hospitals and diagnostic centers industry received around \$697.5 million in FDI, a rise of 39% over the previous year. According to the Ministry of Commerce and Industry, foreign direct investment into the industry was roughly \$501.16 million in 2020-21.

From April 2000 to March 2021, a total of \$7.92 billion was invested, whereas in the preceding year, \$7.23 billion was spent. It's worth noting that the Covid-19 epidemic, which has originally substantially hampered routine operations, has occurred against the background of the sector's turnover. After the second wave was contained around the end of 2021, however, hospitals reported a return to normalcy. Meanwhile, foreign direct investment (FDI) in the medical and surgical appliances industry grew by 202% in 2020-21, reaching \$208.04 million from \$68.91 million the year before.



Foreign direct investment (FDI) flows totaled \$2.2 billion between April 2000 and March 2021, and \$2.4 billion by March 2021.

A lot of work has been done in the past to loosen up India's rules on foreign direct investment. Currently, the hospital sector and medical device manufacturing are both open to 100% FDI through the automatic route (meaning that the non-resident investor or Indian business does not need permission from the Government of India for the investment). Under the automatic method, the pharmaceutical industry allows for FDI of up to 100% in greenfield investments and 74% in brownfield projects. According to a report published last year by the government think tank NITI Aayog on investment opportunities in the health sector, India has become one of the fastest-growing emerging economies over the last two decades, with FDI inflows increasing from \$2.5 Billion in 2000-01 to \$50 Billion in 2019-20.

In recent years, investors have shown a greater interest in the healthcare industry, leading to a rise in transaction value from \$94 million in 2011 to \$ 1.28 billion in 2016 — an increase of more than 13.5 times.

Because of these and other developments, the healthcare sector in India is ripe for foreign investment.

The Indian pharmaceutical and pharmacy business had an annual drop of 5.1% in foreign equity infusion during fiscal 2020-21, after a year in which FDI equity inflow increased by 200%. From April 2000 to March 2021, the industry has received a total of \$19.41 billion in investments, according to statistics from the Ministry of Commerce and Industry. For the fiscal year ending March 31, 2021, the medications and pharmaceuticals industry received \$1.41 billion in foreign direct investment (FDI), up from \$ 1.49 billion in the prior fiscal year, 2020-21.

## 6. MAJOR CHALLENGES

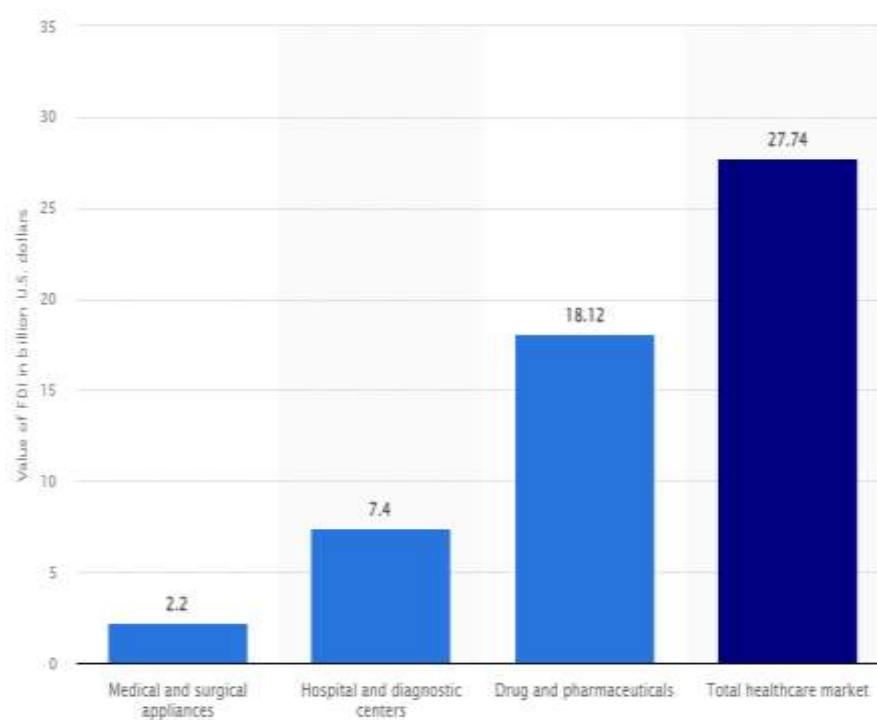
Foreign investment, particularly Foreign Direct Investment, in India's healthcare sector faces challenges from both inside the country and from outside. While there are definitely numerous motivations to foreign investment in hospitals in India, there are external and local obstacles, which explain the limited presence of foreign investment in India's hospital market, as noted by Suneeta Reddy, Director, Finance, Apollo Hospitals Enterprise Ltd, Chennai.

### External Challenges

Privatization movements in the health care industry in major industrialized nations are an example of an external influence; this is a sector experiencing transformation and internal challenges in those economies. There is sometimes a limit on the number of private companies allowed to open hospitals abroad. Consequently, the pool of possible foreign institutions willing to invest in developing economies may be rather small. Another often cited challenge is that starting a hospital from scratch in a foreign nation is very tough because of the need for extensive familiarity with the local market. When establishing hospitals in a foreign market, joint ventures might be a more efficient entry strategy. Partnerships may be fruitful, but they can also be fraught with difficulties, such as variations in management styles and approaches, and difficulties in keeping track of finances. As a third consideration, international investors would have their pick of many potential locations, but they are more likely to put their money into areas where they are already well-versed and where there is transparency surrounding health care policy and other relevant legislation. Foreign investors are discouraged from entering India's healthcare market since the government has not established a clear plan for the industry, does not see it as a vital sector, and is seen as opaque and riddled with corruption and inefficiency in its processes for starting a firm.

### Domestic Challenges

There are a number of homegrown factors unique to the healthcare industry in India that have constrained the amount of foreign direct investment (FDI) in the country's hospitals. These include both barriers to entry (such as high startup costs) and barriers to growth (such as ongoing operational problems that reduce profits). The high cost, extended gestation time, and generally poor returns on investment of hospitals are the single most critical limitation. It has been reported by many high-ranking executives at major for-profit institutions that healthcare is an extremely costly industry overall.



**Value of Foreign Direct Investment in the healthcare market across India from April 2000 to June 2021, by sector (in billion U.S. dollars)**

## 7. CONCLUSION

Since low government expenditure on the healthcare sector is a systemic issue in India, it is crucial to have a firm grasp of the scale, nature/pattern, and related consequences of private investment in this country's setting. India has one of the highest rates of private healthcare spending in the world, at over 75% of the total, while government spending on healthcare remains stable at roughly 1% of GDP. Through the SIA/FIPB route, the purchase of existing shares, and the RBI's automatic pathways, India has attracted a significant amount of FDI equity inflows to its healthcare and diagnostics sectors. In addition, India's regulatory framework has been lenient toward alternative investment funds. Research indicates that between April 2000 and October 2014, a total of 50, 162, and 1166 joint venture projects obtained FDI equity inflow through the SIA/FIPB route, the purchase of existing shares method, and the RBI's automatic route, respectively. Medical facilities had a total FDI equity inflow of US\$2514.13 million over the same time frame. Foreign investment has the potential to benefit both the health care sector and the economy as a whole by increasing the standards and quality of care, upgrading technology, and creating employment opportunities. This is in addition to helping increase physical capacity in the health care sector, such as the number of hospital beds, diagnostic facilities, and the supply of specialty and super specialty centers.

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