

'Make In India' For Healthcare Sector in India: A SWOT Analysis on Current Status and Future Prospects

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ABSTRACT

Make in India is a recent major Government initiative designed to transform India into a global manufacturing hub through series of regulatory and policy framework. Under this flagship campaign healthcare sector comprising hospitals, diagnostic centres, drugs and pharmaceuticals, medical devices among others have been identified as a part of the initiative. India's healthcare system is paradoxical i.e., on the one hand, it boasts of attracting medical tourists from across the world for its quality health service at cheaper cost, and on the other, it is characterized by lack of accessible, affordable health services for a large part of its population. The government of India's 'Make in India' initiative provides a platform for the private sector to explore the opportunities and provide the much needed capital for the healthcare in India. In this paper the researchers have attempted to study the various aspects of Make in India for Healthcare sector and a SWOT analysis has been made to understand the current situation and future prospects in the same. Thereby the researchers claim that while the Make in India initiative is directionally right, its impact on improving access to affordable quality healthcare depends on how the concerned Government policy is framed, developed and implemented over the period.

Keywords: Make in India, Healthcare Sector, SWOT analysis, Government policy

INTRODUCTION

'Make in India' is a recent major Government initiative designed to transform India into a global manufacturing hub. It consists of series of policy and regulatory framework to induce the local and foreign companies, mainly foreign to invest in India and make the country a manufacturing powerhouse. Under this flagship campaign, the government has identified 25 sectors that have huge scope to draw companies to manufacture in India. Among these sectors, the healthcare industry comprising hospitals, diagnostic centres, drugs and pharmaceuticals, medical devices have been

part of the Make in India campaign. Healthcare is one of the vital sectors which influence the lives of everyone. The Indian Healthcare industry driven by private sector is on a high growth trajectory and has evolved significantly in recent time period. However, healthcare provision in our country remains inequitable and challenges in access to and availability of quality healthcare persist which is mainly due to less government expenditure to the sector. The Government of India's 'Make in India' initiative provides a platform for the private sector to explore the opportunities and provide the much needed capital for the

healthcare in India. In this paper the researchers have attempted to study the various aspects of Make in India for Healthcare sector and analyse the current situation and future prospects in the same.

Objectives:

- To depict the current condition of healthcare industry in India
- To examine the FDI in healthcare sector in India
- To study the current status and future prospects of 'Make in India' for Healthcare Sector in India through SWOT analysis

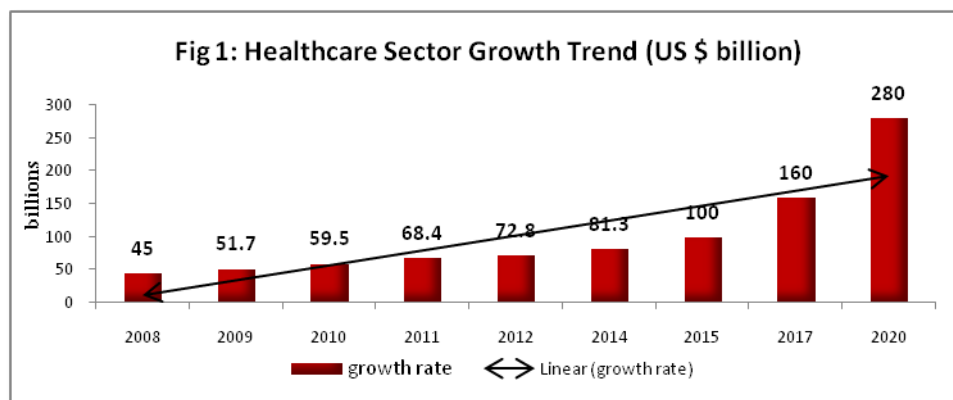
METHODOLOGY

This study is based entirely on secondary data collected from various Government publications like reports of Department of Industrial Policy and Promotion, Indian Brand Equity Foundation (IBEF) and National Health Profile. After depicting the current condition of healthcare

industry in India, the researchers examine the level and pattern of flow of FDI in healthcare sector in respect to Drugs and Pharmaceuticals, Hospitals and Diagnostic Centres, and Medical and Surgical Appliances as given in the DIPP report. Then the researchers have attempted to make a SWOT analysis of Make in India for healthcare sector in India.

Current Status of HealthCare Industry in India:

The demand for hospital services has been consistently soaring in the country, with every class of the society demanding better quality and standards of healthcare which has resulted in continuous growth of the healthcare industry. The overall Indian healthcare market is worth around US\$ 100 billion and as per a report of IBEF [1] it is expected to reach US\$ 160 billion by 2017 and grow to US\$ 280 billion by 2020, with a Compound Annual Growth Rate (CAGR) of 22.9 per cent which is depicted in Figure 1.



Source: Indian Brand Equity Foundation, 2017

Growth in the Healthcare sector is dominated by private players in India, unlike increased government dominance in developed nations. Public spending on healthcare in India is low compared to many countries in the world and as on recent report it spends 1.4 percent of GDP which places India amongst the lowest spending countries (data.worldbank.org). [2] The mismatch between demand for and supply of healthcare services and infrastructure has triggered the emergence of private

participation in the provision of healthcare. One recent study has estimated that, approximately 54 per cent of the medical institutions, 75 per cent of the hospitals, 51 per cent of the hospital beds, 75 per cent of the dispensaries and 80 per cent of all qualified doctors are in the private sector (Sehgal and Hooda, 2015). [3] All these private entities together provide around 60 per cent inpatient and 80 per cent outpatient care to the Indian population, indicating the presence of a highly privatized healthcare

market in India (Sehgal and Hooda, 2015).^[3]

Pharmaceutical Industry:

Another key segment of the Healthcare sector is the Pharmaceutical Industry that contributes a significant portion of the overall revenues in the Indian Healthcare Industry. Indian pharmaceutical sector accounts for about 2.4 percent of the global pharmaceutical industry in value terms and 10 percent in volume terms (IBEF 2017).^[1]

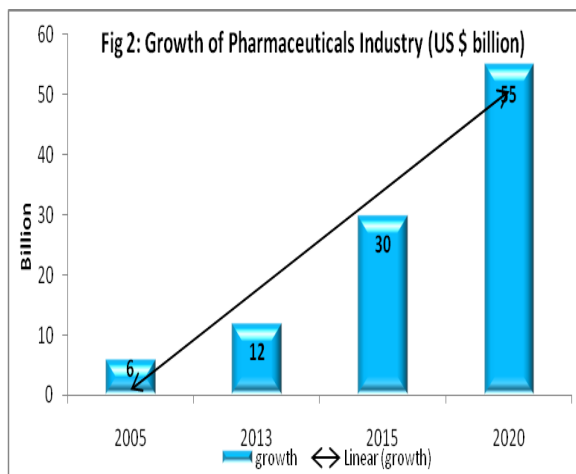


Figure 2 shows the growth of Pharmaceuticals industry in India which is valued around US\$ 30 billion in 2015 and is expected to expand at a Compound Annual Growth Rate (CAGR) of 15.92 per cent to US\$ 55 billion by 2020. As per the IBEF report, by 2020 India is likely to be among the top three pharmaceutical markets by incremental growth and sixth largest market globally in absolute size. The growth of the sector has been fuelled by exporting life-saving drugs to developing countries and supplying quality drugs to the developed nations at affordable prices. Indian drugs are exported to more than 200 countries in the world, with the United States as the key market. India's cost of production is significantly lower than that of the United States and almost half of that of Europe which gives a competitive edge to India (IBEF 2017).^[1]

Medical Tourism:

Indian medical tourism industry is significantly contributing to the nation's GDP, foreign exchange earnings and employment. People across world are travelling to India to obtain medical and surgical care. IBEF report states that Medical Tourism in India is growing at an exponential growth of 25 percent to 30 percent annually. The Indian medical tourism industry is valued at US\$ 3 billion per annum, with tourist arrivals estimated at 230,000 people. 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 (IBEF 2017).^[1]

Medical Devices and Diagnostic Centres:

Other important segments of the Healthcare Industry are medical equipment suppliers and diagnostics centres. These sectors play a role of support system to hospital services and as a result they are also growing continuously with increasing demand. Medical devices play a role not only in screening, diagnosing and treating patients but also in restoring patients to normal lives and in regularly monitoring health indicators to prevent diseases. With technological advancements, the role of medical devices is now expanding to improve quality of care across each stage of the healthcare. The opportunity is significant and most recent studies indicate that medical devices expected to be a USD 25-30 billion industry in India by 2025. The Indian market is currently growing at a healthy CAGR of around 15 percent, significantly higher than global industry growth of 4-6 percent (Deloitte 2016).^[4]

Realizing the continuous growing demand, many investors worldwide are interested towards investing in the Indian healthcare market. That being the case, the Government of India has allowed 100 percent FDI under automatic route in the hospital services, manufacturing medical devices and drugs and pharmaceuticals industry in India which act as a catalyst for

Make in India campaign for health sector in India.

Overview of FDI in Healthcare Sector in India:

As our country suffers from low level of public health expenditure, which is the most important constraint to attain desired health outcomes, the Foreign Direct Investment (FDI) provides much needed capital for the Healthcare in our country. The potential benefits of FDI include increasing physical capacity in the healthcare sector, such as increasing the number of hospitals and allied services like diagnostic facilities among others. 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 people and the economy at large. These are the some of the reasons which justifies the need for FDI in healthcare. In this context it is important to analyse how much the foreign investment has flown into the Indian healthcare sector, which is presented in the following manner:

Based on report of Department of Industrial Policy & Promotion, Ministry of Commerce and Industry, Government of India, the analysis of FDI in healthcare sector has been classified into three sections: FDI equity inflow to Drugs and Pharmaceuticals, Hospitals and Diagnostic Centres, and Medical and Surgical Appliances.

**Table 1: Segments wise FDI Inflows in Healthcare Sector in India
Amount of FDI Inflows (In Rs. million)**

Sectors	2011	2012	2013	2014	2015	2016
Drugs & Pharmaceuticals	1,45,314.80 (9.09)	33,117.16 (2.72)	1,00,054.57 (7.73)	73,763.98 (4.21)	40,268.56 (1.59)	72,923.61 (2.34)
Hospital & Diagnostic Centres	8,111.65 (0.51)	21,172.78 (1.74)	37,368.19 (2.89)	23,673.48 (1.35)	53,102.88 (2.10)	55,431.24 (1.78)
Medical and Surgical Appliances	6,744.23 (0.42)	3,835.73 (0.32)	9,198.19 (0.71)	8,137.15 (0.46)	10,191.76 (0.40)	29,395.37 (0.94)
Total FDI in Health Sector	1,60,170.68 (10.01)	58,125.67 (4.78)	1,46,620.95 (11.32)	1,05,574.61 (6.02)	1,03,563.20 (4.10)	1,57,750.22 (5.06)
Total FDI Inflows	15,99,349.20 (100)	12,15,914.41 (100)	12,94,824.81 (100)	17,53,133.42 (100)	25,25,614.78 (100)	31,16,439.70 (100)

Source: Department for Industrial Policy & Promotion (DIPP), Government of India. ^[5]

Note: Figures Shown in parenthesis is percentage to total FDI inflows

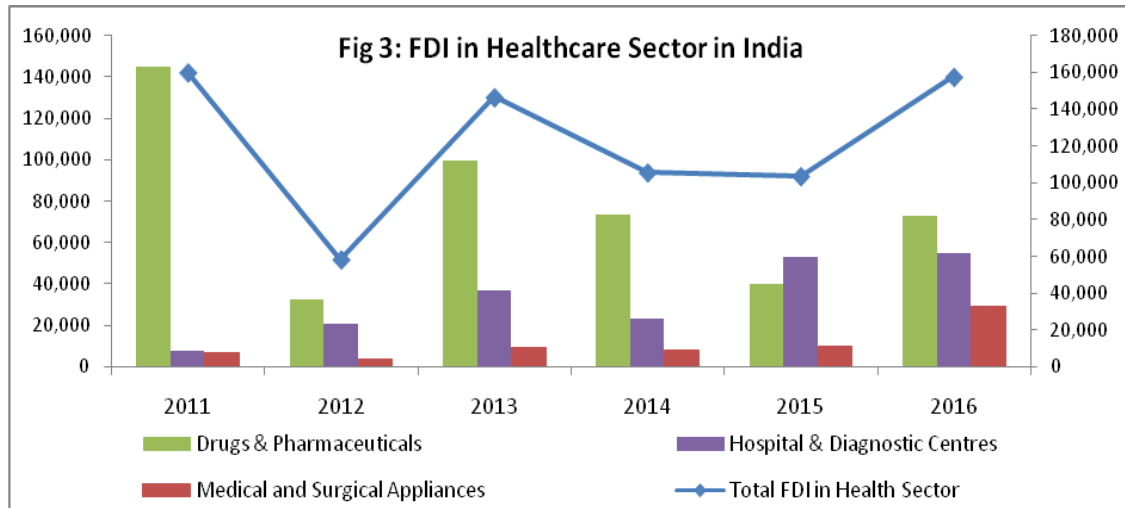
From table 1 and figure 3, it can be clearly seen that Drugs and Pharmaceuticals industries have attracted the highest investment among healthcare service industries. During the year 2011 the FDI in Drugs and Pharmaceuticals industries was Rs. 1,45,314.80 millions which was 9.09 percent of total FDI inflows in all sectors in our country in that year. Then in the subsequent years there have been fluctuations in the FDI in Drugs and Pharmaceuticals industries and it stood at Rs. 72,923.61 millions in 2016, comprising around 2.34 percent of total FDI in 2016. The FDI in Hospital and Diagnostic centres and Medical and Surgical Appliances industries have been less compared to drugs and pharmaceuticals. The FDI in Medical and Surgical Appliances was Rs. 6,744.23 millions in 2011 and has increased to Rs.

10,191.76 millions in 2015 and Rs. 29,395.37 millions in 2016 which was 0.94 percent of total FDI inflows in 2016. Comparatively the Hospital and Diagnostic centres have attracted more investment of Rs. 53,102.88 millions in 2015 and it has increased to Rs. 55,431.24 millions in 2016 which was 2.10 percent and 1.78 percent of total FDI inflows in respective years.

From Table 1 and Figure 3 it can also be seen that there has been wide fluctuations in the total amount of FDI in healthcare sector. The total FDI in healthcare sector comprising Drugs and Pharmaceuticals, Hospitals and Diagnostic Centres and Medical and Surgical Appliances industries was Rs. 1,60,170.68 million in 2011 which was 10.01 per cent of total FDI in all sectors in India during 2011. Then after wide fluctuations, the total FDI

in healthcare sectors stands at Rs. 1,57,750.22 million in 2016 which comprises 5.06 per cent of total FDI inflows in India in that year. This fall was mainly due to fall in the FDI in Drugs and Pharmaceuticals industries during those

years. Based on Table 1 and Figure 3, which shows FDI data before and after the implementation of 'Make in India', it can be inferred that this initiative is yet to make any impact on the investment in healthcare industry in India.



Source: Same as Table 1

SWOT Analysis of Make in India for Healthcare Sector:

In spite of the high demand for healthcare services, India's healthcare sector falls well below international benchmarks in terms of physical infrastructure, manpower, quality and many other things. In order to meet the growing demand for healthcare services, huge investments are the need of the hour and contributions from the private foreign investors has a considerable role to provide the much needed investments. In this section the researchers have attempted to make a SWOT analysis to understand the strengths, weaknesses, opportunities and threats that are associated with Make in India for healthcare sector in India.

Strength:

- Emergence of number of corporate hospitals with world class medical technology, equipments and facilities at comparatively lower cost in India
- There is continuous increase in number of hospitals, diagnostic centres, doctors and other medical professionals
- India is also cost competitive compared to other countries in Asia and Western

countries. The cost of surgery in India is about one-tenth of that in the US or Western Europe (IBEF 2017).^[1]

- Good reputation and high success rate in surgery with strong presence in advanced healthcare e.g. cardiovascular, organ transplants, replacements etc., is an important positive aspect of Indian health services
- Existence of alternative system of medicine of AYUSH
- The availability of health personnel at comparably lesser cost and their ability to speak English provides an additional edge for the health care sector in India to attract foreign investors to make investment.
- The growing middle class, rising health awareness and increased willingness among Indian consumers to pay for quality healthcare and to go to institutional providers widens the scope for investors in healthcare sector in India.

Weakness:

- The growing demand for quality healthcare and the absence of matching

delivery mechanism pose a great challenge. Many hospitals and healthcare providers are struggling with outdated information and medical technology in India

- **Limited availability of skilled workforce:** There is an acute shortage of faculty of medical teachers all over the country. Alongside, finding qualified staff and specialized doctors is a major challenge for hospitals in India, especially for new start ups, leading to wage inflation and inadequate quality. Number of people possessing adequate knowledge to handle sophisticated medical equipment is also less. All these make investors to think twice before entering India.
- **Administrative/policy deficiencies:** India still lags behind most countries in terms of ease of doing business. Some factors that affect investment are the complicated regulatory framework, time consuming administrative work, red-tapism and corruption. These act as the potential barriers to attract foreign investors especially when there are competitive destinations which have a more conducive environment than India to make investment.
- **Lack of infrastructure:** Poor all-round infrastructure is a major challenge. Technological backwardness, lack of availability of quality inputs, problem of supporting infrastructure like road, transport, power, water etc., and the socio-political environment of the country also acts as a challenge for investment decisions.
- **Problem of ownership:** Generally hospitals and allied service centres are owned by doctors and other professionals of their respective fields who usually lack entrepreneurial skills. This factor also sometimes affects the investment decisions as they usually do not possess the knowledge of business environment.
- **High establishment cost and low returns:** The return on investment is

low compared to other business ventures. Land and infrastructure costs account for major portion of the capital expenditure for hospitals. Also due to ever changing medical technology it becomes imperative to frequently update the infrastructure with latest advancements. These factors increase the cost of running the healthcare enterprises. This makes investments in the sector less attractive

- Low investment in Research & Development is also one of the major weakness of healthcare in India

Opportunity:

- The current demand and supply side dynamics provide a significant opportunity and basis for investment in health sector in India. Factors such as changing demographics, rising life expectancy, and growing public awareness have contributed to a higher demand for medical care which calls for higher investment.
- Non-communicable diseases are expected to comprise more than 75 percent of India's disease burden by 2025, and as per Government report, cardiovascular diseases (24 percent), chronic respiratory diseases (11 percent), cancer (6 percent) and diabetes (2 percent) are the leading cause of mortality in India (National Health Profile 2015).^[6] These necessitate huge investment in infrastructure, education and other facilities.
- **Hospitals & Infrastructure:** The demand for specialty and tertiary care hospitals is very high in India especially in small towns and rural areas. There is a wide gap between availability and requirement of health services in India which has created a need for more hospitals and infrastructure to serve the masses. This will help foreign investors to penetrate the Indian healthcare industry by building hospitals and much needed infrastructure in healthcare sector.

- **Medical devices:** Growth in Indian healthcare infrastructure is accompanied by strong demand for medical equipment such as x-ray machines, CT scanners and Electrocardiographs among others, highlighting an opportunity for global players making quality products in this area. An enormous amount of capital is required to produce medical and surgical appliances in India which creates an outstanding opportunity for foreign players to invest.
 - **Medical Tourism:** Another area of opportunity is the medical tourism. India is getting popular worldwide in providing quality healthcare service at lower cost. As per a report of 'Invest India', patients are now coming to India for cardiology, orthopaedics, neurology, oncology and organ transplants (Invest India, 2015).^[7] The Indian medical tourism industry is expected to reach US\$ 6 billion by 2018 (IBEF, 2017).^[1] Due to increasing medical tourism there is a need to upgrade the service standards on par with global standards which is highly possible through foreign investment.
 - **Medical Education:** There is an existing gap in number of doctors to cater to the healthcare needs of the country. As per Medical Council of India data, the current doctor: patient ratio of 1:1681 is below WHO recommended figure of 1:1000. Thus India needs about 7 lakh doctors by 2022 in order to meet WHO standards. Alongside there is regional disparity of medical colleges in our country. A large proportion of medical seats are currently being offered by institutes in the southern part of the country. These situations provide immense opportunity to invest in medical education to meet the demand for doctors and medical services.
- Threat:**
- There is a fear that, the prevailing wide gap between haves and have-nots in accessing health facilities and rural urban divide will be aggravated by foreign investment in healthcare sector owing to the investors preference for particular location and costly treatment which arises due to profit motive. Having said that, the private sector must look at healthcare service from more than the commercial perspective, since 'Chasing targets' in healthcare involves the issue of 'ethical concerns'.
 - Consumers might be exploited as they do not have the power to negotiate on pricing of the private hospitals
 - Participation of private investors' mainly foreign investors in medical education might make the medical education highly unaffordable and become a distant dream for many people. At the same time there is a dangerous risk that, being financially rich alone turning out to be the only qualification to become doctor
 - Counterfeit drugs i.e., drugs that do not have active ingredients or have lower amounts of active ingredients resulting in longer treatments with no recovery are likely to pose a big threat to Pharmaceutical companies and the economy as well
 - Most multinational medical devices companies have their production base outside India and import their products for the Indian market. An unfavourable duty structure in many segments make imports cheaper than manufacturing in India (Deloitte 2016).^[4] This further limits the scope for local value addition, especially in segments conducive for manufacturing at present in India

CONCLUSION

While the Make in India initiative is directionally right, its impact on improving access to affordable quality healthcare depends on how it is framed, developed and implemented over the period. Also it is important to look over the fact that does India only needs the manufacturers to make in India or also to make for India. On the

whole, with judicious plans and efficient implementation, the private sector and government need to work hand in hand as one team to make further progress and make India one of the global hubs of innovation, manufacturing and providing required healthcare services.

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