



FDI AND THE PHARMACEUTICAL SECTOR IN INDIA

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Abstract

The Foreign Direct Investment (FDI) has become a main source of foreign capital flow for developing economies and leading source of external financing. Since 1991, due to liberalization of policies towards foreign investment, there was a positive response from capital exporting countries and India also witnessed an increasing trend of FDI inflows. The inward FDI flows can result in a bundle economic advantages i.e., helps in increasing the productivity, efficiency in utilization of resources, market expansion and favorable balance of payment etc. It is also observed that the liberalization of FDI policies offers opportunities as well as threats for firms. The most important aspect is the impact of FDI inflows on the growth of the Sectors and its contribution to the economy. It is a fact that the importance of FDI extends beyond the financial capital that flows into the firms. The Indian Pharmaceutical Sector is also an interesting and relevant context for several reasons. It is one of the most vibrant knowledge driven industries in India with consistent growth over the past thirty years. In the global market, it ranks 4th in terms of volume and 13th in terms of value. FDI in pharmaceutical sector in India is



also an interesting area for research due to many reasons. Taking into consideration the important of FDI and the significance attached, the present study is carried out to assess the impact of FDI on the growth of Pharmaceutical Sector in India in the post-liberalisation period. Various statistical tools has been used to carry out the study.

Keywords : Foreign Direct Investment, Pharmaceutical Sector, Growth, Investment

INTRODUCTION

According to Balance of Payment Manual-5(BPM5), “Foreign Direct Investment (FDI) means a category of international investment that reflects the objective of a resident in one economy (the direct investor) obtaining a lasting interest in an enterprise resident in another economy (the direct investment enterprise). The lasting interest implies the existence of a long-term relationship between the direct investor and the direct investment enterprise, and a significant degree of influence by the investor on the management of the enterprise. A direct investment relationship is established when the direct investor has acquired 10 percent or more of the ordinary shares or voting power of an enterprise abroad.”

As per UNCTAD, “FDI is an investment that involves a long- term relationship and control by a resident entity of one country, in a firm located in a country other than that of the investing firm. There is more involved in the direct investment than only money capital, for instance, managerial or technical guidance. FDI is generally defined as resident firms with at least 10% of foreign participation.”

In simple words FDI means an investment made by either a company or an individual of a country in a business interests of another country



and generally it happens when an investor acquired foreign business assets (controlling interest or take ownership) or when an investor establish foreign business operations. It is completely different from portfolio investment in which an investor buy equities in foreign based companies.

Generally FDI is of three kinds:

Brown field investment, in which a company purchased an existing company or firm in a new country whereas in Green field investment, a company established a new company or firm in a new country and third type is Joint Venture, which means that in a host market there is establishment of management and equity partnership between a domestic entity and a foreign company.

In Green field pharma, 100% FDI is allowed in India through an automatic route, under the existing policy, which means there is no requirement of prior approval by the government or the RBI whereas in Brown field pharma, 74% FDI is allowed through automatic route and upto 100% after prior approval of the government.

There are some reasons which are responsible for FDI in pharmaceutical sector:

- India is an excellent centre of clinical trials due to huge population.
- As a result of large population, there are wide patterns of disease which attracts the pharmaceutical firms.
- Increase in demand of medicines domestically as a result of better literacy rates as compare to earlier.
- Availability of cost-effective and efficient sources to get hold of generic drugs



- Abundant and relatively manpower having skill and knowledge attracts foreign investors.
- Production cost of pharmaceuticals is also cheap in India.
- Strong production base having excellent laboratories and cost-efficient technology to manufacture drugs.
- India is compatible to produce bulk drugs as around 70% of the requirement for the formulation of drugs is available in India itself.
- Increasing competition in pharmaceutical sector also attracts foreign investors.
- Increase in healthcare spending such as Healthcare insurance policy, life insurance policy results in growth in pharmaceutical industry which attracts investment.
- Medical Tourism, pharma packaging, biopharma and bio-generics are some of the emerging segments which may increase the growth of pharmaceutical industry.

ADVANTAGES OF FDI

- FDI helps a country to be more economic developed in a global market.
- It increases competition among firms in a domestic country which result in the availability of cheap drugs and medicines and which reduce the number of inefficient firms.
- It increases employment or create jobs, new posts. It is clear from the record that in 1991, when FDI starts to come there were no employment in pharmaceutical industry but employment increased from 181497 employees in 1995 to 353692.
- It helps a country to access international market.



■ It helps in raising the level of quality and standards of product by increasing competition.

- It helps in availability of advance technology and skilled manpower.
- FDI helps in training and skill up-gradation of manpower which enhances the value of human resources and also increase the firm's productivity.
- FDI helps in completion of large projects which requires huge investment.
- FDI improve the host country's export competitiveness by raising product efficiency and standards.
- It helps in increasing government revenues which ultimately helps in development of country.
- Domestic firms may have high-end technology, marketing strategy or management skills as foreign firms have with the help of FDI
- With the help of FDI there cannot be situation of monopoly in a country.
- Through FDI, Indian firms have increased their R&D which helps to stop brain drain from India and also attracts Indian scientists to return to India from foreign.

It helps in maintaining the relationship between foreign and domestic firms.

DISADVANTAGES OF FDI

- It would increase an inflation as a result of foreign influence which means huge spending on advertisements to attract customers.



- It helps in increasing competition which result into destruction of small firms or domination over small firms by large firms which will hamper the growth of country especially developing country.
- It would affect the selling and cost of production of domestic firms.
- Illiterate or inefficient people will remain unemployed
- Acquisition of domestic firms in the name of FDI may result into domination of foreign firms and it make the domestic firms into mere manufacturing units.
- FDI may result in unfair competition that may prompt the domestic companies to abandon research for diseases such as malaria, which are relevant only for the developing nations. It may further lead to lesser research in the area of orphan drugs.
- There is a risk in the change of the marketing strategy and business model by transfer of ownership to MNC

In this study we will be analysing the trend flow of FDI of pharmaceutical sector and that of the total FDI flow to the Indian economy from 1991 to 2023.

LITERATURE REVIEW

Chakraborty and Nunnenkamp (2008) examined the causal relationship between the various economic reforms and the growth of India's economy. Through the use of the Granger causality test, the researchers were able to identify the varying effects of FDI on different sectors. They also found that the manufacturing sector is more likely to experience the effects of FDI than the primary sector. Short-term effects of foreign direct investment on the services sector were also observed.

Ipul Jain et. al., (2014) in their article on “Dynamic linkages between foreign direct investment and domestic investment: evidence from



emerging market economies”, examines the long-run relationship between FDI inflows, FDI outflows and gross fixed capital formation, in a dynamic panel of 22 Asian, Latin American and other emerging market economies. Employing panel cointegration and causality tests, we find a mixed picture of these relationships across the three sub-samples. It is observed that a positive and significant long-run relationship exists between FDI inflows and fixed capital formation for Asian EMEs, suggesting a crowd-in effect.

OBJECTIVES

1. To study the concept of FDI in Pharmaceutical Sector.
2. To analyse the trend flow of FDI in Pharmaceutical Sector and in the total economy.

RESEARCH METHODOLOGY

Data has been collected from various secondary sources like RBI Bulletin, Factsheets published by DIPP etc from 1991-92 to 2022-23. Descriptive statistics and Time Series analysis has been used as statistical tools.

Table 1

FDI Inflow in the Pharmaceutical Sector & Indian Economy

Sl No:	Years(April-March)	FDI Inflows(in crores) Drugs & Pharmaceuticals	Total FDI Inflows of the year	%
1.	1991-1992	48	409	11.73
2.	1992-1993	08	1094	0.07
3.	1993-1994	154	2018	0.08
4.	1994-1995	31	4312	7.19
5.	1995-1996	177	6916	2.56
6.	1996-1997	167	9654	1.73
7.	1997-1998	125	13,548	0.92

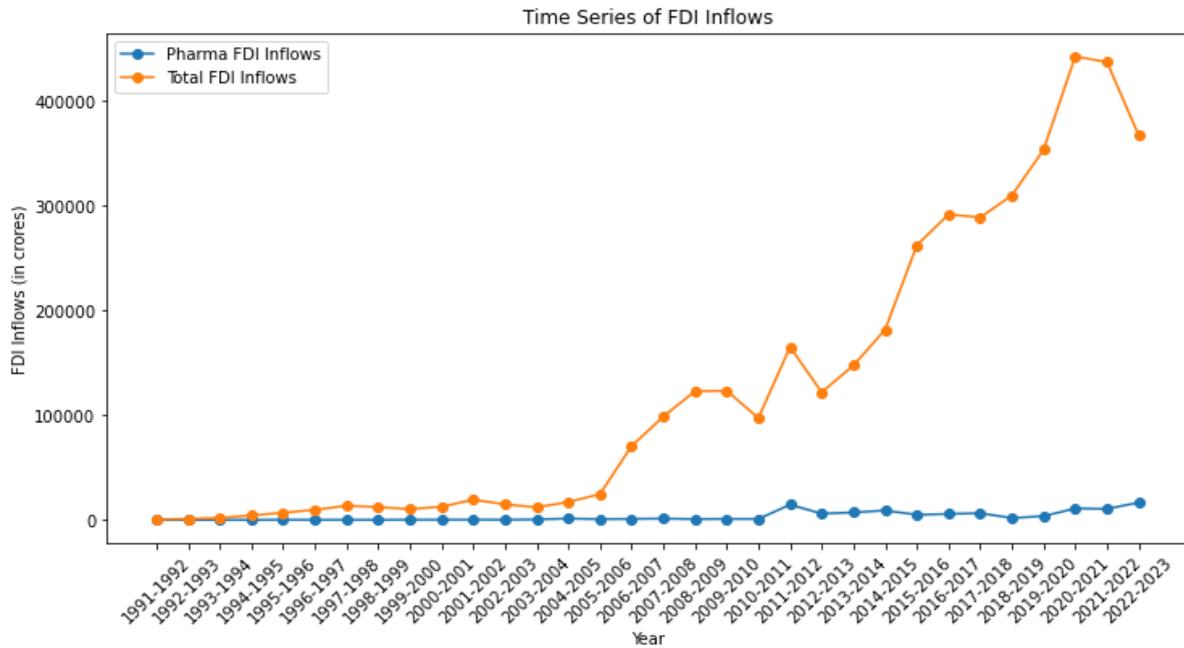


8.	1998-1999	122	12,343	0.99
9.	1999-2000	228	10,311	2.21
10.	2000-2001	226	12,645	1.79
11.	2001-2002	288	19,361	1.49
12.	2002-2003	192	14,932	1.29
13.	2003-2004	502	12,117	4.14
14.	2004-2005	1343	17,138	7.83
15.	2005-2006	760	24,613	3.01
16.	2006-2007	970	70,630	1.37
17.	2007-2008	1326	98,664	1.34
18.	2008-2009	810	1,22,919	0.66
19.	2009-2010	1005	1,23,378	0.81
20.	2010-2011	961	97,320	0.99
21.	2011-2012	14605	1,65,146	8.84
22.	2012-2013	6011	1,21,907	4.93
23.	2013-2014	7191	1,47,518	4.88
24.	2014-2015	9052	1,81,682	4.98
25.	2015-2016	4975	2,62,322	1.89
26.	2016-2017	5723	2,91,696	1.96
27.	2017-2018	6502	2,88,889	2.25
28.	2018-2019	1842	3,09,867	0.59
29.	2019-2020	3650	3,53,558	1.03
30.	2020-2021	11015	4,42,569	2.49
31.	2021-2022	10552	4,37,188	2.41
32.	2022-2023	16654	3,67,435	4.53

Source: Factsheet,DIPP

	count	mean	std	min	25%	50%	75%	max
FDI_Inflows(in_cross)	32.0	3350.46	4609.436	8.00	188.25	965.500	5795.000	16654.00
		8750	345				0	
Total_FDI_Inflows_of_the_year	32.0	126378.	141779.247	409.0	12286.50	83975.00	201842.0	442569.00
		093750	197	0		0	000	

Figure 1 Time Series of FDI Inflows



The graph showing the overall FDI inflows (orange line) shows a general tendency to increase year after year with steep rise starting from the first few years of the twenty-first century and continuing upto 2020-2021 and a slight decline in the following two years of 2021-2022 and 2022-2023. On the other hand, the FDI inflows in pharmaceuticals (blue line) show very less fluctuation in annual basis and has comparatively stable trends with reference to the total FDI inflows.

CONCLUSION

The sweeping changes introduced since 1991 mark a radical departure from the past and reflect a positive approach towards foreign investment. The changes provide freedom to foreign investors to enter the Indian economy. In terms of openness to FDI entry, the prevailing Indian policy is favourably placed in tents of competitiveness with other major FDI receiving countries in Asia.



From my study, it is evident that FDI is considered to be an important vehicle for economic development in India. It impacts the country's trade balance, improving labour standards and skills, transfer of technology and innovative ideas and the general business climates. It also provides opportunities for technological transfer and up-gradation, access to global managerial skills and practices, optimal utilization of human capabilities and natural resources, making indigenous industry internationally competitive, opening up exports markets, access to international quality goods & services and augmenting employment opportunities.

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