

# FOCUS on INDIA



## General information

India is a country of diverse ethnic groups, geographic character, culture and religion, with 16 official languages. The population (about 1,160,000,000) represents over 15% of the world's inhabitants. Occupying just 2.4% of the world's land area, it ranks among the highest population densities on Earth, with 1.6% annual growth rate. India's population is very young, as more than a third is younger than 15-years old, and more than half are under the age of 25, which is India's median age.

About 30% of the population lives in towns and cities, the remaining 70% live in more than 550,000 villages. Great distances separate the most populous cities, and they are mainly covered by the railway network, which is claimed to be the 4th largest in the world.

## Economy

Since 1997, Indian economy has been growing 7% on average, with 8.5% GDP growth in 2006, 9% in 2007, and 7.3% in 2008. This trend was supported by an increase in exports of average 26.4% in US dollars in the period 2004/05 to 2007/08. Foreign trade also increased from 23.7% of GDP in 2003/04 to 35.5% in 2007/08.

The main growth drivers were agriculture, services, manufacturing with an average yearly growth of 9.5% in the last three years, along with communication and construction sectors, which grew by 26% and 13.5% per annum respectively. Other factors contributing to keep India among the fastest growing economies despite the financial crisis are manufacturing expansion and export of software services thanks to a large number of skilled English speaking workforce.





Some fiscal packages were announced at the beginning of 2009 providing tax relief to boost demand and increase expenditure on public projects. However, according to a country briefing released by "The Economist", new stimulus spending combined with slower government revenue growth will make the Indian budget deficit reach 7.2% of GDP in fiscal year 2009/10 (April-March), and the forecast for the real GDP growth expects a decrease to 5% in 2009/10.

In spite of financial uncertainty and slowdown, FDI (Foreign Direct Investments) inflows during April-November, 2008 were US\$ 23.3 billion, recording a growth of 45% over the same period in 2007. The domestic investment rate as a proportion of GDP increased from 27.6% in 2003/04 to 39% in 2007/08. In the same period, gross domestic savings rate rose from 30% to 37.7% and tax to GDP ratio increased from 9% to 12.5%.

As regards the sectors of Indian economy, **agriculture and related**

**sectors** account for 25% of the GDP, employing almost 58% of the total workforce as the largest economic sector.

The **industrial production** has been constantly growing since 2002/03, with a top rate of 11.5% in 2006/07. The largest sector is the textile industry, followed by automobile sector supported by the strength of Indian labor and capital. Mining sector, manufacturing, and electricity, gas and water supply recorded growth rates of 5%, 8.8% and 7% respectively.

The **service sector** has the largest share in the GDP (54%), with communication, financial and trade services, community services, hotels and restaurants among the fastest growing segments, while Indian IT is expanding through internationally renowned companies in software engineering.



The services sector is supported by a relatively qualified workforce at lower costs as compared to western standards even if such outsourcing seems to have become less convenient than some years ago pushing the market to further develop other sectors such as high-tech research, designing and projecting activities.

## Foreign Trade

India has progressively increased trade with foreign countries, from about \$ 141,992 billion (2003/04) up to \$ 414,000 billion (2007/08). In this period imports were always higher than exports, reaching almost \$ 240,000 billion in 2007/08, an increase of 29% on the previous year, while exports grew by 26%.

In dollar terms, Asia & Asean accounted for 51.5% of India's total exports, followed by Europe (23%) and America (17%). India's imports were highest from Asia & Asean (62.5%) then from Europe (20%) and America (9%), during the same period.

UK is the main European market for Indian products, mainly oil, textile and machinery, followed by the Netherlands who increased imports from India by over 90%, 47% in oil and its derivations. Jewelry and textile are the main exported items towards important markets such as USA and Hong Kong. UAE and Singapore mainly import oil and derivatives from India, while iron accounts for about 50% of exports towards China (the third Indian trade partner).



Indian imports' composition mirrors the transformations occurring in the country's economy. Increased purchasing power changed some trends in consumers' demand, influencing many sectors of the industry. Industrial machines imports rose to \$ 45,175 million, an increase of almost 70%. The demand for quality products also pushed imports of electric and

electronic equipment, which registered an increase of about 30% rising up to \$ 20,650 million. Foreign Direct Investment registered \$19 billion in 2007.

## Market access

According to data released by the US Commercial Service, 71% of the Indian population is under the age of 35, and approximately 200 million people belong to a middle-income consumer group with increasing purchasing power. However it is important to keep in mind that about 40% of India's 1.2 billion people live on less than \$1 per day.

The greatest part of Indians lives in rural areas, but urban population is growing, and is expected to reach 410 million in 2011, concentrating on larger cities and metropolis. The increase in purchasing power for the urban middle class has not always been accompanied by an equal growth in rural markets, often claiming to have been "forgotten" in the



## Major economic indicators

		2005-2006		2006-2007	2007-2008
GDP (value)	Billion US\$	695.52	805.6	911.7	1,171.2
GDP (variation)	%	7.5	9.4	9,6	9,0
Private Expenditure	% of GDP	58.7	57.4	55,8	55,3
Public Expenditure	% of GDP	10.7	10.4	10,3	10,1
Gross Fixed Investment	% del PIL	26.1	31	32,5	33,9
Export	Million US\$	83,502	103,075	126,276	159,089
Export (var.)	%	30.7	23.4	22.5	26
Import	Million US\$	111,472	149,144	185,081	238,605
Import (var.)	%	42.5	33.8	24.1	28.9
Trade balance	Million US\$	-27,970	-46,069	-58,805	-79,516
Industrial Production Index (var.)	%	8.5	7.9	10.5	9.9
Inflation Rate	%	3.8	4.2	6.2	6.4
Exchange Rate 1 USD = INR	Rupie	45.3	44.1	45.3	41.3

Source: [www.ice.gov](http://www.ice.gov) (based on data collected by the Center for Monitoring Indian Economy, The Economist Intelligence Unit, Reserve Bank of India, Deutsche Bank).





country's efforts towards economic development. However, in latest years income and literacy levels have slowly been growing in rural areas too, as well as the availability of products due to the adaptation of distribution channels to serve the needs of the rural market.

Market access in India has in some cases been hampered as foreign companies overlooked the fact that, for many product categories, only a fraction of India's population can be regarded as potential customers, and having overestimated it, they were then disappointed with the results of their products' launch. Some major problems relate to the lack of a developed infrastructure that make distribution difficult, thus reducing demand for some products especially in rural areas. Moreover, local competition and the different attitude of Indian population towards spending are other factors to be examined together with sales channels and marketing practices.

As regards the degree of market openness, many tariff and non-tariff barriers remain, even if reforms introduced in the early 1990's have progressively reduced duties. Reforms are still widely needed in customs tariffs, tax system and entry barriers for business activities, especially concerning private investment in infrastructure. Appropriate tax reforms can positively affect the investment climate, as India needs higher foreign direct and institutional investment to improve the general business environment with spillover effects on technology, human capital formation and efficiency of resource use.

## ■ HEALTHCARE SYSTEM

According to the National Family Health Survey conducted by the Ministry of Welfare and Family Affairs, one-third of India's households are in

urban areas, and two-thirds in rural areas. The World Bank Report "India

- Private services for the poor" (2005) shows that poor are concentrated in rural areas in the north, where they are predominantly engaged in agricultural activities. On average, the poor suffer from higher disease prevalence, they are less literate and have less access to health facilities, clean water and sanitation than the general population. More than 65% of households belonging to scheduled castes and tribes live below the poverty line.

The Indian healthcare system is still affected by infrastructural deficiencies and great variation in the quality of care delivered.

Healthcare provision is based on an integrated network starting from sub-centers and progressively stepping to upper levels: primary health centers, community health centers, district hospitals and multi specialty tertiary care hospitals, providing different level of care to the population.

The primary healthcare system is based on the primary health center (PHC), targeted to cover a population of 30,000 (or 20,000 in remote or rural areas), PHCs are hubs for five or six subcenters covering three or four villages each, and they act as referral centers for the community health centers (CHCs), 30-bed hospitals, and higher-order public hospitals such as district-level hospitals.

The PHC's task is to provide a wide range of services, such as health education, nutrition promotion, basic sanitation, mother and child family welfare services, immunization, disease control, and appropriate treatment for illness and injury. Unfortunately, PHCs are not currently fulfilling all these functions, and most of the population in rural areas uses the services of unregulated and often unqualified medical practition-





ers, whereas local public facilities are often poorly equipped and understaffed, and moreover, some doctors neglect regular presence in the primary care centres preferring to operate in parallel clinics or practices in urban areas.

Some of the initiatives implemented by the National Health Policy, last formulated in 1983, have resulted in a general improvement of health indicators, especially concerning the consistent reduction of diseases such as Polio, Leprosy, Kala Azar, and Filariasis, while Smallpox and Guinea Worm Disease have been eradicated from the country.

There has also been a substantial drop in the Total Fertility Rate and Infant Mortality Rate. However, in several other areas the morbidity and mortality rates are still too high, immunization rates are low and uneven, and longer life expectancy has also increased the requirement for geriatric care. Moreover, wide disparities exist in health status among the different states.

Public health projects alone are not likely to significantly change the health conditions of the underprivileged masses. As private for-profit enterprise model is currently developing, private-public partnerships are seen as one of the possibilities to incentive healthcare provision and extend the benefits to larger shares of the population in the long term.

As the government expenditure on health remains low (total expenditure on health in 2006: 4.9% of GDP), private-public partnership could also boost investment in the sector to provide better facilities.

The role of the private sector is continuing to grow: according to World Bank data for early 2000s, facility surveys in various Indian states have estimated that the private sector includes as much as 93% of all hospitals and 64% of all beds nationwide.

The private sector provides the majority of health care in India for both outpatients (more than 80%) and inpatients (close to 60%). In the poorest states, the private sector is often the only alternative, as public is not functioning, while in the richest states, much of the population can afford and prefers private services even though government facilities do exist.

The most evident trend in private investment in healthcare regards the increasing number of top-quality hospitals and clinics offer a variety of services to Indian and foreign customers, boosting the medical tourism from USA and Europe but also providing high-standard healthcare services to the limited number (around 5%) of the Indian population who can afford private care.

## Indian Healthcare Schemes

According to a CSO and Citigroup Analysis (2008) medical expenses in India have nearly doubled since 2001. Rising healthcare expenses encourage individuals to buy health insurance.

Most of the people are living below average income in India, which is around Rs.2000 (\$50) per month. Below this threshold, free medical treatment is given to the people in government hospitals, but they are often understaffed and underequipped, and have limited hours during the day for the treatment. Some NGOS (non-governmental organizations) are working in almost all the hospitals that help the patients in buying some costly medicines.

Those wishing to have a public health insurance can address to various government agencies, but public funded healthcare is available only to a small section of population: the Employee State Insurance Scheme (ESIS) focuses on the public healthcare policy for low income groups,



while the Central Government Health Scheme (CGHS) offers medical treatment to government employees.

After the age of 50 some of the medical reports like Electro Cardiogram, blood reports, and chest x-ray have to be submitted to these agencies in order to decide the premium. However, most of the health insurance policies in India cover the medical expenses only for at least 24-hour hospitalization, and no reimbursement is given for the medicines that are consumed at home without hospitalization.

Most Indians are privately insured, usually opting for a group medical insurance policy, partially or wholly funded by the employer. Only a limited high income group has individual medical insurance.

The most expensive option is to have the insurance policy from the private organizations, with no restrictions as to which hospitals and doctors to use. It is more difficult to obtain health insurance policies after the age of 50 years, as more tests are necessary and many exclusions are specified in the policy.

Proper health insurance coverage is particularly necessary in India after the age of 55 years as the cost of medical treatment have gone up considerably in India during last few years.

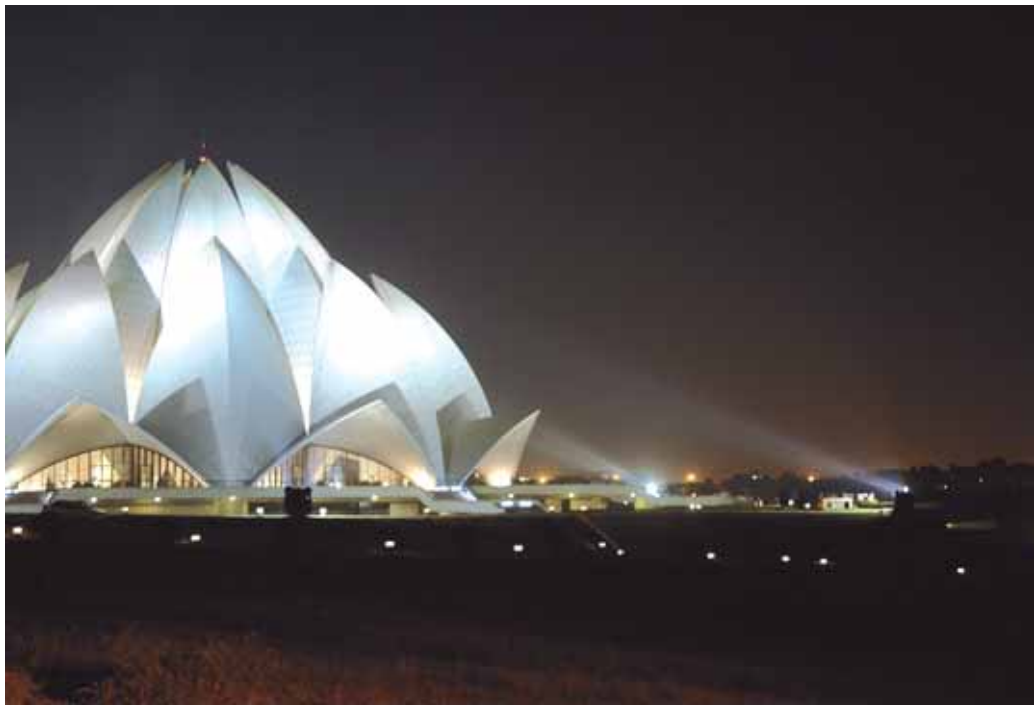
An insurance industry survey in 2008 points out that only 3% of the total Indian population enjoys coverage under healthcare policies. This small number constitutes both public-funded and private medical insurance. But the practice of buying medical policies is picking up. The health insurance sector has further potential to develop, and private healthcare system is also being promoted by tax deductions (benefits up to Rs.15, 000/- as premium paid to the Indian medical insurance policy).

## Healthcare industry

According to the World Health Organization, India spends almost 5% of its GDP on the healthcare sector. This figure should rise to 6% of GDP by 2012. About 50% of the budget is spent on curative and primary care and another 40% on secondary care, including medical specialists in major hospitals with expensive diagnostic equipment.

The remaining 10% of the market is left to preventive care programs and health education.

The middle-income consumers' group is increasingly requiring higher standards of healthcare and quality services, boosting demand for high-end medical devices and equipment. While primary care facilities and secondary care are fully managed by the government, tertiary care hospitals are owned and managed either by the government or private sector, so it is important to notice that the greatest demand comes



from private super-specialty hospitals, and this trend is expected to continue.

The demand for medical equipment is rising at a 15% rate p.a. The new specialty hospital facilities depend on the import of high-end medical equipment, accounting for over 65% of the entire market. To meet this increasing demand, several international companies have established manufacturing facilities in India.

The private sector's contribution to healthcare has been growing at a faster pace than government, and will be required to play a major role in investment for medical infrastructure and facilities upgrading. Currently, the shortage of hospitals and beds is particularly severe in rural areas, where two-third of India's population have access to only 20% of available hospital beds, while 80% of them is concentrated in the urban centers.

Some projections by the US Commercial Service forecast that a total investment of \$77.9 billion will be needed to add one million beds by 2012 and bring the bed to thousand-population ratio to 1.85.

Medical tourism is also fueling additional growth in the Indian healthcare sector, with an estimated value of \$450 million that is forecasted to reach \$1.48 billion by 2012.

## ■ DENTAL CARE

Since independence, India never had oral health status data based on uniform assessment criteria and it was a great problem in making assessment of the need of services for the policymakers.

There are about 40,000 practicing dentist in India, with 1,000 in dental implants and around 1500 in oral and maxillofacial surgery. Approximately 7,000 dentists are located in Mumbai and the agglomerated area. The dentist/population ratio is 1: 10,000 in urban areas and 1: 250,000 in rural areas.





About 270 institutes offer dentistry qualifications for 80,000 dental students in India, producing some 19,000 dental graduates/year and almost 3,000 specialists, and they require high-grade equipment.

Basic oral health education and simple interventions like pain relief and emergency care for acute infection and trauma are not available to the vast majority of population, especially in rural areas, considering also the fact that about 80% of dentists work in major cities. The uneven dentist/population ratio and the low priority given to oral health are some of the main reasons.

According to the WHO, the prevalent oral diseases are dental caries, periodontal diseases and edentulousness. Very little oral health care services are provided, but oral healthcare seeking behaviour is also very low, especially among the rural population.

## Dental Market

It is estimated that about 95% of Indian population can afford only very low quality dental care, mainly provided by street-dentists, but approximately 80% of Indians have never been to the dentist. On the other hand, a small 1-2% of the population is rich enough to access European-standard dental care, while a general 5% of the population can potentially afford to pay for some dental services. However, as incomes are growing for about 20% of the population, a middle class with as much purchasing power as European or US consumers – an estimated 200/220 million people – is shaping a new market whose reduced size (if compared to the total population) is compensated by the fact that this group of consumers is giving increasing importance to healthy teeth and dental cosmetics.

The Indian dental care services market is estimated at about US\$ 600 million and dental equipment and appliances market is around US\$ 90 million, with a yearly growth rate of 10% p.a. (2000-2007). Growth rates up to 20% are forecasted for the dental technology market in the coming years.

Foreign Direct Investment in the sector grew from US\$ 4,000 million in 2005 to about 12,000 million in 2007.

**Imports account for around 40% of the market volume. Major dental imports include:**

Dental furniture: US\$ 12 million  
Dental cements: US\$ 10 million  
Radiation apparatus: US\$ 8 million

Both the government and private sector hospitals are in the process of upgrading the facilities.

An increasing number of private clinics are offering a variety of medical services, but some of them are mostly oriented on dental care. Some financial investment groups are building hospitals with dental specializations, offering general dental care, orthodontics, endodontics, periodontics, oral surgery, prosthodontics and pedodontics. Currently, there are more than 10,000 dental clinics in India.

This rising number of private facilities is boosting demand for modern equipment, as they focus on higher-income Indian consumers and foreign dental tourists, often providing complete packages including lodging and restoration possibilities.

This form of dental care is becoming more and more important, considering that prices in India, such as implants, are around 70% lower than in Europe and USA. These clinics tend to require top-quality, high-tech equipment, and many include European doctors in their staff, not forgetting that a high percentage of Indian doctors either does or complete their studies in Europe or in the USA.

As the number of modern private hospitals is limited, they usually relate to a limited number of key decision makers constituting a chain that companies need to know and target correctly in order to present new products on this market and gain their own reputation in order to enter it successfully.

Several foreign companies are already investing in the Indian dental market by establishing their production units in cities such as Bangalore, New Delhi, Mumbai, Ahmedabad, exporting to developing countries such as China, Philippines, Africa. India is therefore becoming a manufacturing hub, supplying dental equipment and material (mostly dental units, furniture, laboratory materials) to less developed countries.

As regards Indian companies, the reduced number of competitors in the country is pushing them to establish or expand their production with more capillary distribution networks on the territory, with an eye to the development of an export business. Moreover, some Indian companies produce under license of a foreign manufacturer and also run a parallel activity as trade dealers and importers.



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