

ASIA-PACIFIC TRADE AND INVESTMENT TRENDS 2022/2023

*Foreign Direct Investment and Policies in the Health
Sector in Asia and the Pacific*





Asia-Pacific

Trade and Investment Trends 2022



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Asia-Pacific

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ACKNOWLEDGEMENT:

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Contents

Highlights.....	1
1. Introduction	3
2. FDI and Health: Literature review	4
3. Health sector FDI definition and trends	6
3.1 Health sector FDI trends.....	6
3.2 Mergers and acquisitions in the health sector in Asia and the Pacific.....	12
3.3 Country-wise health sector FDI trends in Asia and the Pacific.....	13
4. National investment policies in the health sector	17
4.1 Restrictive policies	17
4.2 Liberalizing policies	19
5. Policy recommendations for increased investment in the health sector	24
6. Conclusion	27
References	28



Highlights

- The ongoing COVID-19 pandemic has exposed the cracks in the current health sector. From 2019 to 2020, investment in the health-care sector dropped by 45 per cent and continued to decline in 2021 to 34 per cent in the first three quarters of 2022.
- Globally, greenfield investment in the health sector, from 2008 to 2021, fluctuated considerably, falling by 28 per cent between 2008 and 2012 and then increasing by 97 per cent to US\$ 24 billion by 2021. Global peaks and falls have been replicated in the FDI received by countries in the Asian and Pacific region, while the share of global inward FDI in the health sector in Asia and the Pacific has declined over the period.
- Greenfield FDI in the health sector in Asia and the Pacific was 49 per cent lower in 2021 compared to 2008. However, prospects for 2022 look better, with an increase of 78 per cent in the first quarter of the year, compared to the same period in 2021.
- On individual subsectors, between 2008-2021 in Asia and the Pacific, the pharmaceutical subsector attracted the highest amount of greenfield investment, US\$ 32 billion. It attracted more than twice the investment that went into the medical devices subsector, which was second (US\$ 20 billion). They were followed by biotechnology (US\$ 17 billion) and health-care subsectors (US\$ 10.8 billion).
- Prospects for the pharmaceutical subsector in Asia and the Pacific are subdued for the remainder of 2022, with a steady value of US\$ 96 million worth of greenfield investments undertaken in the first quarter of 2022 in the pharmaceutical subsector. For medical devices, however, the first quarter of 2022 witnessed a sharp increase in investments, reaching US\$ 1.2 billion. At the same time, the biotechnology subsector only reached US\$ 55 million. Investment in the health-care subsector in 2021 was also more promising, with an uptick reaching close to US\$ 60 million.
- FDI flows through cross-border M&As have been on a constant rise since the early 2000s, with the total value of projects increasing from US\$ 2 billion to US\$ 10.6 billion from 2001 to 2020. Most M&A deals in the region took place in the pharmaceuticals subsector – close to 2,500 between 2010 and 2020. This was followed by the health-care subsector and then biotechnology.
- Mergers and acquisitions in the Asia-Pacific region have been larger than greenfield investment for the health sector, where ownership of assets is valued, given the health sector's strategic importance in most countries.



- China was the largest receiver of inward greenfield FDI during 2008-2020, followed by India (US\$ 14 billion), Singapore (US\$ 9 billion) and Malaysia (US\$ 5 billion).
- Between 2008 and 2021, the United States was the largest investor in the Asia-Pacific region's health sector, making up 35 per cent of all health-related greenfield investments in the region. Switzerland, Japan, Germany and France followed the United States as the largest sources of investment. Together, those five countries accounted for 66 per cent of all health-related investments in the Asia-Pacific region.
- In terms of intraregional investors, firms from China, Japan, the Republic of Korea, Singapore and India led investments in the health-care sector in the region. In 2021, however, Asia-Pacific economies saw decreasing outward investment explained by the delayed COVID-19 wave, which hit the region in 2021.
- Investment policies in the region have varied widely and have not all been promotion-related. Ten countries in the region, namely China, India, Indonesia, the Lao PDR, Malaysia, Mongolia, the Philippines, Thailand, Viet Nam, and Myanmar, impose some type of entry restrictions (out of the total 70 surveyed by UNCTAD for WIR 2021). In terms of subsectors, health-care facilities and medical services stand out as the most protected.
- Many countries in the Asia-Pacific region have invested in the health sector as a core policy objective. Countries such as Sri Lanka, Brunei Darussalam, Bhutan, Timor-Leste and Thailand have prioritized FDI in the health sector.
- Certain key challenges exist in the region, such as the limited capacity of countries in the region to attract the quantity and quality of investment needed. These include poor regional and domestic investment ecosystems, the lack of capital, technology, skills, low regulatory capacity, and poor infrastructure and related services.
- Countries in Asia and the Pacific will need to create and improve an ecosystem of coherent policy and transparent regulatory institutions. In tandem, Governments will need to invest in skills development, technological capacity and health infrastructure relevant to achieving growth in the sector. Regional cooperation and political commitment to openness for investment will be crucial to helping economies build back better and harness the potential of FDI.



1. Introduction

The health sector has always been a core priority in most national development strategies. Ensuring access to health-related services and goods is a permanent policy objective for achieving the Sustainable Development Goals (SDGs). The ongoing COVID-19 pandemic has exposed the cracks in the current health sector, deteriorated access to health care, tested the resilience of global supply chains of medical goods, and put an unprecedented strain on national health systems. Through this, it has also highlighted the importance of investing more in health and creating stronger health systems.

The Asia-Pacific region has, since before the pandemic, considered investment in the health-care sector as imperative. However, declining flows into the sector and the added relevance from the pandemic has led to greater prioritization of the sector in terms of investment and promotion activities. From 2019 to 2020, investment in the health-care sector dropped by 45 per cent and continued to decline in 2021 to 34 per cent in the first three quarters of the year. Although investment promotion activities are essential in attracting the quantity and quality of investment needed, there are some key challenges that Investment Promotion Agencies (IPAs) will need to focus on for investment to create the maximum positive benefits. These challenges include poor regional and domestic investment ecosystems, lack of capital, technology and skills, low regulatory capacity, and poor infrastructure and related services.

Member countries will need to drive this effort in a number of ways – i.e., an improved policy ecosystem, investment in skills and harnessing digital avenues for growth. Regional cooperation and political commitment to openness for investment will be critical to helping economies build back better and to harnessing the potential of foreign direct investment (FDI). All this will require an understanding of the evolving investment trends and policies in the health sector in Asia and the Pacific, for which this paper provides a brief but comprehensive review.

The remainder of this paper is structured as follows. Part II reviews the linkages between FDI and health; Part III delves into the subsectors comprising the health sector, and the recent trends in FDI in the health sector in Asia and the Pacific countries; Part IV assesses the key policies currently affecting FDI in the health sector and the policy changes implemented in light of the COVID-19 pandemic; Part V proposes policy recommendations for increasing investment in the health sector in a sustainable manner; Part VI comprises the conclusion.



2. FDI and Health: Literature review

The literature has often framed the discussion on FDI and health under three broad and inter-related dimensions – access, quality and public-private competition. The main benefits of FDI in the health sector can be described as increasing access to health care by making more medical goods and services available in a country. The inflow of investment can increase physical capacity, alleviate supply shortages, and enlarge the scope of health services available in a country, while also contributing to more technology and medical knowledge. The increase in physical capacity and infrastructure can be particularly useful in developing countries that may suffer from under-investment in the health sector, while also potentially bringing in means of production that can replace expensive imports or fill gaps in the medical supply chain. FDI is often regarded as a crucial opportunity for countries' health systems that face constraints or difficulties in public financing since it frees up public resources that can be redirected to other urgent areas of need. FDI-induced income gains can further lead to higher private and public expenditure on medical care, which is often dependent on the ability to pay (Burns and others, 2017). This is also evident in Asia and the Pacific where a positive relationship was found in ASEAN between the level of FDI and health-care expenditures (Verma, 2021). FDI in the health sector is an essential factor in improving access to health and influencing the health expenditure capacity of a country. Empirical evidence of FDI enhancing access to health care is also seen in the least developed countries (LDCs), where the positive effect of FDI on life expectancy appears to be driven by improvements in adult health, as opposed to child or infant health. An explanation for this is that increases in wages for skilled labour and improvements in working conditions owing to FDI are arguably more relevant to adults than children, allowing them the necessary means to access health services (Burns and others, 2017).

Another benefit of FDI in the health sector is that it can lead to marked improvements

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