Chapter 16

Health Status and Convergence in Developing Open Economies: Is Health Status Converging in Developing Economies?

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ABSTRACT

This chapter delves into the relationship among different economic issues like economic growth, health status and international trade in the context of convergence literature. In this chapter we illustrate and provide arguments behind the convergence of health status in developing economies in the presence of open economy regime. In this respect we consider a panel data set of 17 developing economies of the time span 1960-2011. In the present study we have found convergence not only in measure of health care status but also in the measure of trade and openness and therefore we have dealt with such kind of complexities. Apart from these we have found that health status improves in the post liberalization period but cross-sectional divergence increases in post liberalization era.

INTRODUCTION

As the biggest industry sector in most emerging economies and in most developing countries, healthcare already represents a huge chunk of the gross domestic product (GDP). In recent years the importance of health sector as a potential engine of growth as well as for development for a developing economy like India has been argued by many contemporary economists. The health sector has shown a growth of 9.3% between 2000-2009, comparable to the sectoral growth of other emerging economies such as China and Brazil¹. The total value of the sector was more than $38 billion, about 5.1% of GDP. Indian Healthcare market is estimated to touch US$ 77 billion by 2013. Healthcare industry accounted for 5.1% of India’s...
GDP in 2006. The compound annual growth rate of Indian healthcare sector was 16% during the 1990s and is expected to grow at a compound annual growth rate (CAGR) of 15% over the next 15 years. It is also expected to generate employment to 9 million people in 2012. This growth will create significant issues for employment and opportunities to grow businesses and economies in general. Globally, all health economies face similar challenges in terms of rising costs, clinician shortages and demographic shifts, as well as quality, access and safety issues. Additionally, new consumer technologies promoting greater patient power are creating fresh challenges and opportunities. Government financial incentives and regulations will make automation in healthcare practices a must. There is also an increasing need for hospitals to achieve cost efficiencies and provide evidence of effective use of information technology in healthcare practices. Action is required at all levels to change the way healthcare is delivered, and how it uses IT. New health IT systems must offer: software that supports the core medical processes, hardware that allows easy access to information at the point of care, and standards that make it easier to integrate different systems. The ability of governments to pay for healthcare is a continuing challenge.

**Challenges are Faced by the Emerging and Developing Economies Regarding Health Facilities**

Among the significant challenges facing the healthcare industry are:

1. Macroeconomic factors like aging populations or insufficient public funding are challenging both receivers and providers of healthcare,
2. Even as demand increases, there is a global shortage of clinicians, both doctors and nurses,
3. In the face of unprecedented shifts (aging populations, low birth rates, changing family structures and migration), policies must be reviewed and adapted to ensure sustainable public finances for pensions, healthcare and long-term care,
4. As demand and spending increase, health economies increasingly need to balance ease of access to their services against the cost of operating smaller hospitals,
5. Quality of care is increasingly important as patients begin to exercise their right to choose how and with whom they engage for their healthcare, and demand transparency of data and care processes. Patient safety is the major focus of patient advocacy groups and healthcare leaders,
6. To address the needs of the expert patient, and to start the transition of healthcare to a demand-driven model, some of the world’s leading hospitals are placing the patient firmly at the center of everything they do,
7. The cost of developing new drugs is increasing. From the scientifically intense discovery of new compounds, early stage development and pre-license clinical trials, to data capture, submission to regulatory bodies and even late stage development related activity is proving more expensive. To add to the pressure, regulatory bodies insist on “seeing” the benefits and cost-effectiveness, more than ever,
8. Health economies and insurance companies, themselves under financial pressure, are driving cost savings in their drugs bills. Faced with budget pressures and evidence of cost inefficiency, all OECD countries have introduced healthcare reforms or are planning to do so in the near future. While the direction of reforms has not always been the same in all countries, these reforms aim to provide better means of dealing with such issues as the evaluation of new technologies, aging populations, pharmaceuticals and cost-sharing by health consumers. With continued growth in other
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