

Opportunities and challenges in pharmaceutical industry in China

Today, with the last decades' economic improvements in China, the population has reached a higher life expectancy. The overall level of health is becoming better. However, China has the largest population in the world, and 22% of it is above 65 years old. Such aging population and a number of chronic diseases are becoming a real challenge in China. Its central government has devised the "Healthy China 2030" plan in order to improve the overall health of China's population. 2018 was an important year in China's pharmaceutical industry. In order to reach a sustainable development in the this industry, Chinese government is reforming from all sides including: more drugs in social insurance list, removing customs duties for certain imported drugs, encouraging more innovative drugs, simplifying the drug registration procedure and approval process, etc.

Updating the National Reimbursement Drug List (NRDL)



The Chinese government is finding more high-end drugs that could be included in the reimbursement list. In 2017, 36 additional drugs were added to the NRDL. It means that China's national insurance is covering more and more drugs, which allows Chinese patients access more expensive treatments, especially innovative drugs and bio-medicines.

According to Deutsche Bank, thanks to the new approved drugs, the sales of the top-20 global pharmaceutical firms improved by 18% in the first quarter of 2018, year to year ⁽¹⁾.

However, sales revenues for those drugs have not increased as much as their volume, because of price pressure. Prices have decreased by 40% in average ⁽²⁾.

Reducing customs duties

In 2017, China spent around 122.6 billion ⁽³⁾ US dollars on prescription medicine only. According to China News, expenses on healthcare industry accounts for 7% ⁽⁴⁾ of Fiscal Expenditure. Although purchasing power of Chinese people has increased, they are still not able to afford many expensive drugs.

Starting from May 1st 2018, the Chinese government reduced the customs duties to zero for all imported anticancer drugs ⁽⁵⁾. The objective was to satisfy domestic demand of high-end original drugs and to accelerate imports of innovative drugs and originator drugs. By October 2018, the total pharmaceutical import had reached 24 billion dollars.

Improving and simplifying the drug registration procedure and approval process

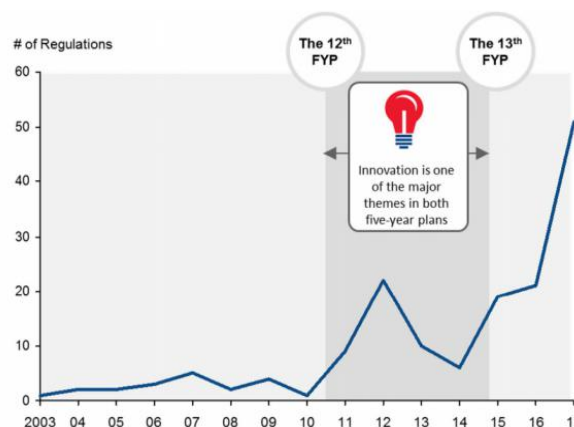
At the end of 2017, Chinese government published draft laws to streamline the registration procedure of drugs. These documents focus on simplifying the clinical studies in China, unifying Chinese drug standards with international ones, and accelerating drug approval process. Although the implementation is delayed because of other governmental restructuring, we still believe that a quicker and simpler procedure will undoubtedly be good news for foreign pharmaceutical firms active in China.

Encouraging innovative drugs

Since 2018, thanks to government supporting regulations, most of the leading pharmaceutical enterprises are investing more and more on Research & Development.

According to the statistics of 224 pharmaceutical manufacturing enterprises listed with A-share, the R&D expense of each of top ten

companies has exceeded 300 million yuan in the first three quarters in 2018, among which two enterprises spent over than 1 billion yuan on R&D⁽³⁾.



Source:CNKI, L.E.K research and analysis

Foreign pharmaceutical companies in China

In China, domestic companies and foreign ones are sharing the market of pharmaceutical industry. According to McKinsey's report (collaboration with Chinese Pharmaceutical Association [CPA]), foreign companies are taking an important share of the market⁽⁶⁾, especially in first-tier cities and 3A (Class Three/Grade A) hospitals. But their market share experiences a slight decrease since 2013. However, the situation turned up better in 2017. The top-10 companies

with highest sales revenue, count 6 foreign ones (including Pfizer, AstraZeneca, Sanofi⁽⁷⁾) for 4 domestic ones.

Potential of market for foreign firms

Since 2018, the number of the foreign investment projects in the pharmaceutical industry has increased to 110. By October 2018, the total capital invested was 1.06 billion US dollars⁽³⁾. Earlier in October, the central government of China mentioned again the implementation of more proactive opening strategy, such as promoting and encouraging the landing and expansion of foreign investment project, vigorously protecting intellectual property rights. These are surely good news for those foreign businesses who are interested in Chinese market, as well as those who are already here. During the China's International Import Expo(CIIE) in November, the government emphasized the importance of a few key industries, including healthcare. Foreign investors in these key industries will be encouraged to enter.

Suzhou International Medical and Health center in Xiangcheng district

Today, many global and domestic pharmaceutical leaders settled their factories, offices and laboratories in Suzhou: such as Pfizer, Roche, Novartis, WuXi AppTech etc.

Suzhou has a mature ecosystem in the sector, which is attracting more projects to set up here. Suzhou Bio-Bay, located in Suzhou Industrial Park, a bio-tech accelerator is creating supporting start-ups who have potential to success into global market.



Another project has been planned by government of Suzhou-Xiangcheng. This 9.6 billion RMB investment project is located in the North of Xiangcheng district, Suzhou. It will include a specialized cancer hospital, a medical education and training center, a health and nurse service center, a medical

R&D center, and talent supportive facilities. This project is a collaboration with several leading universities and institutions, such as Washington University, Hopkins University, Chinese academy of Medical Sciences Institution, etc. The construction is scheduled to start around June 2019.

China is on the way today to shift from a low-cost manufacturing to high-end innovation, especially in pharmaceutical sector. The central government put out WWW.EUSINOBC.COM

"Made In China 2025" plan, including biopharma and high-performance medical products. They encourage companies to focus on and invest in innovative drugs and R&D bases etc.⁽⁸⁾ China is creating a better innovative ecosystem in the healthcare sector. In the short term, all the supporting policies seem positive for the foreign pharmaceutical companies with technologies, but in long term, these will also support China's domestic companies to compete with global companies. China still has a long way to reach "Made In China 2025", and foreign businesses need to think about how to face these challenges and turn them into an opportunity for themselves.

EU Sino, cooperates closely with Suzhou Xiangcheng government to help foreign businesses to land and expand here. We aim to create an EU-China ecosystem and to help foreign business to set up and grow quickly and smoothly. If you have any question about healthcare sector or if your company wants to expand in China, please contact us freely.

Resources:

(1) China is sprucing up its pharma sector <http://www.tianfateng.cn/17591.html>, 1st September 2018

(2) China Pharmaceutical Report by Mckinsey, October 2018, Page 15

(3) EMBA: <https://mp.weixin.qq.com/s/OK-liB7IN3MU5CywNrHFMw>, 17th December 2018

(4) China News: <http://www.chinanews.com/cj/2017/02-22/8156983.shtml> 22nd February 2017

(5) State Council: http://www.gov.cn/guowuyuan/2018-04/24/content_5285336.htm, 24th April 2018

(6) China Pharmaceutical Report by Mckinsey, October 2018, Page 3

(7) China Pharmaceutical Report by Mckinsey, October 2018, Page 4

(8) China's Healthcare Innovation by Made in China 2025 and Implications for MNCs, by L.E.K Consulting, July 2018, Page 3