India & China can complement each other in pharma space

11 July 2008 | News

Image not found or type unknown

India & China can complement each other in pharma space

There lie huge opportunities for India and China to make most of the global outsourcing pie in the entire pharmaceutical value chain. It depends on the way the two nations create new competencies and leverage existing competencies globally.

Shivani Shukla Raval, industry manager, healthcare practice, Frost & Sullivan

It all began in China, when the whole world looked in awe as the Chinese economy began to take off in the 1980s as the country positioned itself as a global economic power. China leveraged its immense domestic savings to develop infrastructure and invested large amounts of foreign money to build large scale manufacturing capabilities.

India started its journey towards economic transformation about a decade after China but has proven itself more than a match for the larger country by creating world renowned knowledge based industries like software, IT services and pharmaceuticals. In fact, India is lately grabbing a lot of attention due to a robust financial system and liberal government policies.

Today, these two developing economies are slowly accumulating power, weight and dynamism to transform the 21st-century global economy. The world is now witnessing a simultaneous, sustained and synergistic takeoffs of two giants that together account for one-third of the world's population.

What makes these two countries especially powerful is that they complement each other's strengths. An accelerating trend is that technical and managerial skills in both China and India are becoming more important than cheap assembly labor. Hence, China is dominant in mass manufacturing, and is one of the few nations building multibillion-dollar electronics and heavy industrial plants, while India is a rising power in software, design, services, and precision industry.

Given their own unique strengths, both the countries are set to be amongst the top three economies in the world in the coming decades.

Pharmaceutical industry dynamics between India & China

India and China have benefited a lot from the attention of the global pharma industry both in terms of the vast domestic opportunities provided by these two countries as well as the outsourcing boom Indian pharmaceutical industry: The pharmaceutical industry in India is one of the fastest growing sectors. The industry has achieved global recognition as a producer of generic products and low-cost high-quality bulk drugs and formulations. Majority of the leading companies have established market presence in more than 200 countries, which also includes the US and major European countries. The year 2005 saw India entering the product patent regime. During the transition phase, domestic pharmaceutical companies, which grew by reverse engineering, started focusing on innovative drug development. Top domestic pharmaceutical firms are investing 10 to 12 percent of their revenues in R&D. At the other end, as India has TRIPS compatible IPR norms, multinational pharmaceutical companies are gradually entering India either directly or through alliances. The advent of the product patent regime, has also led to an increasing number of innovator drugs being launched in India Apart from growth in the domestic market, to take advantage of the global generic opportunity, and to assert their global competitiveness in terms of cost competitiveness and availability of skilled manpower, Indian companies are on an aggressive ANDA filing spree and getting their manufacturing facilities certified by International regulatory authorities. Currently, India has the highest number of USFDA approved facilities outside the US, which in turn serve as global low cost, outsourced, drug manufacturing hubs for international companies. Global MNCs are also looking to outsource their research and product development needs to India. Multinational companies have established their subsidiaries in India with an endeavor to market drugs and conduct low cost clinical trials. Indian pharmaceutical research, manufacturing, and outsourcing have thus received an impetus, thereby, creating an image of an immensely potential healthcare market and a land of opportunities in pharmaceuticals.

Macroeconomic dynamics between China and India		
Parameters	China	India
GDP (PPP), 2006	US $10.0 Trillion	US $4.042 Trillion
GDP per capita (2006, PPP)	US $7,593	US $3,700
GDP by sector (2005 estimate)	Agriculture:12.6% Industry:47.28% Services: 40.26%	Agriculture: 19.9% Industry: 19.3% Services: 60.7%
GDP Growth Rate	10.7%	9.2%
Population	1.3 billion people	1.095 billion people
Labor force by occupation (2006 estimate)	Agriculture: 45% Industry: 24% Services: 31%	Agriculture: 53% Industry:14% Services:33%
Labor force (2006 estimate)	798.1 million	509.3 million
Inflation rate (2005)	2.8%	5.3%
Source: Frost & Sullivan		

Currently, Indian companies are spending less than 7-10 percent of their revenues in R&D, while this percent is as high as 18.0 percent for multinational pharmaceutical majors. However, the increasing realization of potentials in pharma R&D is moving Indian pharmaceutical industry to a more research-driven business strategy. Companies such as Dr Reddy's Laboratories and Nicholas Piramal are successfully setting the standards for other Indian companies. There is also an increase in collaborative outsourcing to India. The number of international pharmaceutical firms with a research presence in

India have increased significantly during the past five years.

Chinese pharmaceutical industry: Today, the Chinese pharmaceutical market is growing with impressive double digit pace. A rising activity in the Chinese life sciences arena has been reported with the increasing high-level support from the government. The thriving generic and bulk active drugs market continue to be the mainstay for the Chinese domestic drug industry with an estimated 90 percent of the drugs in the market being generics. The Chinese pharmaceutical market is highly fragmented with thousands of small pharmaceutical companies involved in manufacturing one or two generic drugs. Quality control concerns and cost concerns are also present among the manufacturers in China. These led to increased supervision from the government to maintain the quality of the pharmaceutical products. Also, with the increased interference from the government, a gradual shift from generic to innovation led to the development of contract research markets, which resulted in increased partnership with multinational pharmaceutical companies and other bodies. The inherent limiting conditions prevalent in this country have curbed the Western firms from full capitalization on R&D potentials. Chinese pharmaceutical companies are now striving to adopt a research-oriented business model. The market for traditional Chinese medicines (TCM) is huge in China with over 1,000 companies competing for the market share. The technological developments and also the drying

output from Western R&D have fueled the development of Western medicines based on TCM principle. Although there are burgeoning efforts from Chinese pharmaceutical companies to innovate and sustain in the competitive environment, a further increase in R&D investment is required for the active innovative Chinese industry. Major pharmaceutical companies such as Hoffmann La Roche, GlaxoSmithKline, Eli Lilly and Pfizer have established joint ventures and wholly owned subsidiaries in China.

However, sales in China for these companies account for a small portion of their global sales. It is not only the pharmaceutical companies that are trying to establish R&D and manufacturing operations, but a number of international CROs are also trying to establish offices in China. It is reported that clinical research expenses in China can be as low as one-tenth than those in Western countries. However, the legal challenges for drug approval are the most limiting factors for pharmaceutical companies. CROs are capitalizing on this issue by providing local expertise for pharmaceutical companies to steer through the complex Chinese legal system.

Reasons for the increasing outsourcing boom

Today, a growing list of pharmaceutical companies is examining the opportunities in low-cost Asian countries such as India and China.

Over the years, India and China have been the subject of many debates, and comparisons. Both the countries have their own set of strengths and weaknesses, some shared and some unshared.

Seen from a competitive angle, India and China are the biggest rivals. But from a collaboration perspective, these two emerging economic giants have much to offer each other. There lie huge opportunities for India and China to make most of the global outsourcing pie in the entire pharmaceutical value chain. It depends on the way the two nations create new competencies and leverage existing competencies globally.