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Dragon or the Tiger?

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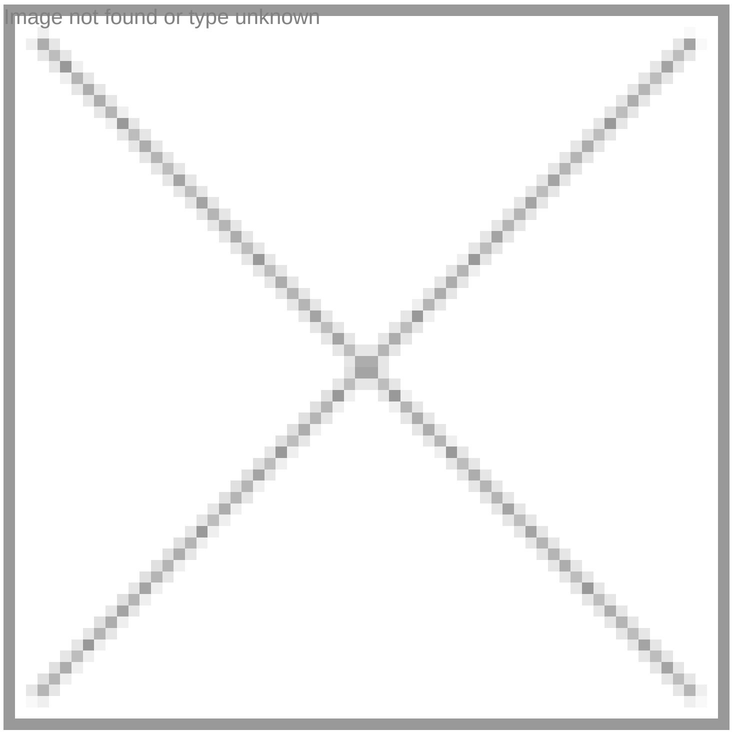


Dragon or the Tiger?

With their phenomenal growth and economic success, India and China are racing to become lucrative pharmaceutical markets for global players

Though there was a difference of a decade when their economic transformations took place and despite their different approaches to economic growth, Asian giants, China and India are now standing shoulder-to-shoulder with each other, have identified and cashed on to their strengths and now emerged to become conducive markets for big-wig pharmaceutical MNCs.

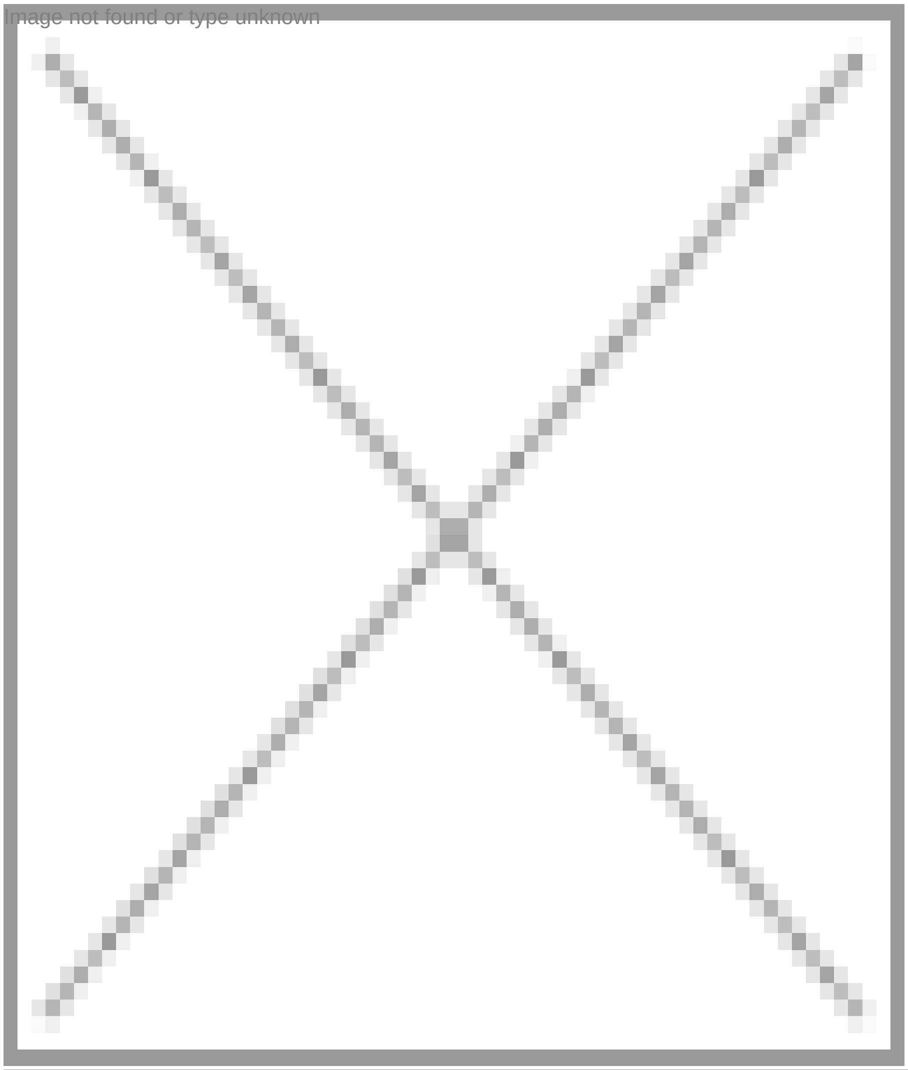
Much of it arose from economic transformations in the respective nations. While China rose as a powerhouse only after it opened its economy to the world in 1980, economic liberalization ushered into India only after 1990 when the then Finance minister, Dr Manmohan Singh threw away the shackles of the License Raj and opened up the economy to investments and growth. While China cashed on to its state-of-the-art manufacturing facilities and huge reservoir of manpower, India cashed on to its huge amount of investments pouring into the IT and knowledge-based industries and made use of its huge pool of skilled, knowledgeable and English-speaking human resources. A Mckinsey Quarterly clearly mentions, that post 1980, China grew at a lightning speed and pushed forward its GDP growth on the basis of its manufacturing industry. GDP growth had increased to 9 percent in 2003 from 8 percent in 2002. It used its domestic savings to build its infrastructure and attracted foreign investment to build factories and the expertise. The Indian story is all the more phenomenal. On the basis of its world-class knowledge-based industries GDP growth leaped from 4 percent in 2002 to 8.3 in 2003. This had its ripple effects on the pharmaceutical sector.

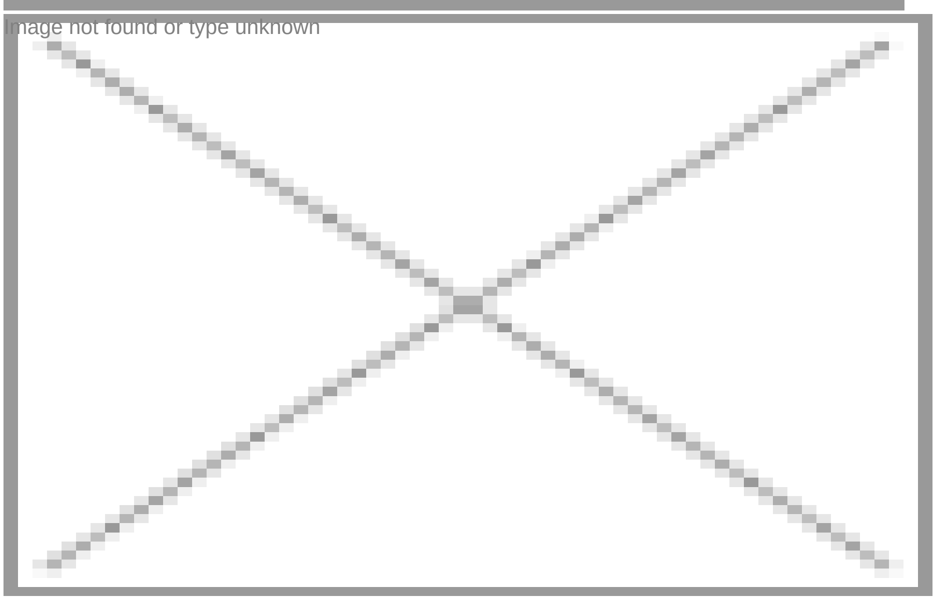
In the pharmaceutical sector, China is big as far as APIs are concerned while Indian companies are cashing on to its service sectors. However, while the world looks at these two Asian countries as cut throat competitors, the strengths of these countries also complement each other and both these countries can work in completion as well as collaboration. They can contribute a lot in changing the market dynamics of the global economy, predict analysts.

Market dynamics

The differences and common factors together have contributed in placing these nations as the emerging pharma markets. There a lot of commonalities as far as their growth history are concerned. Around one-third of the world's population comes from India and China alone. In China, the figure touched 1,292.27 million at the end of 2003, according to the "Statistical CommuniquÃ© on National Economic and Social Development in 2003" published by the National Bureau of Statistics and reached 1.3 billion in 2006 according to Frost & Sullivan report. The same report states that India, on the other hand touched a figure of 1.095 billion in 2006 up from 1.064 million in 2003. This burgeoning population coupled with a rise in the middle class (along with a rise in disposable income) in both the countries have led to a demand in healthcare facilities and access. Both the countries have witnessed a sharp rise in lifestyle diseases with India becoming the diabetic capital, leading to demand for low-cost and quality products. Both the countries have realised that the solution lay in generic products thus emerging as top generic markets in the world.

As far as the total GDP growth is concerned both have witnessed a consistent growth rate of 8 per cent and in the pharmaceutical sector alone they have witnessed a growth rate of 12-13 percent. In addition to this, an increasing cost for research and trials in the west has led to a shift in investments in the east. A KPMG report further states that developing an innovative new drug, from discovery to worldwide marketing, now involves investments of around $1 billion, and the global pharma industry's profitability is under constant attack as costs continue to rise and prices come under pressure. It is primarily for this reason that China and India today have over the years have become the epicenter for outsourcing and R&D activities from big pharma companies. But an important point to bear in mind is that both these nations have churned out not just cheap labour but high skilled technical manpower for which they attracted foreign investments in drones. Domestic pharma market of both nations have been increasing at a rapid pace. The Chinese market in particular, has a strong local market. API manufacturing, DMF and ANDA filings are on the rise here. Both Chinese and Indian companies have had a US and EU API presence. International trade statistics of both these countries show that the US has been their favourite destination for exports.





Differences

The stark differences in both the markets have culminated in both these nations posing as arch rivals in the pharma market. China has the maximum number of API developments while India's forte has been DMF and ANDA filings (with the exception of Ranbaxy which has a strong API presence). The world today looks at China for low cost APIs plus there have been greater foreign approval for APIs. For instance, Chinese pharma company, Zhejiang Hisun had exported 80 percent of its APIs in

2006. The company also has a strong API presence in statins and anti-cancers. "China is into API because they have a huge manpower base and an excellent manufacturing base," said Shivani Shukla Raval, industry manager, healthcare practice, Frost & Sullivan, South Asia and Middle East. A comparative study revealed that between the year 2003-2005, India had the edge as far as the DMF trends were concerned. In 2003 compared to China, India had a little less than 150 but by 2005 it crossed 250. China's figure was somewhere less than 50 in 2003 and went a little over 50 by 2005. Ranbaxy in 2006 had around 50 ANDA filings; Aurobindo filed approximately 40 in the same year.

Increased government role has a major influence in recent developments in both the countries. The Chinese government takes a keen role in deciding on the course that companies should take, the funds and is open to foreign investments. China has a strong manufacturing base today only because the government strongly supports it takes an active role. In India, companies have emerged either because they were family owned or from the sheer spirits of entrepreneurship without much government support. In India, there is an urgent need for Public-Private Investments (PPI).

The biotechnology industries in both the countries are coming up in a big way. However, experts opine that China has the edge over India with the Chinese vaccine market bigger than India. China is the largest vaccine manufacturing country in the world today. It attributes its fast growth to the outbreak of SARS in 2003, Avian flu and the spread of Hepatitis B in China. Currently China has more than 30 vaccine manufacturers who have the ability to make 41 vaccines to prevent 26 viral diseases and is producing eight of the world's top ten genetically engineered drugs or vaccines. Chinese companies active in this space include many of those involved in biogenerics such as Sinovac Biotech; Beijing Tiantan Biological Products Co Ltd ; Shenzhen Neptunus Interlong Biotech; and others such as Changchun BCHT Pharma; Anhui Biochem Pharma and Changchun Changsheng Life Sciences. The biotech industry in India is at a very nascent stage and was estimated to be $1.45 billion in 2006. It has registered a growth of 37.42 percent in 2006. The biopharmaceuticals sector in India is valued at just over $1 billion. The biotech industry in India is expected to grow to $5.0 billion in 2010. The industry comprises mainly pure biotechnology companies and big pharma companies who have ventured in biotech. Exports accounted for 51 percent of the total sales of the Indian biotech industry in 2006.

India pharma rules the roost with as long as the services is concerned. "We are now outsourcing manufacturing, have become service providers for MNCs and are tying up with them for CRAMS. As a result, profitability of these MNCs has increased with their saving going up their margins so much that they are now setting up manufacturing bases in India. Their thought process is that if the service segment in India is that great why not set up our own manufacturing centers and manufacture products at a cheap cost and the under-utilized segment can be used it for contact manufacture," added Shukla. China on the other hand, needs to improve on the management and services side.

China has also taken steps in Intellectual property (IP) rights. Utkarsh Palnitkar, partner, Ernst & Young, elaborated, "China has taken a series of steps in 2006 toward boosting the confidence of foreign multinationals in the country's commitment to IP security, including, establishment of the Judicial Court of Intellectual Property, the stated intent of China's State Intellectual Property Office (SIPO) to complete a National IP strategy by 2007. Again in March 2006, the Chinese government announced the establishment of a new civil court, which will handle piracy on a national level. The judicial court of Intellectual Property, which will operate under the auspices of China's Supreme Court, will hear IP lawsuits filed by local and foreign multinational companies." This has but been a catalyst for MNCs coming into the country.

India has a different story to tell. "The industry has turned a new leaf with the adoption of a globally harmonized patent regime in 2005. The domestic industry has evolved substantially and transformed itself from a reverse-engineering led industry; focused on the domestic market, to a research driven, export oriented industry with a global presence," added Palnitkar.

While Indian companies have appeared in news headlines for their aggressive foray in regulated markets and emerging economies, the past five years have seen a lull in deals struck by Chinese companies. While China has been facing tougher environmental and regulatory standards within the country, companies here has also been facing difficulties are far as meeting of global regulatory standards are concerned. They need the experience and expertise in this arena. Experts also opine that Chinese companies look into short term, rather than long term profits, which gives India the upper hand. Their inadequate implementation of IP regulations also weakens their relationship with western companies.

Collaboration

However, both the nations can come together and work in collaboration. Future years will see the US generic markets becoming more competitive leading to lower returns, focus on niche products and consolidation. India and China can work together to meet these demands. Basic research is one area where both the countries can collaborate and work since foreign companies are off shoring their research activities.

Human capital has been a strong asset for both the nations. Both the nations have an enormous scientific pool. India tops the list as far as outsourcing is concerned and China is slowly catching up. "China is looking into investing in services and looking at outsourcing opportunity areas. So the gap is slowly being reduced. We have Chinese executives going to English speaking classes and hence globally they now acceptable both in terms of language, skill and culturally," added Shukla. China on the other hand, has benefited from a large number of qualified US and Chinese chemists. A collaboration between the nations can lead to an exchange of knowledge skills and cross exchange of this huge pool of scientists.

Generics being the forte for both countries, India and China will bring in a host of low cost generics. With India's strength being formulations and China's being APIs, a collaboration between the nations can gear them up to compete with other nations. Reports also suggest that nexus between both the nations will also see a strengthening in APIs and formulations. Biogenerics is another area where both nations can contribute big time with a number of blockbuster biotech products due to go of patent. China is number one in the area of vaccine development. Today China is the world's largest producer of vaccines. China also has expertise in gene therapy and stem cell research. A system of collaborative R&D between the two countries in these areas will be of mutual benefit. China has established a large number of profit oriented research and development institutions, which are today independent of government funding in contrast to institutions in India, which are mostly dependent on government funding. This is an area where India can collaborate with and learn from China. Also, faced with opposition in many countries, western pharma companies are shifting pre-clinical testing to China in a big way. Animal testing is not a political issue unlike in the US, Europe or India. China is the world's largest supplier of monkeys and canines. Plus India has a booming contract research market. Keeping this in perspective, both the countries can get maximum advantage in clinical trials. India has a strong base as far as marketing their brands and products are concerned, which China can learn.

With the focus gradually shifting to these two Asian markets, the coming few decades definitely belongs to India and China in the pharma sector.

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