Press Cutting

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East offers prescription for west's growth plans
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Pharmaceuticals

News analysis

Companies are looking to China for more than just sales opportunities, says Andrew Jack

So many western drug companies have set up offices in Shanghai's science park in the past few years that their employees now even have a lunch venue named in their honour: the Pharma Valley Restaurant.

While Chinese companies remain focused on their domestic market, its presence symbolises that foreign rivals are just as interested in local investment.

"No western CEO can afford not to have a China strategy," says Xun Zhang, senior vice-president at Hutchison MediPharma, part of Hutchison Whampoa. Last month, he hosted a delegation of top executives from Merck in the US, which seeks to understand and expand in the market.

Chinese authorities are fostering a broad range of activities, from low-cost local production and clinical trials to more fundamental research.

For many, the greatest appeal is sales. IMS, the healthcare consultancy, estimates China will overtake France and Germany as the world's third-largest prescription medicines market after the US and Japan in 2011. AstraZeneca alone now has local sales of more than $1bn a year.

The interest reflects China's size and growth; the rise of the middle class - and a population beginning to age - with an ability to pay "out of pocket" for medicine; and the expansion of state health insurance to fund costs in urban and rural areas.

Western companies have been tempted by strong sales of their older medicines, as well as a willingness by the Chinese authorities to authorise western prices for innovative drugs.

The policy partly reflects a desire to encourage technology transfer, and companies have been encouraged to match commercial expansion with local manufacture. Last year, GlaxoSmithKline pledged £27m ($42m) in a joint venture with Jiangsu Walvax Biotech for paediatric vaccines; and £21m for flu vaccines with Shenzhen Neptunus.

But it and others have also committed to research and development. In the past, that meant clinical trials, with recruitment of increasing numbers of Chinese patients driven by both relatively low costs and regulators' demands for data showing efficacy and safety in their own citizens.

More recently, they have invested in earlier stage research, capitalising on government investment in medical and scientific institutions, a surge in Chinese-born "returnees" from the west, and strengthening intellectual property laws.

Novartis last year pledged $1bn for its Shanghai research centre by 2015.
Gaps remain though. Steve Yang, head of Asia R&D at Pfizer, who returned to his homeland after leaving China in 1989, says his Shanghai operation specialises in chemistry, biology and data programming and management.

"If you compare us with a typical integrated site, we don't have enough critical mass or talent yet," he says.

James Li, a partner at Kleiner Perkins Caufield & Byers, the venture capital firm, argues there is still a lack of translational research from universities, "with lots of funding going from government to nonviable projects".

Others say Chinese regulators remain slow. And annual staff turnover is high, adding to the costs of recruitment and training, and fear of loss of know-how. That spurred companies to agree a code of conduct to limit "poaching".

Some analysts believe rising costs of healthcare and intensifying competition will cut drug prices. "We need to move from the use of good drugs to the good use of drugs," says Zhang Wei from the China Europe International Business School. The authorities are discussing creating a body like the National Institute for Health and Clinical Excellence, the UK government's adviser on cost as well as clinical effectiveness of treatments; and seeking to overhaul the current system, which allows hospital pharmacies to charge large mark-ups on drugs, creating an automatic incentive for over-prescription of expensive medicines.

But David Levy, head of healthcare at PwC in Beijing, cautions that restructuring would require alternative ways to generate funding, and the risk of social discontent if things goes wrong. "I don't think things will change too much in five years," he says. "It's too big."

The hope within the industry is that by then, more efficient and integrated companies will have started to emerge. George Baeder, a partner with Monitor, a consultancy, predicts: "China will reshape the global pharma industry, creating a model valid for other markets offering good quality medicines at very affordable prices."