Indian Pharma in China and the US: A Tale of Two Countries

The US$ 21 billion Indian pharmaceutical industry has increased its share in the global markets over the past decade. Exports have grown by a CAGR of 21% over the last three years to reach US$ 7.8 billion in 2008-09. Recent reports expect India to be amongst the top 10 global pharmaceuticals market by 2015.

However, the success of the Indian pharmaceutical industry has not spread evenly across the globe. Its presence in the Americas and West Europe has remained steady, while it has grown impressively in Russia and the CIS countries. China and Japan still remain captive markets for Indian pharmaceutical companies.

The Case of the Chinese Conundrum

Indian pharma companies, although aggressively tapped various drug markets in the last two decades, have not been able to break the China puzzle. The reason: strong barriers for market access, longer time to build commercial infrastructure and difficulty in competing with Chinese players on cost. So, the Chinese drug market, which is predicted to become the world’s third largest after the US and Japan within two or three years, has remained largely elusive to the Indian companies.

Some of the big names of the Indian pharmaceuticals like Ranbaxy, Dr Reddy’s, Lupin and Orchid have all forayed into the Chinese market with mixed results. Ranbaxy, the earliest entrant into China, set up a Joint Venture (JV) in 1993 but divested its stake in December 2009 even after launching more than 40 products in China. Orchid Chemicals and Pharmaceuticals, in another case, have not made headway even after seven years in the Chinese market.
Some of the prominent market access barriers that companies face in China relate to excessive government regulations and the language issue. Many overseas companies find it difficult to sell products without a local partner. Finding a trustworthy partner and setting up distribution networks in the highly fragmented and regulated Chinese market is a tough challenge for global generic players as well as mid-sized foreign pharma companies. There are about 3500 domestic players vying for a share of the US$ 50 billion Chinese drug market. The top 10 companies account for only about 20% of the market, demonstrating the fragmented nature of the Chinese market.

However, with healthcare reforms in China and a shift in lifestyle, the Chinese market could fast open up. The government is planning to invest over US$ 124 billion on basic health insurance and upgradation of rural and community hospitals in the next three years. These reforms are likely to drive the size of the Chinese drug market that will help Indian companies penetrate the market.

**The US Healthcare Reform Bill: Opportunity for India?**

The Healthcare reform bill which has recently been passed into law in the US has two key features: it increases health coverage and aims at the reduction in healthcare costs. The bill increases the coverage to an additional 32 million uninsured Americans who make up about 10% of the total US population. Additionally, the bill is expected to cost US taxpayers US$ 940 billion over the next decade which is a huge investment into the healthcare sector. Among the other provisions which are of interest to Indian companies is the inclusion of a 75 per cent discount on generic drugs bought through Medicare (health insurance for senior citizens).

While generics today have a share of 20% in the US drug market (accounting for US$ 34 billion), its share is likely to grow by over twice that number by 2013 as
many of the innovator drugs go off-patent and the healthcare bill, which will be implemented in stages, comes into full effect.

Indian companies are ideally positioned to tap the benefits from the healthcare reforms, not only because they possess the requisite scale to serve the growing US generics market but also due to the increasing trend of innovator pharma companies entering into alliances with generic drug makers for manufacturing and product development. The competition will be immense from other global generic drug makers and therefore Indian companies will need to cut costs if they are to maintain profitability as intense competition and higher regulatory and legal costs could lead to margin pressures.