

MAKING THE MOST OF OPPORTUNITY:

Pharmaceutical strategy in Asia

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About the research

This study draws on a survey of 509 executives working in Asia in the life sciences, pharmaceutical, biotechnology and healthcare industries, with 70% of respondents from the first three sectors and 30% from healthcare. Approximately 10% are each from China, India, Indonesia, Japan, Malaysia, the Philippines, Singapore, South Korea, Thailand and Vietnam. The survey pool is senior, with half from the C-Suite (20%) or directorial (30%) levels, and the remainder at the managerial level.

The Economist Intelligence Unit conducted six in-depth interviews with corporate leaders and experts in the Asian pharmaceutical industry. We would like to thank the following individuals, listed in alphabetical order by surname, for their insights and contribution to this research:

- **Vikas Bhadoria**, senior partner and pharmaceutical and medical products operations practice lead, Asia, McKinsey
- **Gordon Cameron**, area vice-president Asia-Pacific, Takeda Pharmaceuticals
- **Chen Qiyu**, chairman, Fosun Pharma
- **Mike Crichton**, head of Asia-Pacific, Sandoz
- **Hervé Gisserot**, head of pharmaceuticals, intercontinental, GSK
- **Christian Hogg**, CEO, Chi-Med

The study also benefitted from extensive desk research and features The Economist Intelligence Unit's proprietary data.

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Paul Kielstra was the author of the report, and Michael Hoffmann was the editor.

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Executive summary

The growth potential of Asia's pharmaceutical markets is astounding. Indeed, pharmaceutical spending in the region is projected to rise faster than GDP. Despite such widespread optimism, however, pharmaceutical companies face a variety of strategic challenges. *Making the most of opportunity: Pharmaceutical strategy in Asia*, an Economist Intelligence Unit report sponsored by the Singapore Economic Development Board (SEDB), explores how pharmaceutical companies operating in Asia can best navigate opportunities for continued expansion.

For the countries covered in this study—China, India, Indonesia, Japan, Malaysia, the Philippines, Singapore, South Korea, Thailand and Vietnam—the size of the aggregate pharmaceutical market rose by 28% between 2012 and 2017. The Economist Intelligence Unit projects that figure to be 42% from 2018 to 2022. Although much of this growth will occur in the region's large emerging markets, each country surveyed should see average compound annual growth in pharmaceutical spending between 5% and 10% for the next five years.

The pharmaceutical market's expansion will be driven by more than the region's healthy GDP growth. Increasing populations, ageing societies, political pressure to expand healthcare services, the growing proportion of newly disposable income that will be spent on health—will all lead to more drug purchases.

This Economist Intelligence Unit study looks at how companies intend to make the most of this growth. Drawing on a survey of more than 500 senior executives in the life sciences, pharmaceutical, biotechnology¹ and healthcare sectors, in-depth interviews with six corporate leaders and industry experts, and substantial desk research, its key findings are:

Survey respondents believe that pharma's ability to meet Asia's growing needs leaves the sector poised for growth. Eighty-one percent of pharmaceutical executives surveyed are optimistic about the pharmaceutical innovation pipeline over the next five years. Similarly, between 80% and 90% of healthcare respondents believe companies within the industry—whether innovative or generic, foreign or domestic—are likely to grow. These businesses would build on an increasing record of achievement in different parts of the region, from traditional pharma, through generic manufacturing, to recent biotech innovation.

Companies are pursuing multiple paths to growth. Rather than a single dominant growth strategy, companies are adopting various approaches. Simple expansion, albeit of different kinds such as new products, categories or markets, is the leading option. Close behind, equal numbers say they will focus on generics and research to support innovative products. These are not separate strategies but part of a coherent whole. Some employ strength in local generic markets to fund innovative development. Others use their global assets to sell into Asia's developed markets while also building up healthcare infrastructure in low-income states to encourage future growth.

Footnote:

1. These three sectors are referred to collectively as the pharmaceutical industry throughout this study.

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The “Asian market” is a misnomer: firms need to think locally. Rather than a single market, Asia is a collection of national and sub-national markets. Disease burdens, regulations, distribution networks, reimbursement policies and even patient preferences vary widely, sometimes even within countries. Accordingly, the majority of respondents think that local focus is critical, including pricing appropriate to markets, understanding the local regulatory environment, engaging in local research and development (R&D) and focusing on diseases in specific markets.

The diversity and opportunities within the region require companies to develop local strengths while partnering effectively. In areas such as R&D and manufacturing, survey respondents report similar frequencies of investing in their own facilities and partnering with other firms. Interviewees for this report say that pharmaceutical companies are working with a range of partners—sometimes even from outside the industry—in addition to their own distribution networks, to reach new areas.

For larger companies with regional strategies, executives can co-ordinate activity across the region and integrate it into global operations. Ninety-three percent of pharmaceutical industry respondents say that investing in an Asian headquarters will be important to their company’s success over the next five years. This goes beyond seeking the benefits of shared services for certain functions. Hubs can co-ordinate the necessarily localised strategies of national operations within the region and embed Asian activities within global companies.

The challenges to drug development and delivery are evolving. The leading barriers in this area are changes or uncertainty in the regulatory environment and access to talent. Regulation and talent have long been cited as issues in Asian pharmaceutical markets, but their nature appears to be changing according to interviewees.

- *Regulation:* There is growing government pressure, even while pharmaceutical budgets are rising, to lower prices and ensure value for money. Companies will need to demonstrate value.
- *Talent:* Skills gaps remain in Asia, especially in certain emerging market countries. Interviewees for the report stress the large talent pool available in the region and insist that companies enact policies to effectively develop such talent.

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INTRODUCTION:

Great expectations

A time of plenty

“The economic optimism is positive,” says Gordon Cameron, area vice-president of Asia Pacific at Takeda Pharmaceuticals. “You just have to travel around the region and you feel it. The economic activity is clear.”

For most emerging markets addressed in this study, average annual GDP growth over the past five years has been very healthy, at 5-7%. Thailand, as well as more-developed Singapore and South Korea, have hovered at a respectable 3%. Looking ahead to the next five years, The Economist Intelligence Unit forecasts that, despite slight national variations, the overall environment will see little change.

Average compound annual rates of real GDP growth

	2013-17 (Actual)	2018-22 (Projected)	
China	7.1%	5.9%	↓ 1.2%
India	7.1%	7.9%	↑ 0.8%
Indonesia	5.1%	5.2%	↑ 0.1%
Japan	1.3%	1.1%	↓ 0.2%
Malaysia	5.2%	5.4%	↑ 0.2%
Philippines	6.6%	6.2%	↓ 0.4%
Singapore	3.4%	2.8%	↓ 0.6%
South Korea	3.0%	2.8%	↓ 0.2%
Thailand	2.7%	3.3%	↑ 0.6%
Vietnam	6.2%	6.2%	=

Source: EIU

The implications are clear to survey respondents: 82% are optimistic that economic growth on its own will make pharmaceutical products, including new ones, more affordable.

More exciting for the industry is the fact that spending on pharmaceuticals is projected to rise faster than GDP in every country. While the total market in these ten countries rose by 28% during the past five years, for the next five it is expected to increase by a further 42%.

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Average compound annual growth in pharmaceutical spending (US\$)

	2013-17 (Actual)	2018-22 (Projected)	
China	8.3%	8.0%	↓ 0.3%
India	9.5%	9.3%	↓ 0.2%
Indonesia	2.0%	9.6%	↑ 7.6%
Japan	2.5%	6.4%	↑ 3.9%
Malaysia	0.8%	8.9%	↑ 8.1%
Philippines	6.1%	9.0%	↑ 2.9%
Singapore	6.0%	6.1%	↑ 0.1%
South Korea	2.7%	5.7%	↑ 3.0%
Thailand	2.6%	5.2%	↑ 2.6%
Vietnam	7.6%	8.1%	↑ 0.5%

"In most emerging economies growth tends to have a multiplier effect on healthcare and pharma."

Vikas Bhadoria, senior partner and pharmaceutical and medical products operations practice lead, Asia, McKinsey

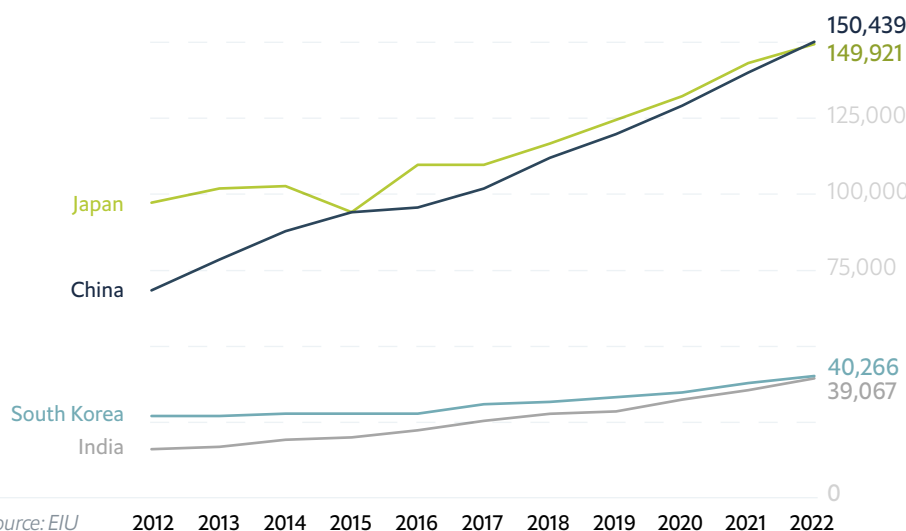
Source: EIU

Emerging markets will grow the most, with China overtaking Japan as the world's second-largest pharmaceutical market by 2022, and India narrowing the gap with South Korea, the region's third largest and the world's eighth. Vikas Bhadoria, senior partner and pharmaceutical and medical products operations practice lead in Asia for McKinsey, explains that, because of a low initial base, "in most emerging economies growth tends to have a multiplier effect on healthcare and pharma." Even in developed countries, the projections are for a robust increase in market size.

Figure 1

Annual pharmaceutical sales: non-ASEAN markets

(US\$m)



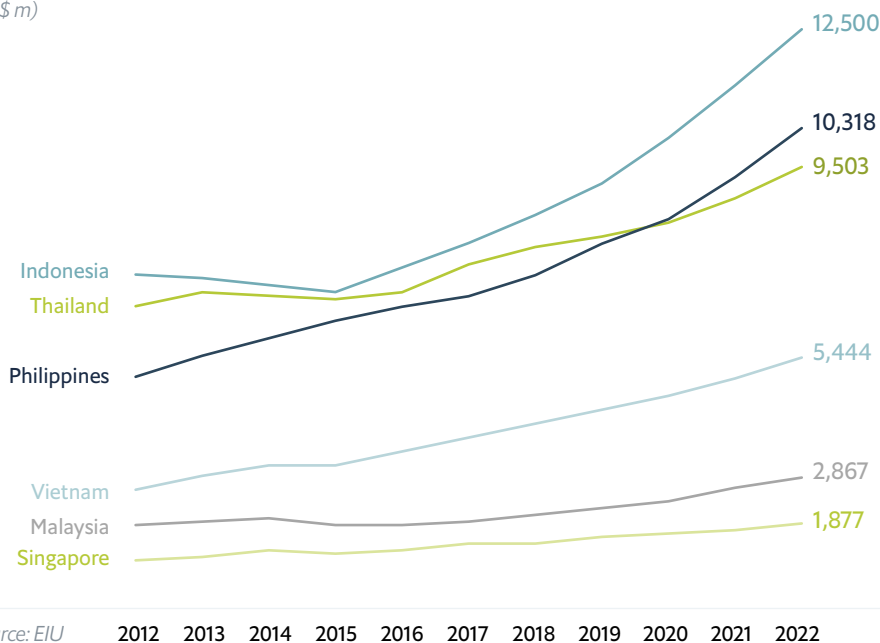
Source: EIU

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Figure 2

Annual pharmaceutical sales: ASEAN markets

(US\$ m)



Source: EIU

Payer budgets look set to grow

Multiple drivers will speed the pharma market expansion. Three oft-cited factors are continued population growth in a region that already encompasses three of the world's four most populous countries; rising life expectancy; and lifestyle and dietary changes, such as lower levels of physical activity and rising cholesterol. All of these trends contribute to more non-communicable diseases. Rising life expectancy as well as lifestyle and dietary changes are visible in both the region's wealthy states and emerging markets. Japan, for example, already has the world's highest life expectancy (84 years), with Singapore (83) and South Korea (82) not far behind. Chinese policymakers, however, are concerned about the country's rapid ageing. Similarly, such lifestyle changes consistent with economic development are driving increased rates of cancer in countries as diverse as South Korea, Thailand and Malaysia.²

Similar changes are visible in the rest of the world, but Asia's demographic trends spell the most opportunity. Europe, for example, is also ageing, but its population is expected to decline due to a lower birth rate. North America, while growing at the same rate, has already seen the transition to a largely non-communicable disease load, meaning the marketplace there brims with competitors.

While highly competitive pharmaceutical markets also exist in Asia's developed countries, the region's emerging markets, notes Mr Bhadoria of McKinsey, have large unmet needs in several healthcare areas. For example, "we looked at the chronic pain market a few years ago. Then, only 9% of the global market was in Asia. A lack of awareness was leading to a lack of treatment." As GDP grows, people will become aware of their options.

Footnote:

2. EIU, Controlling cancer: The state of national cancer control plans in Asia, 2015. <http://perspectives.eiu.com/healthcare/controlling-cancer>

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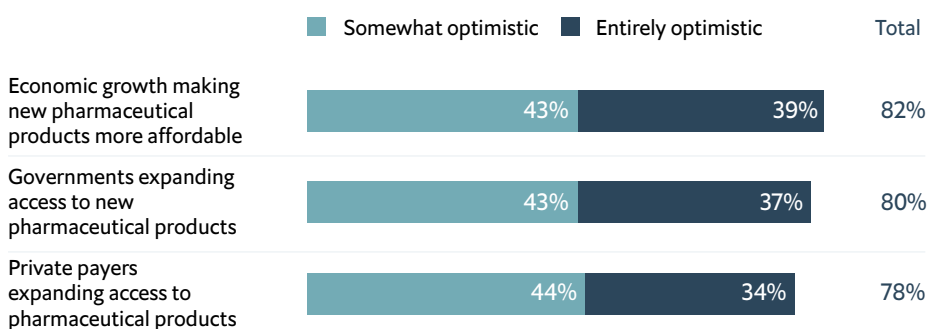
The result of these unmet health needs is a market with room for continued expansion, according to Chen Qiyu, chairman of Shanghai-based Fosun Pharma, China's fourth-biggest drug company. He points out that every country discussed in this study except Japan still has a lower proportion of GDP allocated to healthcare than the World Bank global average. "We believe the gap will be filled, which creates great potential. This is the main reason for us to be optimistic," he says.

State spending is likely to play a key role in filling that gap. Mr Cameron of Takeda Pharmaceuticals explains: "populations are demanding a better quality of healthcare from their governments. There is a widespread ambition to have universal access to healthcare." Health system expansions are under way in emerging markets such as Indonesia and the Philippines and newly industrialised countries like Singapore. Not surprisingly, 80% of respondents in the region are optimistic about governments expanding access to new pharmaceutical products.

Figure 3

How optimistic are you about the following over the next five years?

(Percentage of respondents, top two answers)



"Populations are demanding a better quality of healthcare from their governments. There is a widespread ambition to have universal access to healthcare."

Gordon Cameron, area vice-president Asia-Pacific, Takeda Pharmaceuticals

Survey respondents also expect private payers to spend more: 78% are optimistic that this will increase access. Again, this trend will be striking in emerging markets. Mike Crichton, head of Asia-Pacific at Sandoz, explains that, with wealth growing in these countries, "people are seeking better food, better healthcare and a better life for their families."

Optimistic about meeting demand

Pharmaceutical executives believe that the industry can meet the needs of Asia's growing markets. Eighty-one percent of survey respondents at pharmaceutical companies are "somewhat" or "entirely optimistic" about the pharmaceutical innovation pipeline over the next five years; 89% are confident that the quality of products will improve in the next five years and 88% think that availability will.

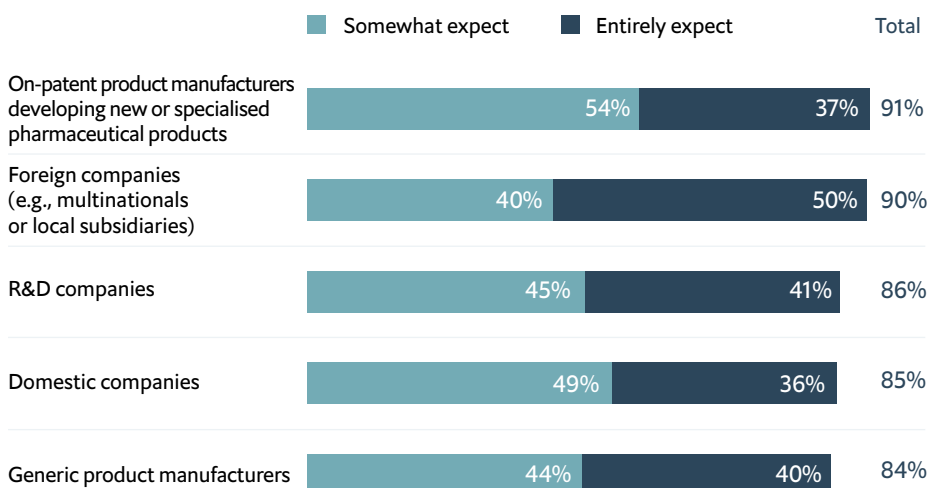
Healthcare leaders gave similar answers. Of this group, between 80% and 90% are "somewhat" or "very confident" that various types of companies will provide new products to the market in the next five years. The implications are clear. As Mr Chen says of expected new innovative drugs from Fosun's R&D investment, these products "will provide new options for our patients and generate more revenue".

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Figure 4

To what extent do you expect the following to introduce efficacious new pharmaceuticals in your country over the next five years?

(Percentage of respondents, top two answers)



One reason for the confidence expressed by survey respondents is state support. The South Korean government plans to establish medical industrial clusters by the end of 2018 as a way to foster innovation. Meanwhile, China's 13th Five-Year Plan (2016-2020)—the government's latest detailed set of economic and social policy initiatives, goals and spending promises—has identified support for biomedicine as a key priority. Malaysia is trying to become a global pioneer in the expansion of halal pharmaceutical products, such as vaccines not derived from pigs, a market expected to reach over US\$130bn worldwide by 2021.³

Industry confidence also stems from a record of success. Four of the world's current 25-largest pharmaceutical companies are Japan-based; India already produces 20% of the world's generic drugs; South Korea's pharmaceutical industry, between 2015 and 2016 alone, saw output rise by 11%; and in China, as Mr Hogg says, a "new breed of multi-billion-dollar biotech firms is making its way onto the global stage." China, between 2015 and the first half of 2017, attracted US\$45bn in venture capital and private equity funds.⁴ Pharmaceutical industry respondents see this as part of a wider trend. Large majorities expect foreign and domestic companies operating in the region, as well as specialists in generics and innovative drugs, to grow.

Footnotes:

- Pacific Bridge Medical, "Malaysia Drug Market Update 2017," 2017, <https://www.pacificbridgemedical.com/publication/malaysia-drug-market-update-2017/>
- Nature, "Biotech booms in China," 2018, <https://www.nature.com/articles/d41586-018-00542-3>

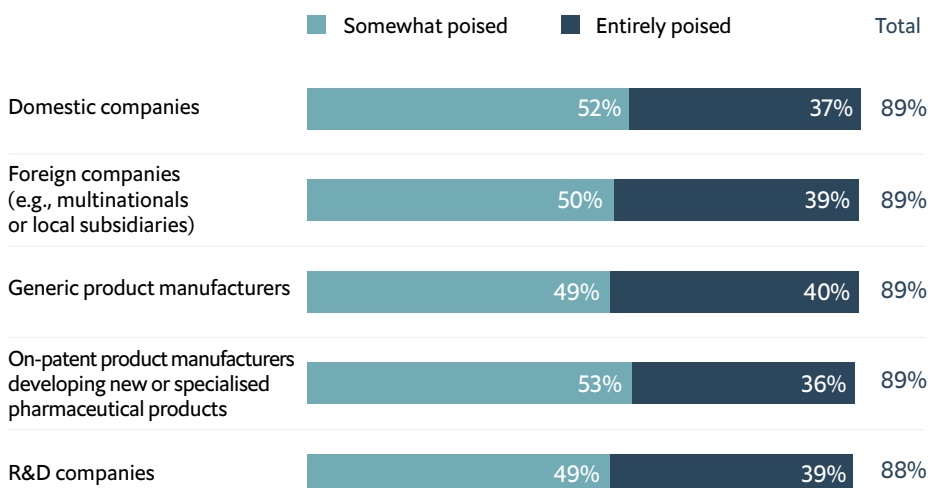
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Figure 5

To what extent are the following poised for growth over the next five years in the pharmaceutical industry?

(Percentage of respondents, top two answers)



While markets are likely to expand rapidly in Asia, harnessing that rapid growth and market expansion will not be simple. It will require achieving a balance between a range of strategies weighing local, regional and global considerations, all within the world's most diverse region.

Yet nothing is guaranteed, notes Hervé Gisserot, head of pharmaceuticals, intercontinental, at GSK. "The region is always full of surprises," he says. Success "will not be a walk in the park". While markets are likely to expand rapidly in Asia, harnessing that rapid growth and market expansion will not be simple. It will require achieving a balance between a range of strategies weighing local, regional and global considerations, all within the world's most diverse region.

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SECTION 1:

Navigating present opportunities while building for the future

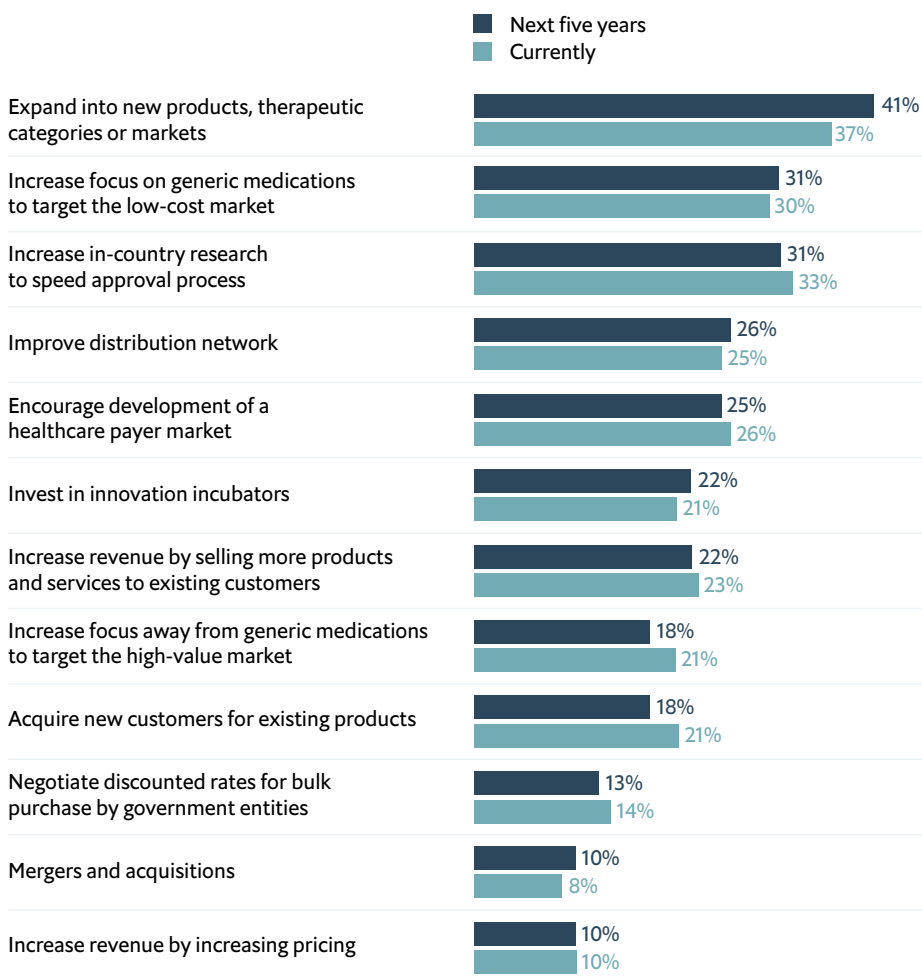
Strategy is a symphony, not a solo tune

Pharma companies are pursuing multiple paths to growth. Expansion into new products, categories or markets is currently the most common approach. Close behind are two seemingly divergent approaches: conducting more research to secure faster approval of innovative products and an increasing focus on generics for low-income markets. In addition, encouraging development of a payer market and creation of a distribution network are also important. Survey respondents also expect the top growth strategies implemented by pharma companies currently to be the same over the next five years.

Figure 6

What growth strategies are pharmaceutical companies pursuing in your country currently and which do you expect to be most successful in the next five years?

(Percentage of respondents, up to three replies were permitted)



Percentages may not appear equal due to rounding

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These divergent approaches do not imply a lack of co-ordination. Instead, many companies take a unified strategy that simultaneously leverages current opportunities and prepares for future ones. Chi-Med is a good example. Its strategy, Mr Hogg explains, “balances two areas. Strategy one has been to build a big commercial operation in China [selling a range of products], which goes a lot deeper than most companies and which produces a lot of cash. This can fund strategy two, which is innovation. We could generate a broad, balanced portfolio of drug candidates because we could generate cash from the first strategy.” Nor is the relationship between sales and innovation one-way. The firm has over 3,000 commercial employees selling into more than 15,000 Chinese hospitals once new products are approved.

Mr Bhadoria believes such strategies are consistent with how large domestic Asian players “focus a lot on maximising opportunities from existing portfolios”. In India, for example, strategies are still largely focused on incremental product improvement. Yet this too may be changing: Sun Pharma, India’s largest domestic drug company, has been buying the Indian rights to drugs still under patent, such as Novartis’ Odomzo, or even in trials, like Merck’s MK-3222.

Applying global assets in different ways

“Global pharmaceutical companies are focused on maximising value creation across markets from global innovation,” says Mr Bhadoria, rather than exploiting local assets to allow expansion. This requires an appropriate mix of growth strategies focused on current income and future development—depending on local conditions—rather than a single approach.

The starting point for Takeda Pharmaceutical’s strategy, for example, is its global focus on three areas: oncology, gastroenterology and neuroscience. “Alignment around these has accelerated in recent years,” notes Mr Cameron, “but the way you achieve that is through localisation across the board.” In some countries, such as South Korea and Singapore, he explains, very developed medical infrastructure and high levels of patient access make the job of co-ordinating a global strategy straightforward. Expanding sales into emerging markets, though, typically involves supporting the creation of the medical infrastructure and effective distribution systems. “In this way, localisation allows us to take our global medicines and make them available to patients in need in all these countries”, he says.

Mr Cameron explains, “You have to take a long view and address the whole ecosystem because if anything fails, the patient is not likely to be diagnosed correctly.” He explains that, while financing is a common barrier, the problems are often far deeper. In places like the Philippines, Mr Cameron continues, the company looks to assist with important system-wide issues, which might include “How do we work with professionals to get patients diagnosed in the first place? How do we make sure the pathology is accurate and treatment administered safely and over the necessary duration?” Nor is there a simple national template, Mr Cameron adds. “Nuances have to be applied skilfully by country,” he says.

Sandoz also sees the need to achieve a strategic balance, or benefit from current opportunities in some countries while focusing on the future in others. Mr Crichton notes, “We need to be successful in the ‘big’ markets. But when you look at the next ten years, you will have APAC [Asia-Pacific] countries that will transform themselves. We need to be a good fit for this future as well.”

"Global pharmaceutical companies are focused on maximising value creation across markets from global innovation."

Vikas Bhadoria, senior partner and pharmaceutical and medical products operations practice lead, Asia, McKinsey

"You have to take a long view and address the whole ecosystem because if anything fails, the patient is not likely to be diagnosed correctly."

Gordon Cameron, area vice-president Asia-Pacific, Takeda Pharmaceuticals

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SECTION 2:

Balancing the local, the regional and the global

“Asian market” is a misnomer

These different strategic demands point to a fundamental attribute of the Asian market: it does not exist. Disease burdens, regulations, distribution challenges, reimbursement policies and patient expectations can differ between countries or even within them. For example, Asia’s languages fall into 28 distinct groups, each containing one or many individual tongues. Asia is a continent, not a coherent community. Asian markets are therefore better understood as national rather than regional.

Mr Crichton explains, “Every country has different healthcare systems. You need to have local presence to compete effectively.” Moreover, in larger countries, the focus is often sub-national. Mr Chen says that in China’s “fragmented healthcare market each province has its own traits. Even the entry thresholds differ.” Similarly, doing business in India’s urban, relatively well-off capital, New Delhi, is much different from operating in the neighbouring, largely rural state of Uttar Pradesh.

Pharmaceutical company executives see the need for a local focus across the board, with many survey respondents calling each of the following “very important”: pricing appropriate to markets; understanding the local regulatory environment; engaging in local R&D; focusing on diseases in specific markets; and local manufacturing.

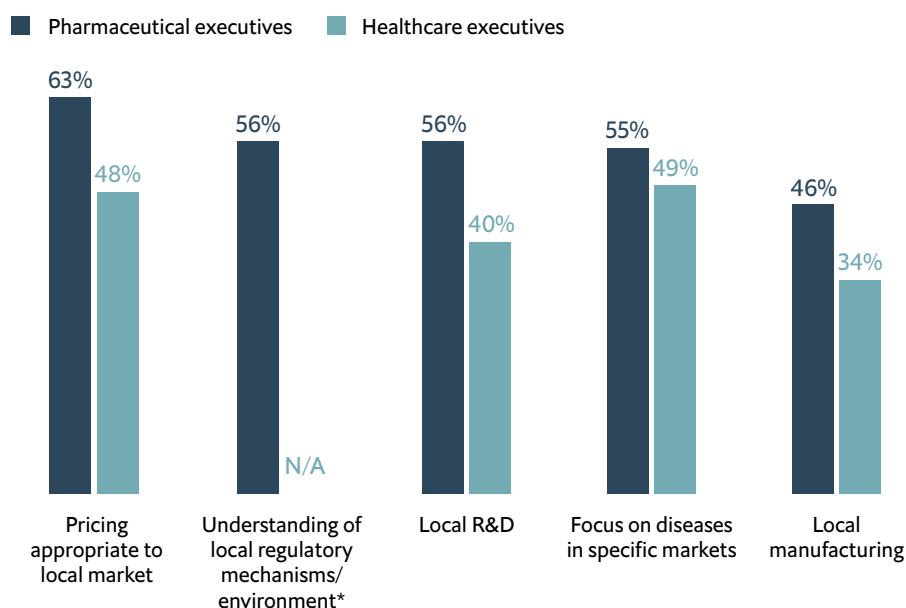
"Every country has different healthcare systems. You need to have local presence to compete effectively."

Mike Crichton, head of Asia-Pacific, Sandoz

Figure 7

Proportion of pharmaceutical executives calling the following very important for growth versus proportion of healthcare executives saying pharma does these very well

(Percentage of respondents, selecting up to three answers)



*Question not asked of healthcare executives

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As a result, notes Mr Bhadoria, many large multinational corporations (MNCs) treat Japan, China, India, Indonesia and Korea, which are the largest markets in Asia, “in a standalone fashion, with localised strategies and empowered local organisations”.

Some companies are organising their strategies by market conditions rather than physical proximity. GSK recently switched from using a geographically defined Asia-Pacific division to placing the region’s emerging markets into a group dedicated to those countries along with others at a similar level of economic development in Latin America. Asia’s developed countries, such as South Korea, Singapore and Japan, are placed in another group, which includes Canada.

Mr Gisserot comments that in “such a diverse region, it is better to focus on different market archetypes because the issues are so very different.” For similar reasons, in 2014 Takeda created separate Japan and emerging market divisions the latter encompasses Asian countries, along with those in several other regions, including Latin America, the Middle East and Africa.

While the industry appears to understand the need to focus on local conditions, it may be falling short. The proportion of respondents from healthcare companies that consider pharma “very good” at conducting elements of operations locally is noticeably lower than that of industry executives who call them “very important”.

The gap reflects the degree of learning still under way. Even five years ago, Mr Bhadoria says, basic strategies on R&D, manufacturing and sales differed from today. MNCs have evolved in response to the development of local capacity, while domestic firms have searched for access to wider markets. For each, this has involved balancing local, regional and global considerations.

The local: A team and an individual game in equal parts

When operating in individual markets, survey respondents show nearly equal preference for working with local partners and establishing their own operations. The top two strategies for in-region R&D, for example, are partnering with domestic organisations and investing in local R&D centres (both cited by 32%). The partners need not be companies: GSK is working with Singhealth, a healthcare group and Duke-NUS, a research institution, in Singapore on three-year study to collect and analyse data from 13,000 respiratory patients per year in order to improve treatment of their diseases. Similarly, when engaging in local manufacturing, the top choices are partnering with established producers or contractors (both 51%). Yet 46% of respondents are investing in their own facilities.

In the area of distribution and sales, larger firms have tapped into homegrown expertise across Asia, says Mr Bhadoria. “A lot of global MNCs have partnered with local companies to launch second and third brands of their own molecules. The thinking is that, this way, these local companies can go into rural areas and smaller towns which the bigger firms are not able to reach.” For example, since 2015 AstraZeneca has had an agreement with Sun Pharmaceuticals in which they both sell the former’s Ticagrelor in India but under separate brands (Brilinta and Axcer, respectively).

Nor is this practice limited to firms from outside the region. Fosun, says Mr Chen, has “an in-depth understanding of China’s pharmaceutical markets”. Even while expanding its own domestic sales activities, though, it will also partner with Sinopharm—a large, predominantly state-owned, Chinese firm—to help distribute Fosun’s products.

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The regional and the global: Role of the regional strategy

All large pharmaceutical MNCs operating in Asia need to balance the global and the local. To this end, establishing a regional hub is an increasingly common approach: 93% of respondents say that investing in such an Asian headquarters will be important to their company's success over the next five years.

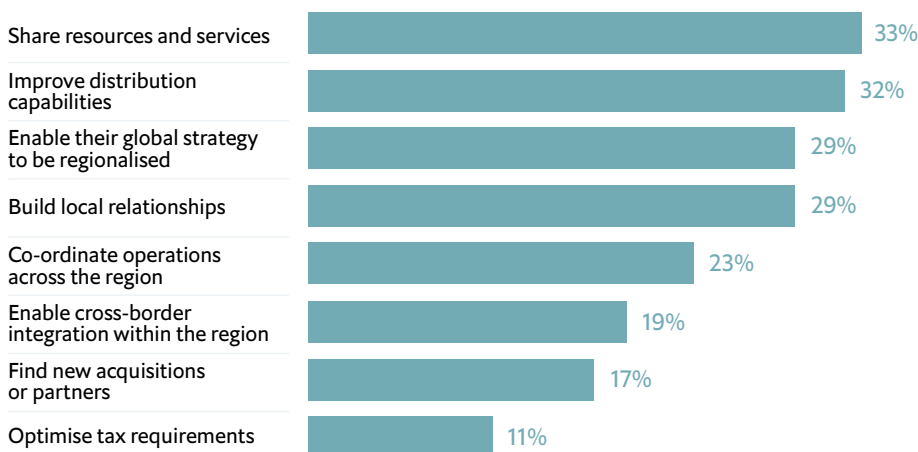
In practice, most of this activity occurs in Singapore: a multi-industry study by real-estate services firm Cushman & Wakefield in 2016 found that the number of MNCs with a regional headquarters in Singapore was over one and half times the figure for Hong Kong, Shanghai, Beijing and Tokyo combined.⁵ For pharmaceutical companies, even Japan-based Takeda chose Singapore for its emerging markets hub. The report notes, however, that competition for regional hubs is expected to increase.

According to pharmaceutical executives, regional hubs play various roles, including sharing resources and services or spreading fixed costs, improving distribution capabilities, enabling regionalisation of global strategy and building local relationships. These activities include two overarching tasks for regional strategies: maximising the benefits of co-operation between units and embedding those efforts in the company's global ones.

Figure 8

What are the most important ways regional headquarters can help pharmaceutical companies' growth strategies?

(Percentage of respondents, selecting up to two answers)



Intra-regional co-operation begins with consolidation of back-office activities for which shared service models offer cost savings. Indeed, Mr Bhadoria notes, this consolidation was an original driver of the trend towards creating hubs.

The potential strategic value of regional co-ordination, however, has quickly become apparent. Mr Crichton explains that Sandoz's "regional team looks at above-market initiatives, broader governmental affairs [like ASEAN, trade and policy] and sets the vision and strategy for what we need to accomplish in the region."

Footnote:

5. APAC Regional Headquarters: Singapore on top, but competition to increase, 2016, Cushman and Wakefield http://www.cushmanwakefield.com/~/_/media/reports/china/Cushman%20%20Wakefield%20RHQ%20Report_2016_F4.pdf

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Hubs are also playing an essential role in integrating Asia into companies' global strategies. Mr Cameron, for example, notes that only a few years after Takeda opened its Singapore hub, it now has "an R&D centre, the Emerging Market Business Unit head office, and we recently set up a vaccines process centre of excellence." Similarly, Mr Gisserot explains, "GSK Asia House is not just a regional headquarters: it is an important business platform based in Asia with global reach with some global businesses run from here. This shows the importance of Asia within GSK."

"GSK Asia House is not a regional headquarters: it is a headquarters based in Asia with global reach with some global businesses run from here. This shows the importance of Asia within GSK."

Hervé Gisserot, head of pharmaceuticals, intercontinental, GSK

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SECTION 3:

The leading challenges in Asia—Old story or new?

According to survey respondents, the leading barriers to the development and delivery of pharmaceutical products over the next five years will be changes or uncertainty in the regulatory environment and access to talent. Respondents also cite these as top challenges in the past five years—the fourth most cited barrier in that period, payer unwillingness to foot bills, is expected to decline.

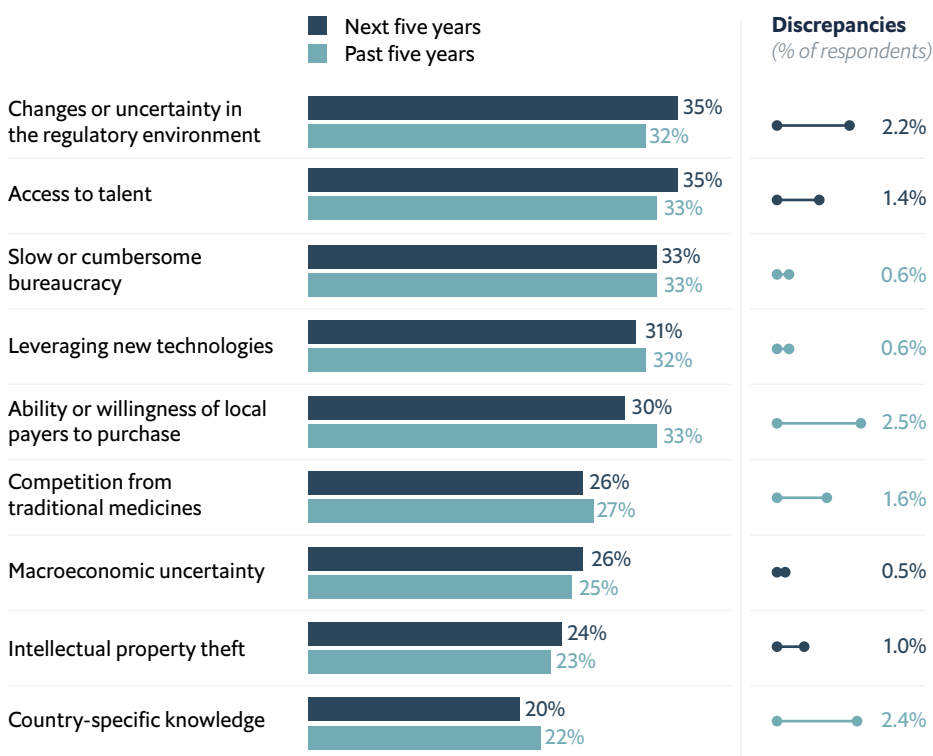
"Governments are recognising that patients and populations need to get access to medicines quickly and having good regulation is at the heart of that."

Gordon Cameron, area vice-president Asia-Pacific, Takeda Pharmaceuticals

Figure 9

What will be the most significant barriers to development and delivery of pharmaceutical products in the next five years? What have they been in the past five?

(Percentage of respondents, up to three replies were permitted)



Percentages may not appear equal due to rounding

An evolving regulatory environment

Although regulation and bureaucracy generally remain challenging in Asia, the region has recently experienced a sea change in these areas. For some years, South Korea and Singapore have been leaders in the speed of drug approval. Now others are catching up. Mr Cameron reports “a very significant improvement over the last few years. Governments are recognising that patients and populations need to get access to medicines quickly and having good regulation is at the heart of that.” He cites Thailand, where drug approval used to require two to three years but now the process can happen a lot faster.

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Mr Bhadoria agrees that the regulatory environment has improved. While each country has evolved differently, overall “it is getting easier and easier across geographies to register drugs. The once massive time lag between a product launch in the US or Europe and in China or Japan is getting reduced dramatically.”

Equally noteworthy is the increasing expertise of regulatory officials. Christian Hogg, CEO of Chi-Med, says that while “historically the environment in China was slow and difficult to predict, the strategy and philosophy of the regulators today have reached a global standard, though executing this across China will take time.”

In seeking to improve further, regulators can now also take advantage of high-level academic training and research based in the region. Since 2014, Singapore's Duke-NUS Medical School has been home to the Centre of Regulatory Excellence (CoRE) - Asia's first centre focused on national health regulators and the broader pharmaceutical industry.

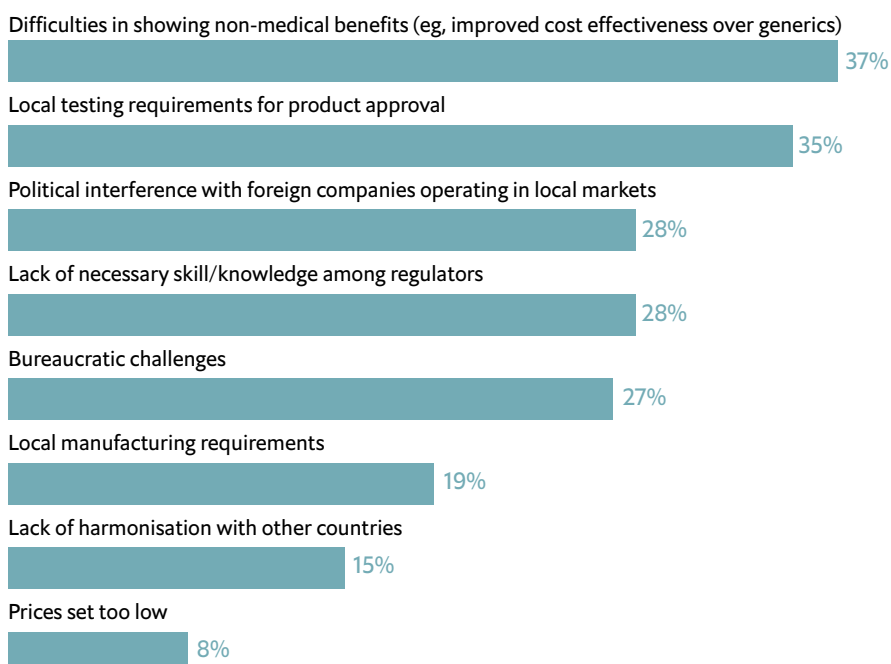
Such substantial change across the region leads many survey respondents (79%) to be optimistic about faster drug approvals in the next five years. Seventy-two percent are optimistic about the removal of market or regulatory impediments.

Still, problems with poor or slow regulation have not disappeared. Among survey respondents complaining of general regulatory uncertainty, over a quarter cite lack of skill or general bureaucracy as major barriers to drug development in the region. The figure reaches 32%, in each case, among respondents from emerging markets.

Figure 10

How is the regulatory environment a barrier to bringing new pharmaceutical products to market?

(Percentage of respondents, up to two replies were permitted)



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Yet Asia's leading regulatory challenge is prevalent in other parts of the world: the difficulty of proving improved value over existing products, especially in generics (37%). This is unlikely to dissipate because it reflects a broader, ongoing problem. Despite pressure to improve patient access, as Mr Crichton notes, "healthcare systems are under tremendous financial pressures" in markets across the region.

Accordingly, many Asian countries seek to keep prices down. In 2017, Chinese officials secured an average 44% cost reduction on 36 medicines from pharmaceutical companies by using access to the country's Essential Drugs List. Similarly, the Indian government's use of Drug (Price Control) Orders to cut prices on more than 80 products in 2017 by 35% or more is causing friction with the industry. Meanwhile, the Philippines is looking at ways to improve its 2008 Cheaper Medicines Act, which already shifted generic drugs from 40% of pharmaceutical sales in the country in 2009 to 65% in 2014. Meanwhile, both the Indian and the Philippine governments are expanding their own state-run chain of low-cost generics stores.

Governments in wealthier Asian markets are also looking to prove value for price: the most high-profile initiative is in Japan, where from 2018 a Health Technology Assessment body will ensure that the health system will use only the most cost-effective treatments.

While dealing with financial pressures and government intervention can be challenging, the industry does not appear particularly concerned about reimbursement policies. Indeed, only 8% of survey respondents who believe regulation is problematic say the fact that governments set prices too low is a major barrier in bringing new products to market. Mr Hogg notes that the sometimes steep price reductions agreed in China are part of a strategy to prove value. A common model is "to launch the drug at a price that is slightly higher because of lower volume, but once you do establish its utility, try to get on a reimbursement list, most likely for a discount."

In July 2017 the Chinese government announced the addition of 36 high-priced Western medicines—including Avastin for cancer and Victoza for type two diabetes—to the National Reimbursable Drugs List after an average 44% price reduction. In return, companies will secure the potentially higher volumes that come with such official reimbursement.

Talent: An untapped resource

Talent is another long-standing challenge for companies operating in the region. Mr Bhadoria explains that Asia has "a general shortage. Senior executives at the regional level complain they don't have talent in most geographies," although India tends to be an exception. Mr Gisserot also believes that "some capability gaps exist, particularly in the emerging markets".

Nevertheless, Mr Gisserot says that the correct way to understand the talent challenge is not as searching for a rare commodity but as finding ways to harvest an underused resource. "I have been really impressed by the talent pool in Asia," he says. "There's fantastic potential." Although individual countries across the region tend to present distinct people challenges, he feels that companies need to focus on "putting in place the right kind of programmes to fast-track the right elements of the workforce", so that they can make the best use of the extensive talent available.

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Mr Gisserot adds that, here again, regional hubs play a crucial role. A priority at GSK “is to develop Asian colleagues to become leaders in country and region, and eventually global leaders”. Accordingly, one of the company’s two global learning centres is in Singapore.

Mr Crichton also feels that “Asia is full of great talent.” Established systems for producing skilled individuals exist in Japan and South Korea, while India’s education system is particularly strong in STEM (science, technology, engineering and maths) subjects. Meanwhile China, the Philippines, Thailand and Vietnam are seeing rapidly growing pools of trained talent. “If anything”, he concludes, “everyone needs to consider how global companies better incorporate Asian talent into their business around the world.”

"If anything, everyone needs to consider how global companies better incorporate Asian talent into their business around the world."

Mike Crichton, head of Asia-Pacific, Sandoz

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Conclusion

Pharmaceutical markets in the ten Asian countries surveyed have grown rapidly over the past five years—and this growth will probably continue over the next five. Expanding GDP, demographic shifts, pressure on governments to translate economic development into social gains and the willingness of Asian citizens to spend some of their increasing disposal income on healthcare all point to a time of plenty ahead. The challenges are real, but they pale against the opportunities. As Mr Gisserot puts it, “in the medium and long term, there is no doubt that Asia will be a major contributor to the pharmaceutical industry’s growth.”

The challenge for pharmaceutical executives is to ensure that their companies obtain the best possible share of this bountiful harvest. Several best practices we have identified include the following:

Pursue a variety of long- and short-term goals within a unified framework: interviewees say that chasing up different opportunities is the norm—whether pursuing generics to fund research and acquisitions or engaging in traditional marketing in some countries while building up infrastructure in others. In all cases, though, a coherent vision helps solidify these efforts.

Build on your internal strengths and partner where useful: partnerships can multiply sales and marketing power, reduce the cost of manufacturing and provide access to innovation that would be otherwise impossible. In order to be an effective partner, however, companies must have their own in-house strengths.

Fully integrate Asia into global activities: regional strategies have taken on two major functions: co-ordinating the necessarily localised strategies of national operations within the region and embedding Asian activities within global companies.

Price pressures are not going away, so prepare accordingly: Asian governments may expand total pharmaceutical spending but, as elsewhere in the world, they will seek value for money. Appropriate strategies to show this are as necessary, and as possible to execute, in Asia as elsewhere.

Talent exists in Asia, so find ways to develop it: lack of access to talent is a challenge for companies in the region, but executives insist that the talent pool in the region is impressively large. Effective growth strategies must include ways to develop that talent not just for the region but also for the company globally.

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