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AE MicroMacro - China

Łukasz Sarek.

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Chinese drug procurement system impact on Polish export opportunities

What happened? On February 3 China Business News published an article on [the difficult situation in the Chinese pharmaceutical industry](#). In the first 11 months of the last year, 1247 out of 7346 large scale enterprises recorded losses, 52 enterprises more than in 2018. The profitability of pharmaceutical enterprises decreased. To offset losses some companies started selling off their assets. This situation is a result of the recently implemented by the Chinese authorities procurement of drugs with target quantity policies (带量采购政策). As the government plans to extend the procurement program and include more provinces the general outlook for many companies in the drug industry is not very optimistic and the business faces serious challenges in the coming years.

Wider picture. In November 2018 Chinese authorities announced the new national [drug procurement pilot program in “4+7 cities”](#) covering the selected generic or branded off-patent drugs. The public hospitals are required to buy drugs in bulk through the bidding procedure as one buyer (consortium, alliance). Community clinics and pharmacies can also join voluntarily the alliance and benefit from lower prices. Cities included in the program: Beijing, Tianjin, Shanghai, Chongqing, Shenyang, Dalian, Xiamen, Guangzhou, Shenzhen, Chengdu, and Xi'an. The lowest bidder can be granted up to 70% of the total market covered by the bid for one year. The program's goal to drive down prices of off-patent drugs, encourage domestic companies to provide generic drugs at the lowest possible price and compete with international giants and as a result to free up state funds to pay for advanced, novel cutting-edge therapies for Chinese patients. The new procurement rules resulted in the highest discount exceeding 90 percent and an average discount of 55 percent across 25 molecules of generic drugs purchased through the procurement system. In January 2020 [the new round of bids](#) was [announced with even more pressure on prices decrease](#) but with introducing some mechanisms preventing the concentration. In this round, the [prices for 33 drugs were slashed on average](#)



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by [53%](#) and only a few foreign companies (e.g. Bayer, Sanofi, Eli Lilly) were able to win with Chinese drug makers by [offering hefty discounts](#).

Why it matters? On the one hand, the new procurement system serves patients as the prices of drugs applied in many common therapies have decreased significantly. On the other hand, the new system's focus on the price takes its toll on off-patent originators who face [stronger competition from generic drugs manufacturers](#). Pressure on off-patent and generic drugs prices is supposed to drive companies to invest in research and [development of patented drugs to secure profits or to dramatically cut costs](#). However, the profit erosion could discourage innovative enterprises to invest in new drugs as they finance research and development from profits derived from off-patent or generic drugs. Foreign companies lose bids to domestic rivals offering cheaper generic drugs. Some like Pfizer try to [expand sales in the regions not covered by the plan and cut the price in hope that patients would buy the drug privately](#). But in the longer term, the price pressure and profit erosion can force many smaller Chinese companies to exit market or consolidate as [they will find it difficult to compete with international giants due to limited financing](#). Global companies deprived of the profits from branded off-patent drugs will have to [rely more on introducing the novel therapies at competitive prices](#).

Why it matters for Poland?

Polish export of pharmaceutical products to China according to Statistics Poland [has already decreased sharply from 31,2 mln usd in 2017 to 17,4 mln usd in 2018](#) with three main groups of products: compound drugs, heparin and insulin. In 2019 the situation was not much better with the export value in pharmaceuticals slightly exceeding 14 mln usd for the first 10 months with heparin export exceeding 2/3 of total exports.

Prospects:

1. competing in the Chinese generic drug markets will be even more difficult for Polish companies than before and this segment should not be recommended for the most Polish companies,
2. The overall competition in novel drugs, advanced therapies protected by patents will become fiercer as the new rules crowd out domestic and global companies out of the generic drugs market entering Chinese market will require more efforts from Polish manufacturers,
3. The Chinese manufacturers' consolidation and elimination of weaker players can increase the overall competitiveness of the Chinese drug industry both in the domestic market and abroad.



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4. To successfully compete in the Chinese market Polish exporters need to dramatically increase their competitiveness in novel, patented drugs or at least in modified advanced generic drugs.