

Hong Kong Pharmacy Conference
15th Anniversary

WTO and The China Pharmaceutical Services Sector: Opportunities and Challenges

Dr Geoffrey Lieu

9 October 2002

© Dr Geoffrey Lieu, 2002



The Institute for Health Policy and Systems Research



Presentation Outline

- WTO and the China Pharmaceutical Services Sector
- Opportunities and Challenges for China
- Implications for Hong Kong's Pharmaceutical Professionals
- Preparing for the future

Overview of China's accession to WTO...

China officially became a WTO member on 11 December 2001. Under China's WTO accession agreement, China made **substantial market access commitments** covering the agricultural, industrial and services sectors:

- ◆ **Phase-out of non-tariff barriers on imports** - Import license requirements will be eliminated and all quotas phased out within five years.
- ◆ **Tariff cuts** - Average import tariffs for industrial products will be lowered from currently 14.8% to 8.9% by 2005.
- ◆ **Conditions on foreign investment** - Requirements on trade and foreign-exchange balance, local content, and export performance will be ceased or eliminated.
- ◆ **Trading rights** - China agrees to provide trading rights to foreign companies, to be progressively phased in over three years.
- ◆ **Open-up of other services** - To include distribution services, telecommunications, financial services, professional services.

China's expectations...

“On the accession of China to WTO, the representative of China stated that China’s consistent efforts to resume its status as a contracting party to GATT and accession to the WTO agreement were in line with its objective of economic reform to establish a socialist market economy as well as its basic national policy of opening to the outside world. China believed that its WTO accession would increase its economic growth and enhance its economic and trade relations with WTO Members.”

World Trade Organization
Draft Report of the Working Party on the Accession of China

31 July 2001

Foreign Medicine Wholesalers and Retailers to Enter China in 2003



**Beijing to Set Up China's
Largest "Medicine Valley"**

Global market for Chinese medicine seen at US\$23b

The report sees global annual sales of Chinese medicines growing to US\$23.2 billion for 2002, up from US\$19.6 billion as at end-2000, the report said. No figures for 2001 were available.

On average, sales have been increasing by about 8 per cent a year since 1994, the TDC's report said.

Encouraging headlines...

WTO entry supports high-end demand

“These numbers are expected to grow as China’s accession to the WTO opens up the huge mainland market, presenting more business opportunities for...”

SCMP, 12 September 2002

Agreements on foreign medical and dental services providers...

Commercial Presence in China

- **Foreign suppliers** of medical or dental services **may establish joint venture hospitals or clinics with Chinese partners**, with foreign majority ownership permitted, subject to quantitative limitations “in line with China’s needs.”
- The **majority** of doctors and medical personnel of a joint venture **must be Chinese nationals**.

Presence of Natural Persons in China

- **Foreign doctors** with professional certificates issued by their home country may provide short-term treatment (defined as **six months** but may extend **to a year**) after they obtain licenses from the Ministry of Public Health.
- **Managers, executives, and specialists** of a representative office, branch, or subsidiary in China, temporarily moving as intra-corporate transferees, will be permitted an initial stay of **three years**.
- Managers, executives, and specialists of foreign-invested enterprises in China will be granted a long-term stay permit as stipulated in the terms of contracts concerned or an initial stay of three years, whichever is shorter.
- **Service salespersons** who are not based in China, and who meet certain other conditions set forth in China’s services schedule, are limited to a **90-day stay**.

Agreements on pharmaceutical and medical equipment suppliers...

- **Joint ventures** with minority foreign ownership will be granted **full trading rights** within **one year** after accession, and joint ventures with majority foreign ownership will be granted full trading rights within **two years** after accession. All enterprises, including those in the pharmaceutical industry, will be granted full trading rights within **three years** after accession.
- Prior to its accession, China did not generally permit foreign companies to **distribute products through wholesale and retail systems** in China or to provide related distribution services, such as repair and maintenance services. These **prohibitions will be eliminated three years after accession.**

What does this all mean?

- ☞ Removal of trade barriers
- ☞ Liberalization of multilateral trade
- ☞ Protection of intellectual property rights

...the acceleration of a market economy: that means more competition, competition and competition

A closer look at the pharmaceutical services sector...



China's market is huge...

- Sales in 2001 grossed around RMB 220 billion
- Over 6,000 pharmaceutical enterprises
- Fastest growing market in Asia and the world

but...

- Foreign enterprises have 50 percent of market share
- Chinese companies are mostly (75%) small enterprises and their production capabilities and capacities are relatively low and outdated in comparison to international standards
- Export of Chinese medicine products has only about 25 percent of global market of US\$20 billion

Advanced Biomedicine Designated As Nation's Priority

China has placed modern biotechnology as its development priority in the pharmaceutical industry in the next five years, according to an outline released by the State Economic and Trade Commission.

Beijing to Set Up China's Largest "Medicine Valley"

Over 60 Chinese and foreign companies have so far invested a total investment of 410 million U.S. dollars in the valley, including prestigious companies from Germany and Japan.



According to Customs statistics, during the first eight months of last year, **China imported 15,000 tons of medicine**, 42 percent more than the year before. These drugs were **valued at US\$530 million**, 114 percent more. Up to the end of last year, China had issued nearly 2,000 import licenses, even though **half of the foreign medicine on the market entered China illegally**.

Meanwhile, many large foreign pharmaceutical firms advanced into the Chinese market by establishing **joint ventures**. The first joint venture to produce medicine appeared in 1980, and since then 1,790 joint ventures with contractual foreign investment of more than US\$200 million have been founded, with **actual investment reaching US\$150 million**.

Guidelines on Regulating China's Medicine Market Issued

The General Office of the State Council recently issued the guidelines on the readjustment and normalization of China's medicine market.

According to the guidelines, drug administrations across the country must be disconnected from pharmaceutical factories, and should not have economic relations with any company that sells medicine.



The guidelines stress regulating medicine selling enterprises, introducing public bidding into the medicine purchasing system, encouraging electronic trade of medicine and strengthening the construction of a medical service network in the rural areas.

Hospital dispensaries will be separated from medical facilities, and hospitals should be prevented from profiting from selling medicine, according to the guidelines.



Medicines will be divided into prescription and over-the-counter categories. Development of new high quality drugs are encouraged. The administration on medicine price will be strengthened, and medical advertisements will be put under strict supervision.

Impacts on China's pharmaceutical services sector...

WTO Brings Competition to China's Medicine

Distribution Sector

Chinese medicine distributors **have three years to improve** their performance before their foreign counterparts can freely enter the market, some experts in the field said on Mar.12 in Beijing.

According to China's commitments to the World Trade Organization, the **medicine retail and wholesale business will be opened to foreign investors** with no capital or geographical limitations with three years of China's December 2001 WTO entry.

But most of China's medicine-distribution enterprises are uncompetitive. The industry has been controlled by the government for decades and different pharmacies started to merge into chain stores only in the last five years. The industry is crowded with small companies but short of conglomerates.

Yu Mingde, deputy director of the State Economic and Trade Commission's Economic Operations Bureau said that to face the coming challenges, the **government will encourage mergers in the sector, and key enterprises will be encouraged to build large enterprise groups.**

Yu predicted that 10 conglomerates will emerge in the next five years, each with more than 1,000 outlets and a turnover of 5 billion yuan (604 million US dollars).

China's accession to the World Trade Organization is expected to put the country's 6,000 drug makers under severe pressure in coming years and is expected to force many into producing traditional Chinese remedies as international patent scrutiny forces them to abandon manufacturing copies of Western drugs.

Guangzhou Pharmaceutical, one of China's largest drug companies, said earlier this month that it expects 2002 revenue growth to slow to 10-15 per cent, down from 26 per cent in 2001, as the country opens its doors to foreign competition.

Current situation...

major
structural
changes are
underway

Likely changes in future...

- More foreign direct investments and competition
- More penetrating domestic reforms in:
 - intellectual property rights protection
 - standard and quality improvements
 - product research and development
 - export of Chinese medicine products

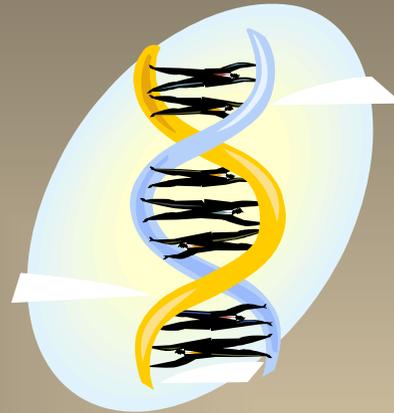
... rapid rise in demand for professional expertise in service, management, education and research

What can and should you do?

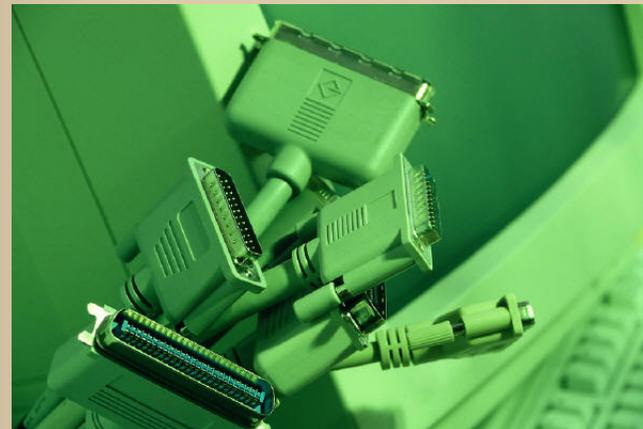
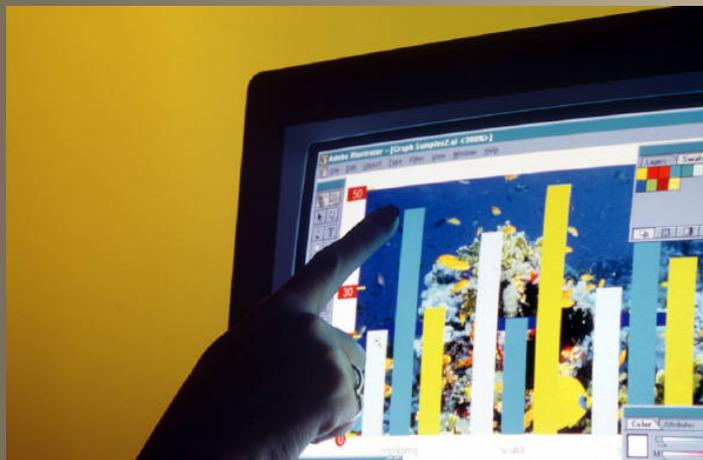


But what
changes are
likely in
healthcare?

New technologies offer huge opportunities to improve health care...

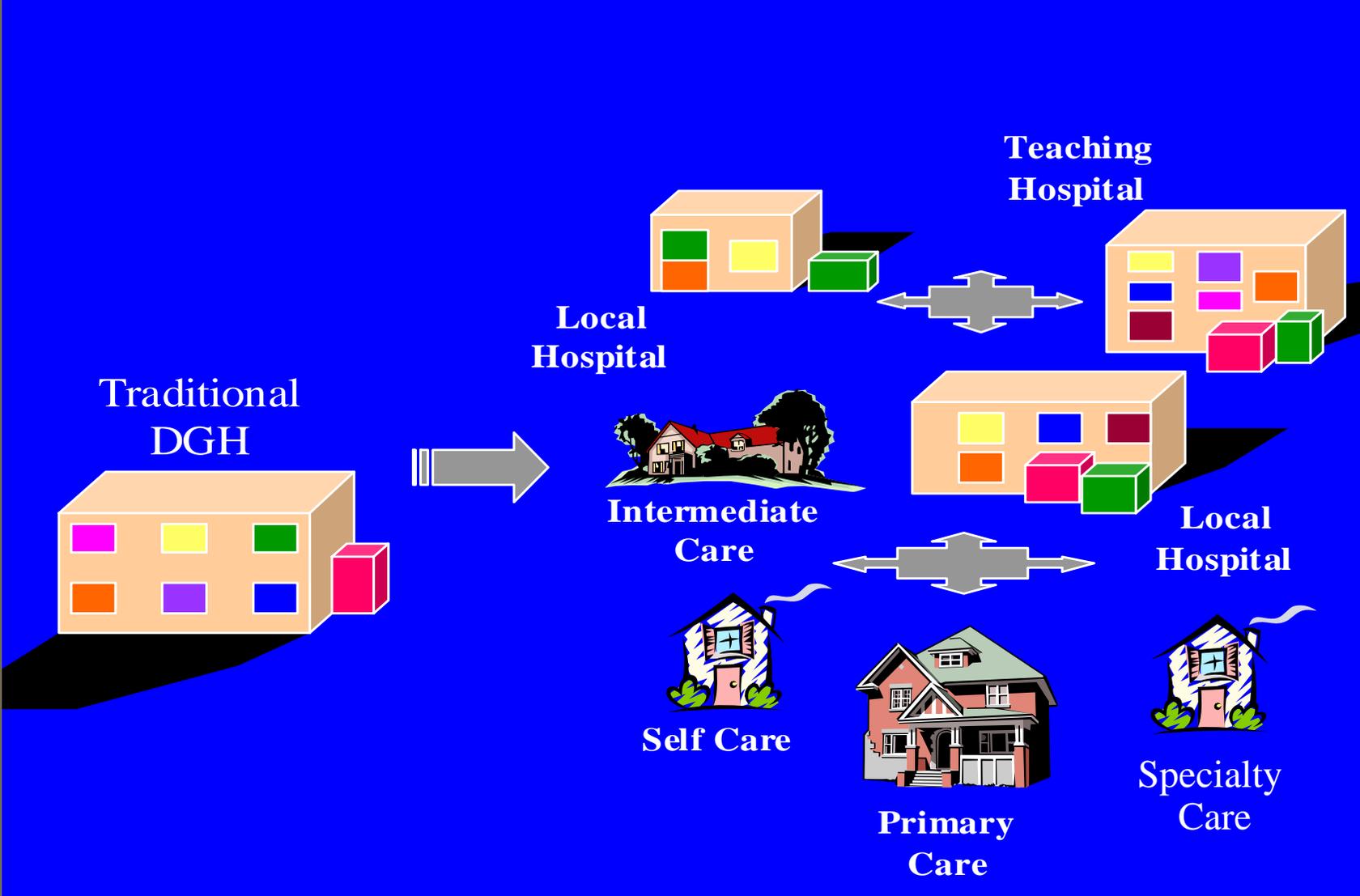


More effective treatment for more conditions...



IT enables - better management, evidence base, service connectivity

Hospital care unbundling...



Private Healthcare: a growing trend...

“Private healthcare provision is **growing** in low and middle income countries. The poor, as well as the rich, often seek health care from private providers, including for conditions of public health importance such as malaria, tuberculosis, and sexually transmitted infections...[But] poor people spend a greater proportion of their income on health care (private or public) than do the rich, often using **less qualified or totally untrained private providers.**”

AB Zwi et al

“Private health care in developing countries”

BMJ: 1 September 2001

INSIDE THE HOSPITAL...

significant cultural change



Unplanned care (80%)	⇒	Planned care (80%)
PUSH	⇒	PULL
Capacity led provision	⇒	Demand led provision
Medical Firm	⇒	Multi-disciplinary team
Variable quality care	⇒	Protocol/consistent care
Institutional focus	⇒	Pathway/network focus
Dis-empowered Patient	⇒	Empowered Patient

当今社会已进入知识经济时代，特别是我国加入世贸组织以来、护理工作正面临新的挑战，院领导和护理部对护理工作提出了更新更高的要求。为了跟上时代发展的步伐，系外科积极响应上级领导的号召，在社护士长王晓兰带领下，充分**解放思想更新观念**，从管理工作抓起，努力**提高**护士长的**管理素质**，并下发《护士长管理知识问答》，各科护士长在完成本职工作的前提下，**挤时间、找时间、抽时间努力学习并认真领会管理知识的深刻内涵**。

商丘市第一人民医院

Does China matter to Hong Kong or vice versa?

- Hong Kong has been China's most important **entrepot**
 - 33% of China's foreign trade were handled via Hong Kong
 - 98% of Hong Kong's total re-exports (US\$170.2 billion in 2001) were either originated from or destined for China
- Hong Kong is the largest source of **foreign direct investment in China**
 - 51% of nearly 400,000 overseas funded projects in China were tied to Hong Kong interests
- China was Hong Kong's second largest source of **inward investment**
 - At end-2000, over 1,800 China-backed enterprises with assets totaling in excess of HK\$1,600 billion were registered in Hong Kong
- Hong Kong was China's 3rd largest **trading partner** (after Japan and the US) in 2001 and China has been Hong Kong's largest trading partner since 1985

Enhancing your competencies...

**Necessary but
not sufficient**

**Skills
Knowledge**

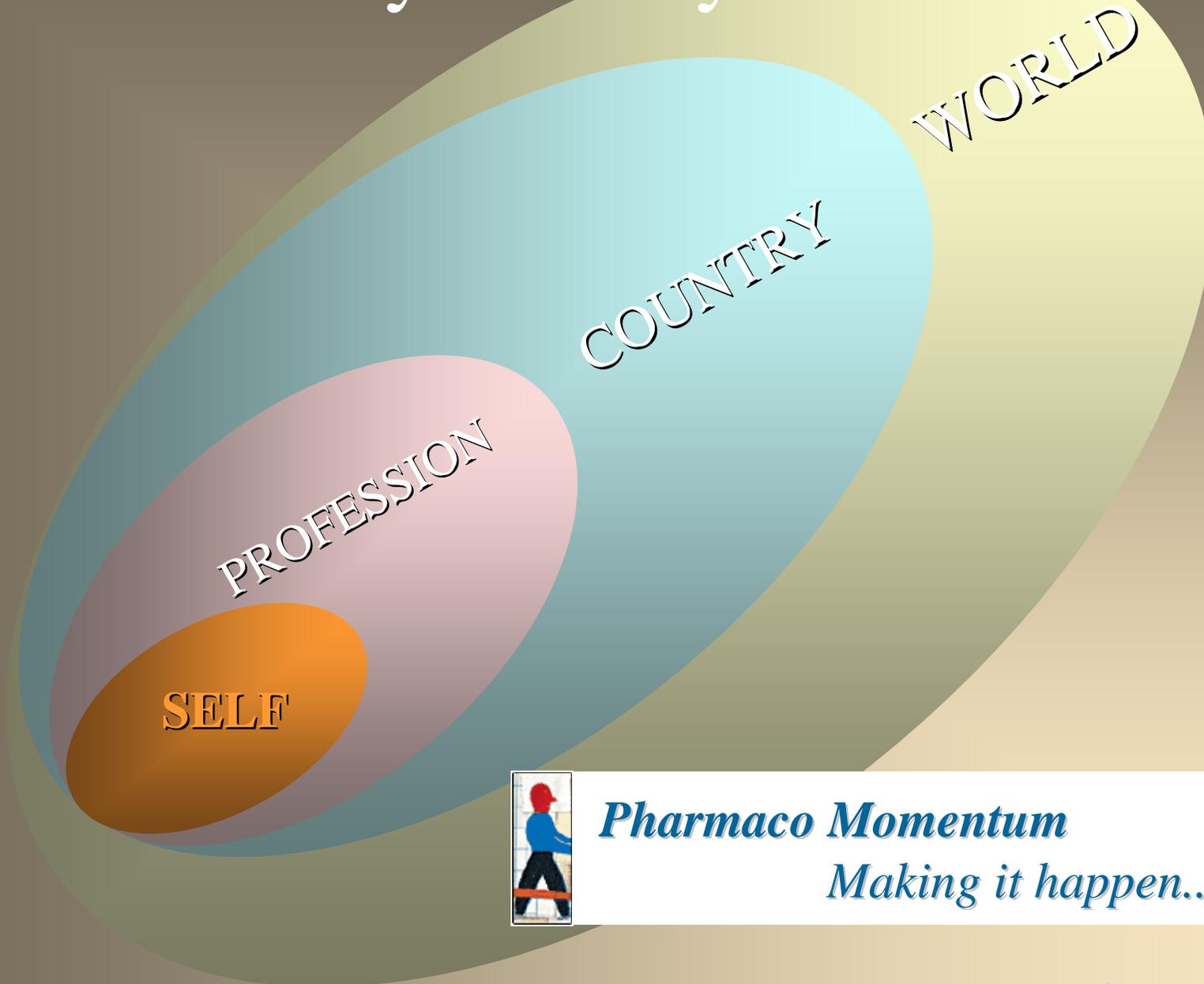
**Acquired
Capability**

**Distinguish
effective
performance**

**Values
Self-image
Traits
Motives**

**Deep Seated
Characteristics:
these are
competencies
that drive
people's long
term behaviors,
thus their long
term success**

The world is your only limit...



Pharmaco Momentum

Making it happen...

Thank you!

