

LESSONS FROM A NEIGHBOUR

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Industry & Services Sector

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The world has witnessed a transformation in health care during the last century. Prescription drugs have helped wipe out diseases and revolutionise cures, which has resulted in better treatment outcomes, more effective pain management and people living healthier, longer lives. The global bio-pharmaceutical industry has seen a steady growth of 3-4% annually over the past five years, with India enjoying an annual growth rate of 9-12%. India is the 11th largest pharma market in the world and will rise to ninth position by 2022. Over 40% of its domestic output (by value) is exported to several countries. It accounts for 20% of the global supply of generic medicines, 60% of all vaccine supply and 80% of all antiretroviral drugs used against HIV/AIDS. Unsurprisingly, India is frequently referred to as 'pharmacy to the world'.

However, India is a very long way from realising its potential for bio-pharmaceutical innovation. We should be looking to the competitive advantage that we could derive from an environment that encourages and values innovation. While it might be unrealistic to aspire to the ecosystems of mature economies such as the U.S. or Japan, we must look to and learn from advancements taking place in our neighbourhood — in the emerging economy of China. The best barometer to measure the health of any research-based industry must be the extent of investment from private equity and venture capital investors. While the traditional choices for bio-pharmaceutical investment have been the U.S. or Europe, China is increasingly becoming the favoured destination for investors in this industry.

As China has continued to modernise, its competitiveness (documented in the Global Competitiveness Index) has grown steadily over the past decade. In 2015, China began reforms that grew out of the nation's aspiration toward greater competitiveness and a desire to become a leader in global drug innovation. Since then, the country has focussed on intensive, industry-wide efforts to reshape policy. China is coordinating the effort and a meaningful change is coming about.

The global industry believes that the changes under way in China will serve to make its pharmaceutical market more competitive and more attractive.

There are several reasons for investors to be upbeat. While China's growth has slowed, it will still outstrip the major Western economies at 6% through 2022, compared with the 2% growth expected in the U.S. China's intellectual property (IP) environment is also improving steadily. The 2018 report from the U.S. Chamber's Global Innovation Policy Center, now ranks China at 25 (India is 44). Sweeping IP reforms are being proposed in China and big regulatory changes expected in its biopharma industry. These are aimed at attracting investment and transforming the bio-pharmaceutical industry into an innovation-focussed sector, on a par with the U.S. and Europe.

These advancements will make China more attractive to investors, causing them to divert capital away from other markets and stimulating greater investment in its bio-pharmaceutical industry. More deals are likely to focus on innovation and this focus will make the market more competitive, leading to increased cross-border and domestic mergers and acquisitions. While investors cite market size as the single most important consideration, they are surely to be encouraged by the efforts being taken by the Chinese government. Though headwinds remain — pricing and reimbursement as well as the dominance of non-innovative generics and the

prevalence of Chinese medicines — the government's will and commitment are expected to address these challenges.

And what of India? Two years ago, the Union Cabinet approved a new Intellectual Property Rights (IPR) policy with the objective of unveiling a 'Creative India, Innovative India'. The National IPR Policy was intended to be a critical step towards a stronger and more competitive economy, ultimately providing a 'secure and stable climate for stimulating inventions and creations'. We must do much more. A multi-stakeholder roundtable in 2017 focussed on unlocking India's potential in biomedical science and innovation, and its report released. It extensively cites a PricewaterhouseCoopers study that stresses the importance of strengthening our bio-pharmaceutical innovation ecosystem across the four key dimensions (infrastructure, finance, human resources and legal/regulatory framework). Perhaps India will pay heed and also take some cues from China, to leverage our inherent strengths and get ahead in this race for competitiveness.

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