

Brian Tempest, former president and CEO of Ranbaxy Laboratories, says the vibrant economic strength of China and India represents a business opportunity for pharma

Moving east?

The West has started 2010 hoping for a better year economically. But it is in the East where fortunes are rising. In Asia and India, in particular, growth in gross domestic product of 8%-10% is being forecast. Where once there was jungle, there are new shopping malls with Versace and Chanel shouted from the shop windows. And for the first time corporate offices in downtown Delhi are sporting rooftop waterfalls and lawns. Meanwhile, China's rising economy was the most-read news story of the last decade, surpassing even 9/11 and the Iraq war.

In the past, China and India have accounted for around 37% of the world's population, while owning only 14% of global wealth. By contrast, the USA and the European Union have only 17% of the global population but own a massive 55% of global wealth. This means that a part of the world has substantial historical wealth and the other has dynamic economic growth and a rising middle

class. Consultants McKinsey & Co have forecast that a consistent 7% growth in India's Gross Domestic Product to 2015 will bring the middle class population to 281 million, and to 600 million by 2025. These numbers overshadow the current size of the middle class population in the USA. Investment bankers see enormous opportunity here for synergising this wealth and growth through alliances, mergers and acquisitions.

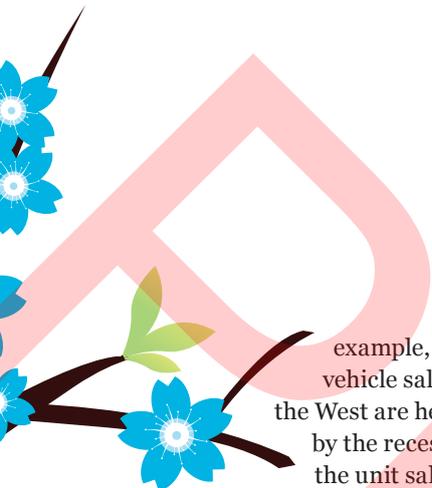
One of the driving forces of this growth is the high regard Asia places on education and science. India has increased its science and technology budget from \$4 billion in 2004/5 to \$6 billion in 2008/9. This contrasts with the UK where the Chancellor has recently announced a \$1 billion cut in the country's science and technology base.

It is generally accepted that India is strong in chemistry and maths, with China stronger in biology. There are now a dozen internationally ranked business schools setting up in the Delhi area, and indeed Lancaster University

Management School already has 1,000 students at the Goenka World Institute in Gurgaon, the sixth largest city in the Indian state of Haryana. However, it is China that has quietly become the second source of scientific knowledge, surpassed only by the USA. China now produces 20% of the new scientific knowledge in material sciences, and while quantity is not the same as quality, 9% of Chinese papers do have a US-based co-author.

Moving forward in top gear

The importance of these developing economies is highlighted by the relocation from London to Hong Kong of HSBC's chief executive, Michael Geoghegan, in January 2010. Indeed, business in this region of the world is going forward in top gear. As an



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example, while vehicle sales in the West are held back by the recession, the unit sales of Maruti Suzuki

motor vehicles grew 51% in December 2009, and 32% for the nine months to December 2009.

This growth is mirrored by the generics market – or branded generics market as it is known – which continues to be profitable, in contrast to the low profit commodity generics markets of Western Europe.

But to understand India properly it is necessary to be familiar with the so-called 'promoter' families and their role. One third of the Standard & Poor's 500 companies in the USA and 40% of the top 250 companies in France and Germany are family owned. Those companies that survive to the third generation of family members often do better than their corporate peers and are seen as attractive options by private equity investors. So, the

Singh family decision to divest its interests in Ranbaxy has led to a number of dramatic changes in perception in India, and other Indian promoters are now themselves looking at the best way to distribute the family wealth.

Meanwhile, as expected, the country's new intellectual property regime has slowly reduced the generic product pipeline available to Indian companies on the domestic market. Although the local market saw strong double-digit growth in 2009, with 40% of sales going for export, a new era faces the Indian CEOs and promoter families

with a large number of discovery pharma CEOs and Indian promoter families currently in strategic discussions. These conversations are having a significant impact on the global pharmaceutical marketplace, and will have an even greater impact in the future.

At the same time, the failure of the old R&D model has led many discovery pharma companies to reconsider their strategy, widen their vision and open new dialogues in the developing world. That 82% of the world's population shares 12% of the world's drugs affords an important business opportunity, and this is strategically reflected in a number of ways: some discovery pharma companies have a generics strategy, some have a developing world strategy, some have an outsourcing strategy and some have all three. In addition, some have a parallel strategy of expanding in vaccines, consumer/OTC and healthcare venture capital investments.

Ultimately, discovery pharma will expand strongly in Asia and the developing world and present both a pharmerging and developed markets face to the world. With the new generation of global CEOs, there is every likelihood an international deal on intellectual property will be cut, with two different levels of IP protection for the OECD and pharmerging markets. The first signs are already showing in the dual pricing policy that some discovery pharma companies are now following in Africa and Southeast Asia.

The vibrant economic strength of China and India is pulling along the Southeast Asian and Oceanic economies as their supply chains are integrated into adjacent countries, in particular Taiwan, Japan, Australia and South Korea.

More than 200 international companies have R&D innovation centres in India, with 40% of them located around Bangalore. The dollar spend per ounce of innovation is said to be dramatically different when different R&D facilities are compared and downsizing is on the agenda.

The contract and research market is forecast to be worth in the region of \$76 billion by 2010. What is surprising is that both India and China represent only a small percentage of this marketplace. India itself only has a 4% share. But the potential for expansion is huge and explains why the investment community sees this sector as a vibrant one. Indeed Pfizer is predicting it will have 30% of its manufacturing outsourced by 2010.

Some of the current alliances are unusual partnerships based on the historical position taken by these companies in the past. In this East-West dialogue what has happened to date will probably be overshadowed by what is yet to happen in the light of the many discussions now taking place. **PT**

Brian Tempest advises companies, banks and investment funds on their strategy for Asia. Until 2005, he was President and CEO of Ranbaxy Laboratories.