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New scheme in China supports local generics manufacturers: GlobalData

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The Chinese State Medical Insurance Administration introduced a new procurement in a recent round of reforms pilot scheme across 11 major cities to lower drug prices. The scheme will directly impact big multinational pharma companies and help domestic generics manufacturers to dominate the market, says GlobalData, a leading data and analytics company.

According to multiple local reports, multinational pharma companies were awarded only two contracts despite bidding to supply almost all of them, while 23 contracts were awarded to domestic Chinese manufacturers. The average price dropped 52%, with the highest price reduction being 96%.

Prashant Khadayate, Pharma Analyst at GlobalData, says: “China is aware of the fact that multinational pharma companies were most favored for off-patent drugs due to the fact that the latter were of better quality than the products of domestic generics manufacturers. However, this scenario is going to change soon with the newly implemented procurement scheme as well as the execution of Generic Consistency Evaluation (GCE) reform (which was rolled out in 2015). The success of local generics manufacturers in the new procurement scheme can be attributed to GCE implementation as well. In parallel, leading domestic players will have a strong edge in the current market scenario over small domestic players and this could lead to further consolidation in the sector.”

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To benefit generic drug manufacturers, the Chinese government has made amendments in the tax policy as well. Generic drug manufacturers who would be designated as ‘high tech enterprises’ would have a reduced corporate tax rate of 15% compared to the 25% tax rate for other companies.

Khadayate concludes: “The procurement scheme can be termed as an extension of existing reforms to reduce healthcare spending in China. It will directly impact multinational pharma companies which were enjoying premium pricing for their off-patent branded drugs. However, these companies should not get affected by this setback as there remain opportunities in the innovative drug space in the Chinese market, and the time is apt to fuel the growth engine through effective research and

development and commercialization strategy.”