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2015 life sciences outlook
China

The value of China's pharmaceutical market was estimated at $83.3 billion in 2013, and revenues are expected to grow by a CAGR of 6.3 percent a year (in U.S. dollar terms) over 2014-2018.[1] By 2016, the value of pharma sales in China is expected to be greater than that in Japan, currently the world's second-largest market.[2]

The opportunities for life sciences companies to drive growth in China are less clear in 2015 than in the previous decade—the operating environment is difficult and the risks are considerably higher.[3]

The past 24 months have seen a rapid acceleration in the development of the life sciences and health care market in China. This trend will continue as government support and changing lifestyles combine to increase health care supply and demand.[4] However, with this acceleration comes rising uncertainty about where the market is headed and how it will impact the companies that operate within it, especially as the government experiments with ways to expand health care accessibility, improve quality, and control costs.

China's pharmaceutical market = $83.3 billion in 2013

Growth rate = 6.4 percent annually in 2014-2018

Pricing pressures will continue to be a major challenge for life sciences companies, although China is backtracking on its policy of mandating maximum retail prices on certain drugs. The policy had inadvertently resulted in drug shortages and patient safety risks because some manufacturers closed production on low-cost drugs while others started to use poorer-quality ingredients to reduce production costs.[5] Government involvement in drug pricing should remain strong in 2014-18, partly through specifying which drugs will be reimbursed under the Essential Drugs List (EDL) and other public health insurance plans.[6] An era of lax regulatory enforcement appears to be over as China's anticorruption campaign targets domestic and foreign life sciences companies. According to Reuters, as of May 2014 more than half of all drug makers operating in China were being investigated in one or more areas.[7]

The opportunities for life sciences companies to drive growth in China are less clear in 2015 than in the previous decade—the operating environment is difficult and the risks are considerably higher.[8] Rapid economic growth and expansion has slowed in China, and this, combined with the changing health care system, is squeezing margins and forcing life sciences companies — both domestic and multinational — to rethink the way they do business in the country, particularly if they want to continue on a trajectory of rapid growth and expansion.

1 *Industry Report, Healthcare: China*, The Economist Intelligence Unit, August 20142
2 Ibid
3 *Fortune favors the bold: Unlocking the future of China's pharmaceutical market*, Deloitte Development LLC, 2014
4 Ibid
5 *Industry Report, Healthcare: China*, The Economist Intelligence Unit, August 2014
6 Ibid
7 Ibid
8 *Fortune favors the bold: Unlocking the future of China's pharmaceutical market*, Deloitte Development LLC, 2014

Looking at specific opportunity areas, technology and business innovations such as mobile healthcare (mHealth), eHealthcare, and new insurance models are driving horizontal and vertical consolidation. Life sciences manufacturers and distributors are acquiring health care service providers, and talking with insurance companies about joint ventures. Additionally, the government released a bio-industries development plan in 2013 that aims to help the segment double its value-add between 2010 and 2015. This strong state support could bolster biotech companies' efforts to grow their presence in China, and provides the impetus for large pharmaceutical companies to buy into biotech as their R&D functions struggle to fill the product pipeline.

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To learn more about the global trends and issues impacting the life sciences sector, please visit our 2015 global life sciences sector outlook at www.deloitte.com/2015lifesciencesoutlook.

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[9] Industry Report, Healthcare: China, The Economist Intelligence Unit, August 2014