

THE KEY ROLE OF THE LEADING EMERGING BRIC MARKETS IN THE FUTURE OF GLOBAL HEALTH CARE

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KLJUČNA ULOGA VODEĆIH RASTUĆIH BRIK TRŽIŠTA ZA BUDUĆNOST SVETSKOG ZDRAVSTVENOG SEKTORA

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ABSTRACT

The acronym 'BRIC' was coined in 2001 to describe the largest and most promising emerging markets outside the established, post-war, high-income economies. The nominal GDP growth rates of Brazil, Russia, India and China outpaced the growth rates of Western Europe, North America and Japan before, during and after the global economic crisis. This global phenomenon will have a significant impact on many branches of the economy, including the global demand for and provision of healthcare services. The key driver of this economic development is the existence of an enormous middle class in each of the BRIC countries. Both health insurance coverage and the package of services covered by health insurance plans are expanding in BRIC countries. Equally important is the overall increase in purchasing power in BRIC nations, which has been followed by the increased affordability of a vast portion of the medical goods and services that are commonly paid for out-of-pocket by ordinary citizens. When considering the changing landscape of global health care, one should also account for the slow and steady economic growth of most mature, saturated markets. This supports the notion that although consumer demand for health services remains strong in wealthy countries, the true expansion of the global market is occurring elsewhere. All major market analysis agencies have acknowledged this development and urged multinational healthcare companies to focus on emerging markets, and BRICs in particular, if they want to survive. Investment in emerging markets will remain the key to long-term profits and sustainability for pharmaceutical firms and medical equipment manufacturers across the globe for many years to come.

Key words: BRICs, emerging markets, global, health care, demand, medical services

SAŽETAK

Akronim BRIK je stvoren 2001 godine sa ciljem da se izdvoje ključna „rastuća tržišta“ van tradicionalno bogatih i razvijenih društava. Brazil, Rusija, Indija i Kina svojim stopama rasta nominalnog bruto nacionalnog dohodka nastavljaju da prevazilaze vodeće privrede Evrozone, Severne Amerike i Japana pre, tokom i posle poslednje svetske ekonomske krize. Ovaj globalni fenomen će ozbiljno uticati na preoblikovanje tražnje i ponude medicinskih usluga kao i u drugim oblastima privrede. Ključan uzrok novonastalih promena je nastanak i narastanje masivnog srednjeg građanskog sloja u ovim zemljama. Pokrivenost stanovništva zdravstvenim osiguranjem kao i raznovrsnost usluga u okviru uobičajenih polisa se značajno proširuju. Jednako je važan rast ukupne kupovne moći praćen povećanjem priuštivosti onih medicinskih dobara i usluga koje se tradicionalno plaćaju iz džepa građana. Činilac koji doprinosi ovakvim promenama jesu i ustaljene stope sporog rasta u zrelih, zasićenih tržištima. Ovo se takođe ogleda u tražnji za zdravstvenim uslugama koja je stabilna u bogatim zemljama iako se istinski globalni rast zapravo događa u rastućim tržištima širom sveta. Ova činjenica je prepoznata od strane svih vodećih analitičara tržišta. Takve agencije otvoreno savetuju medicinske multinacionalne kompanije da se usredsrede na BRIK privrede ukoliko žele dugoročni opstanak na svetskom tržištu. Ciljna strategija da bi se postigle i održale profitne marže u industriji farmaceutika i medicinske opreme će ostati ulaganje u tržišta u razvoju, za dugi niz godina koje dolaze.

Ključne reči: BRIK, rastuća tržišta, globalna zdravstvena zaštita, tražnja, medicinske usluge





THE ECONOMIC MIRACLE OF BRIC NATIONS

The 'BRIC' acronym was coined by US economist of Irish origin Jim O'Neill in a 2001 paper in which he posited that a particular set of countries (namely, Brazil, Russia, India and China)—the so-called major emerging markets—had become the primary drivers of global economic growth (1). This development was made possible by fundamental societal changes that transpired independently in each BRIC country several decades ago. BRIC nations share a common history of centrally planned and managed economies that were successfully transformed into market economies after policy makers in the various BRIC countries embraced this goal in their respective long-term strategies. An important aspect of this unseen prosperity was the development and growth of South-South trade among the emerging economies (2). Economic history dating back to the Colonial Age has been dominated by North-North trade and North-South investment, the latter being used by firms in the North to produce affordable goods and services using the skilled but cheap local labour that is available in the South; the goods and services produced in the South were then sold at high prices in the wealthier North markets. South-South commerce has tripled over the past several decades, primarily as a result of the abundant supply of natural resources in Russia and Brazil and the massive service and manufacturing sectors in India and China, respectively. Today, India and China are the major purchasers and consumers of the natural resources found in Russia and Brazil. The Russian Federation's unique position as the leading global supplier of fossil energy (both oil and natural gas) to China, which has an enormous and growing hunger for energy and resources, also contributes significantly to South-South trade (3).

Another key factor is that the traditional, mature, high-income markets of Western Europe, the US and Japan are now saturated and characterised by stable or steadily decreasing demand for goods and services. These wealthy countries were actually more vulnerable to the recent global economic crisis, and they have since suffered significantly from long-lasting recessions. In contrast, the BRIC countries recovered from the economic crisis relatively quickly (4) because they used the recessionary downturn in foreign demand and exports as an opportunity to reorient themselves towards domestic consumption. Given the huge populations of each of the BRIC countries and the overall trend of a growing middle class with more purchasing power than ever before, this strategy proved very successful for BRIC countries, and it even drove additional domestic growth and recovery in these regions. In sum, all of these phenomena have contributed to the overall impression that most global market growth is occurring outside of the developed Western economies (5). US-based Goldman Sachs® is one of the most frequently cited sources for the prediction that the combined nominal GDP of BRICs will likely overtake the combined nominal GDP of G7

countries until 2030 (6). This development is likely to be particularly evident in the healthcare field and associated industries, as explained further below.

THE IMPACT OF BRICS ON GLOBAL HEALTH CARE

The nominal GDP growth rates of Brazil, Russia, India and China outpaced those of Western Europe, the US and Japan before, during and after the global economic crisis (7). This global phenomenon will have a substantial impact on many branches of the economy, including the global demand for and provision of healthcare services (8). The key driver of this economic growth is the recent emergence of enormous middle classes in BRIC countries (9). Although a middle class previously existed in Russia, reaching its maturity at the height of real socialism, the Russian middle class effectively disappeared during the depths of the severe Russian recession that reached its nadir in 1998 and affected most of the Eastern European satellite economies. In comparison, the other three BRIC countries have never before successfully created this critical population of consumers with decent purchasing power. During last twenty-five years, each of the BRIC countries has undergone a painful but curative societal transformation towards increased work productivity and greater overall economic efficiency (10). Each country evolved at its own pace and overcame its own unique hurdles to lay the groundwork for long-term prosperity and an increased likelihood of achieving a welfare state (recall that it is widely believed that the US, Japan and Western Europe each achieved a welfare state during the early post-war decades (11)).

The milestones achieved by BRIC nations in health care accessibility include bold expansions of health insurance coverage for the general population and of the package of medical services provided to the insured. These expansions were made possible by increased health care expenditures in BRIC countries (12, 13).

Investment in healthcare-related research and development (R&D) by both government and private sector funds in BRIC countries is growing correspondingly. Nonetheless, with the exception of Russia, the contributions by BRIC societies, in terms of genuine, patented innovations, remain low relative to Western countries. However, this situation is likely to change soon due to the massive build-up of human resources and institutional R&D capacities in BRIC nations (14, 15).

Even more important is the overall growth of purchasing power in BRIC countries, which has been followed by the increased affordability of a vast portion of the medical goods and services that are commonly paid for out-of-pocket by ordinary citizens (16). When assessing the changing landscape of global healthcare, one should consider the slow, steady (and even decreasing, during recessions) economic growth rates of most mature, saturated markets. This trend supports the notion that although consumer demand for health services remains strong in



wealthy countries, the expansion of the global healthcare market is occurring elsewhere, namely, in the emerging regions of the globe. Most major market analysis agencies have recognised this development (17) and thus have urged multinational healthcare companies based in the West to focus on emerging markets, and BRICs in particular, if they want to survive. Moreover, emerging markets will remain the key to sustainability and long-term profits for pharmaceutical firms and medical equipment manufacturers across the globe for many years to come (18). Note that this forewarning applies not only to pharmaceutical companies but also to firms involved in laboratory assays, diagnostic imaging, implants, surgical equipment, orthopaedics and dental products (19). Chinese companies already have near monopolies in medical equipment markets in Third World regions, due to the relatively low cost of Chinese products, and have made significant inroads in developed markets (20, 21).

The rare exception to the market trends described above is that the pharmaceutical markets in the US and Japan are likely to remain the first- and second-largest pharmaceutical markets in the world, respectively, for many years to come, particularly if market value is measured based on sales of branded drugs (22). However, this prime example of an old market-hierarchy resistant to change is already being gradually eroded by the aggressive marketing of generic drug manufacturers based primarily in India. Low-income and most middle-income regions across the globe are unable to afford branded drugs; most of these regions are also unable to afford the relatively expensive “branded generics” marketed by multinational firms such as Swiss firm Novartis® and Israeli firm Teva®. Therefore, poor countries were the first target markets for inexpensive generic drugs coming from India and, to a lesser extent, from China. The powerful Indian generic drug manufacturing sector is globally competitive and has, thus far, adapted to over 200 different national markets across the globe, including the highly regulated drug markets of Japan and the major Western economies (22). If market value is measured based on sales of branded drugs, the dominance of prominent commercial companies remains undisputed. However, if consumption and sales are measured in terms of defined daily doses (DDD), large Indian companies such as Ranbaxy® have already overtaken in many markets that are likely to grow substantially in the future. As the standards of living and GDPs of many minor emerging countries increase, the values and global market shares of their respective pharmaceutical markets will also increase, as will the revenues of their BRIC-based suppliers (23).

One of the vulnerabilities of such dynamic and sudden development is the continuing rapid urbanisation of BRICs’ respective populations, particularly China and India (24). Urbanisation entails an ambitious build-up of infrastructure, including improved networks of all types of healthcare facilities, in remote regions. The Semashko healthcare system developed in Russia during the Soviet era has left a vast hospital-based system with high bed availability and

large physician numbers across most of Eastern Europe (25). This was not the case for the three other BRIC countries; thus, they needed extensive “de novo” development (26). The massive expansion of healthcare institutions into rural areas of China, India and, to a lesser extent, Brazil, will have a significant effect on dominant trends in other branches of medicine, which in turn will provide a large portion of the world population—a portion of the population that is currently rather isolated—access to modern day healthcare technology and medicine. This access will increase standards of living in these communities by increasing life expectancy, quality of life and access to modern medical care (27). Cutting edge medical technologies were previously reserved almost exclusively for wealthy societies and the rather small ‘elite’ segments of low- and middle-income communities across the globe. Based on all of the developments discussed above, multiple additional waves of consumer demand for medical services are likely to occur throughout BRIC countries in the future (28).

THE LONG-TERM IMPACT OF GROWTH IN EMERGING MARKETS ON GLOBAL HEALTHCARE

Leading multinational healthcare companies have been watching the development in BRIC countries closely for a number of years. Many of these firms have implemented complex and extensive strategies to increase their presence in BRIC regions and thereby secure long-term competitive success. However, the enthusiasm of multinational firms has been dampened by the recent adoption of protectionist national policies by BRIC governments (29). BRIC countries are aware of their newly acquired geopolitical reach and significance and have implemented certain economic policies to improve the global competitiveness of domestic companies. For example, the Russian Federation has decided to support market domination by locally produced medicines. Brazil has imposed additional taxes on imported goods and services to distinguish them from less expensive domestic options. China is currently introducing a fast-track pharmaceutical approval process that is likely to discriminate against manufacturers that submit evidence from clinical trials conducted outside of mainland China. India is developing a pricing system that will limit and/or decrease the prices of imported drugs and medical equipment, such as implants, laboratory assays and diagnostic imaging consumables, to make these products more affordable to the vast portion of India’s population that remains below the poverty line (30).

Finally, there are other emerging countries that should be mentioned for their obviously strong long-term economic prospects and their potential reach in the global healthcare market. These countries are frequently identified as the “Next Eleven” or other monikers, and they are, in decreasing order of importance: Indonesia, South Africa, Vietnam, Mexico, Turkey, Argentina, Thailand, Chile,



South Korea, Malaysia, Egypt, Nigeria, Columbia, Saudi Arabia and Poland, as well as several others (31). However, despite their undisputed growth and bright future prospects, most of these countries lag substantially behind even the weakest BRIC economy in terms of natural resources, population size and real development potential (32).

The national economic growth and overall development of the People's Republic of China clearly dominates the BRICs. The long-term growth of China's GDP and its contribution to the global health care market is likely to far exceed not only those of the other BRIC nations but also those of most G7 economies (33). During this very painful and delicate transitional period, health policy authorities in emerging countries must be aware of the key weaknesses in the provision of medical services to the general population. The decisiveness of governmental authorities, and their ability to deliver solutions, will determine the extent to which healthcare developments will be manifested through better clinical outcomes, improved longevity and better quality of life (34).

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