

IMPACT OF COVID-19 ON THE PHARMACEUTICAL INDUSTRY

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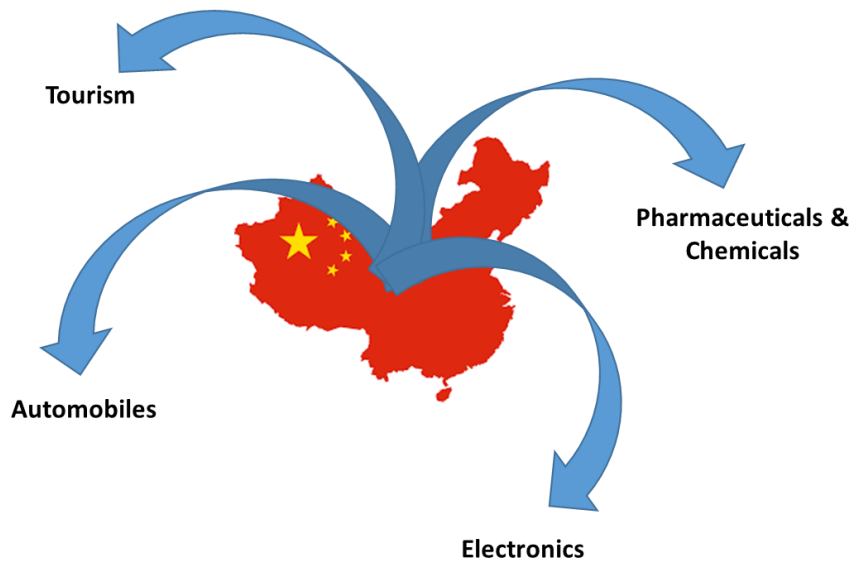
The United States undoubtedly leads the world, in terms of healthcare spending, accounting for US\$ 3,649.4 billion in 2018. China on the other hand, spent US\$ 833 billion in 2018. China has been at the forefront in terms of investments across sectors, and surpassed Japan as the second most valuable pharmaceutical market globally in 2018. This happened as Chinese pharmaceutical sector recorded a revenue of around US\$ 137 billion in 2018.

In the healthcare sector, China showcased a Y-o-Y growth of 2.4% in 2018 and is expected to exhibit a growth of around 5% in the coming five years owing to favorable government policies. Domestic demand also grew by 6.3% in 2018 compared to 2017. The Chinese government has made reforms which align with the objective of producing innovative drugs, which is a major difference between China and other leading pharmaceutical economies. These reforms/policies include developing multinational clinical centers, accelerating the approval process of special medicines, sharing clinical data globally, and enhancing the protection of clinical data. Moreover, in November 2019, the National Healthcare Security Administration announced inclusion of 70 new drugs which will be included in China's National Medical Insurance catalog, with their prices slashed by 60.7% on an average.

However, the question today of vital importance is whether these facts still hold true amidst the outbreak of the novel coronavirus?

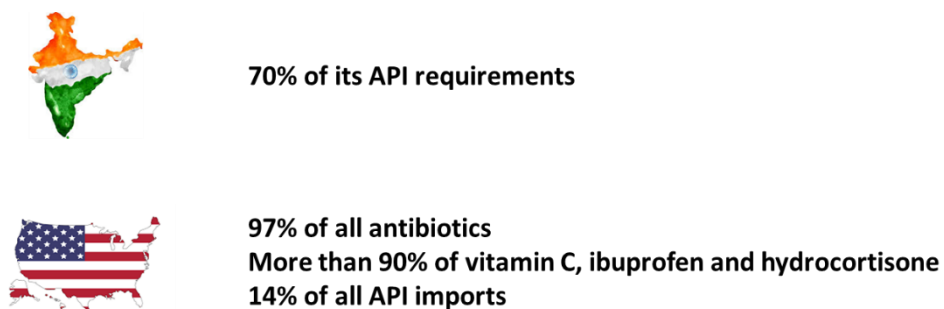
So far (1st April 2020), China registered more than 82,632 cases of COVID-19 and more than 3,300 deaths. However, the situation is under control in China, where the new cases and new deaths being registered have reduced drastically in the past one week. During the same time, the situation in the United States and Europe has worsened to a greater extent. These regions have crossed China in terms of new COVID-19 cases and deaths.

FIG. 1 Major Industries in China Impacted by the COVID-19



China is the global center of active pharmaceutical ingredients (API). Various countries, especially India and other emerging economies, depend on China for API sourcing. India imports nearly 70% of its API requirements from China, which accounts for US\$ 2.4 billion. Besides, 97% of all antibiotics in the U.S. are imported from China. More than 90% of vitamin C, ibuprofen, and hydrocortisone are imported by the U.S. from China. Moreover, China accounts for nearly 14% of all API imports in the U.S. Although, the U.S. is a leader in drug discovery, most of its manufacturing and raw materials are sourced from other countries.

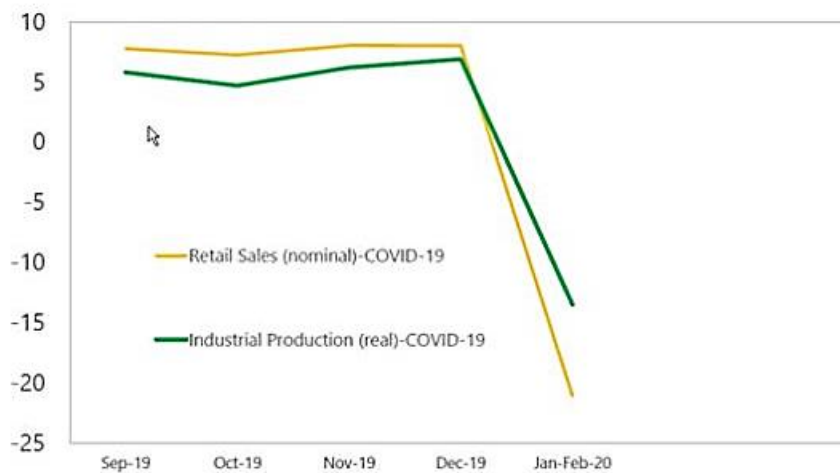
FIG. 2 China’s Dominance in Raw Materials



In short, if China shuts its door on exports, within few weeks, pharmacy shelves would be bare and healthcare system across the globe would cease to function.

Coronavirus or COVID-19 has created a dent and panic in the healthcare industry. Social distancing has led global supply chains to shut as preventive measure to curtail the spread of COVID-19. Globally, cost-cutting has been implemented to sail in this situation. Switching to other suppliers is nearly impossible for pharmaceutical companies in this period, as other suppliers need to have approval for exports by regulatory authorities, which would require additional time and cost. Although, pharmaceutical companies keep three to six months of inventory, that would not be enough to certify another supplier or production plant.

Retail sales and industrial production in Mainland China has affected significantly due to the COVID-19 pandemic.



Source: Haver and IMF staff calculations.

COVID-19 has overloaded the healthcare system in **Europe**, especially the EU-5 countries. In the U.K., 22,154 cases of the novel coronavirus were reported as of April 1, 2020. Highest among is England, with 21,000 cases. Supported by a GBP 20 million investment, the COVID-19 Genomics UK Consortium which comprises the NHS, Public Health Agencies, Wellcome Sanger Institute, and numerous academic institutions intends to deliver large scale and rapid sequencing of the

cause of COVID-19 and share intelligence with hospitals, NHS centers, and the government.

- The **U.S. government**, approved US\$ 8.3 billion emergency fund to treat and prevent the spread of novel coronavirus, COVID-19. This fund will be utilized for R&D, procurement of vaccines, therapeutics, diagnostics, support the state and local health agencies in the U.S., and spread awareness on international scale.
- On March 13, 2020, the **WHO, UN Foundation, and partners** launched first-of-its-kind COVID-19 Solidarity Response Fund. Individuals, organizations, and governments are welcomed to donate an amount to this fund which would support actions from the WHO's COVID-19 Strategic Preparedness and Response Plan.
- On March 13, 2020, the **European Commission** proposed to direct an amount of EUR 37 billion to fight the Coronavirus crisis
- **Iran**, which is among the most affected countries in this pandemic, has asked for a **US\$ 5 billion emergency fund** from the **International Monetary Fund (IMF)** to fight novel coronavirus in its country

Insurance Industry – Living a life of uncertainty as well

During this pandemic situation, the health insurance industry is witnessing moments of joy, followed by moments of worry. The industry is happy, considering the fact that number of inquiries are increasing for new policies rising amidst the outbreak of COVID-19. Indian health insurers have seen nearly 30%-40% rise in inquiries for new policies. Moreover, few companies are creating a standalone coronavirus cover. **Insurance start-up Digit** is one such company. This seems to be short-sighted by growing number of claims from COVID-19 hospitalized patients.

Coherent Market Insights is analyzing the impact of the novel coronavirus on the global industry and will be sharing the updates.

Sources: China.org.cn, Council on Foreign Relations, U.S. Department of Commerce, NY Times, IMF, Economic Times, UK NHS, Press Releases, Thomson Reuters, Japan Times, Coherent Market Insights

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