

INDUSTRIAL SURVEY

Pharmaceuticals Plagued by Social Welfare Revisions

Japan's pharmaceutical industry faces big changes as it seeks to cope with a serious problem: slow growth potential due to structural rather than temporary factors. The current lackluster growth stems less from market forces than from a change in the government social welfare philosophy that had helped the industry increase sales at better than 10% annually. As the government's medical insurance program increased the scope of its benefits and benefit payment levels, the nation's welfare spending also expanded. Now, however, an important goal for an administration faced with straitened finances is curbing benefits growth.

The government today shoulders about 35% of medical expenses, compared with between 16% and 20% in the decade ending in 1964, and without new government measures, the share will increase as the Japanese population ages. Studies by the Ministry of Health and Welfare's Institute of Population Problems predict that people aged 65 or older will total 31,890,000 in the year 2020, 2.6 times more than today. One of every four Japanese will be at least 65 years of age.

With government revenues expected to increase more slowly during the rest of the century because of slower economic expansion, the social welfare system is in danger of bankruptcy. Aware of this danger, the government has begun charging medical fees for the aged, and requiring



Japan's pharmaceutical industry has been hit hard by the government's revisions in the national health program.

the insured for the National Health Insurance to bear 10% of their medical costs. These measures are designed less to increase revenues than to raise medical cost-consciousness among the population and eliminate unnecessary visits to the doctor. The government has also cut the official price of pharmaceuticals four times since 1981 in an attempt to head off undue drug cost increases. These measures reflect the government's new commitment to keep the increase in medical expenses within the range of national income growth.

The reductions in the official prices of pharmaceuticals have hit drug companies hard. The latest 5.1% price reduction in April 1986 brought overall reductions since 1981 to 51.2%. As a result, the value of pharmaceuticals output recorded negative growth in 1984, and actual produc-

tion fell 0.6% in 1985 to ¥4,001.36 billion (about \$24.3 billion).

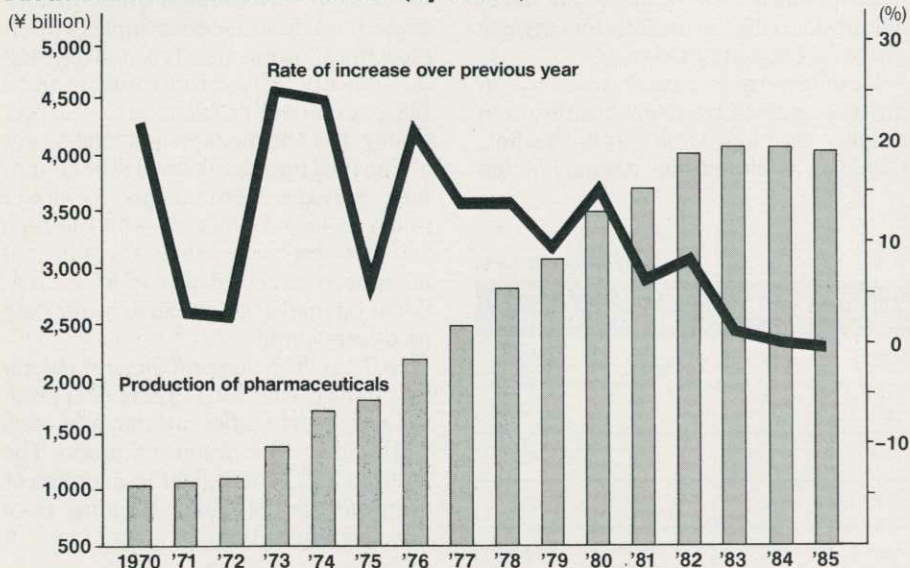
In 1986, the value of pharmaceutical production is believed to have risen again for the first time since 1983 as sales of new drugs developed to counter the official price reduction took off. The 19 major producers listed on Japan's stock exchanges saw combined sales climb an estimated 4.1%, and recurring profits rise 1.5% for 1986.

Individual companies, however, differed widely in their performance, with the gaps expected to increase in the years ahead. As corporate performance reflects the tug-of-war between official price reductions and the appearance of new products, companies with weak development capabilities will fall further behind. Even among producers with strong R&D, performance gaps are likely to widen depending on the timing of new product releases and marketing skills.

The development of new pharmaceuticals is the strategy of choice for companies to survive the fierce competition. New drugs produced by biotechnology, such as the interferon put on the market in early 1986, offer new opportunities for growth. But pharmaceutical companies are also resorting to internationalization to counter the slow growth in the domestic market. As Japanese companies come up with pharmaceuticals that can compete outside Japan, they are becoming increasingly aware of the value of aggressively marketing their drugs abroad. The year 1986 thus witnessed projects for bulk drug production in foreign countries, and the formation of joint ventures to take advantage of the foreign partners' marketing channels—the kind of internationalization that will accelerate from now on. ●

(Masahiro Inaba, economist)

Production of Pharmaceuticals (by value)



Source: Statistics on production of pharmaceuticals, Ministry of Health and Welfare