

**U**nder the market mechanism, the pharmaceutical industry in Vietnam started to develop and become an industry with high profitability. Many companies made their appearance, competition became keener and local ones are facing difficulties. Analyses and estimates of the business climate are needed for helping them find out advantages, opportunities, weaknesses and risks, thereby working out more suitable business strategies.

In the past decade, the Vietnamese economy grew steadily, the living standard was improved, personal income rose, the public started to pay attention to health problems and spent more on health care services. This is an opportunity for the Vietnam's pharmaceutical industry and also for foreign pharmaceutical companies.

**Table 1: Vietnam's growth rate in recent years**

	Indicators GDP (VND bil.)	Personal income (VND1,000)
1996	272,000	3,717.55
1997	313,600	4,218.12
1998	361,000	4,779.79
1999	339,900	5,220.84
2000	444,100	5,716.64

Source: Health Statistics Yearbook 2000

**Table 2: Government expenditure on public health**

Indicator	1996	1997	1998	1999	2000
Total budget expenditure (VND bil.)	75,900	77,380	81,995	95,972	100,731
Expenditure on public health (VND bil.)	3,610	4,499	4,512.3	4,750.2	5,098.7
Health expenditure as % of GDP	1.33	1.43	1.25	1.19	1.15
Health expenditure as % of budget expenditure	4.76	5.18	5.5	4.95	5.06
Per capita health expenditure (VND1,000)	49.3	60.5	59.7	62.0	65.6

Source: Health Statistics Yearbook 2000

**Table 3: Personal spending on drug**

	Personal spending on drug (US\$)		Personal spending on drug (US\$)
1990	0.3	1996	4.6
1991	0.5	1997	5.2
1992	1.5	1998	5.5
1993	2.5	1999	5.0
1994	3.4	2000	5.4
1995	4.2		

Source: Vietnam's Drug Administration

In recent years, the interest rate has been reduced and inflation well under control. This situation allows the pharmaceutical industry to increase the working capital and

# SOME OPINIONS ABOUT BUSINESS CLIMATE FOR PHARMACEUTICAL INDUSTRY

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capital goods and invest in R&D activities, thereby enhancing its competitiveness.

The pharmaceutical industry, at present, has to import various kinds of raw materials. Stable economic conditions allowed it to invest more in machinery and keep depending on imported raw materials and new production lines. Since 1998, however, the Asian financial crisis affected badly the Vietnamese economy: its growth rate lowered and prolonged deflation made the spending power of the public reduce.

The development strategy for the pharmaceutical industry presented at the 4<sup>th</sup> conference of the VCP Central Executive Committee of 7<sup>th</sup> term, was as follows: "[It's necessary to] restructure the pharmaceutical industry at central and local levels and put production, import and distribution of drugs and medical equipment in order..." and "tap inner resources in all sectors and expand international cooperation with a view to exploiting foreign capital and technology needed for developing local production of drugs, medical equipment and raw materials."

In its development strategy for the years 2000-2020, the Ministry of Health planned to meet 80% of the domestic market demand for patent medicine with local products and



rise the average per capita spending on drug to US\$10 by 2005. These are difficult tasks for the pharmaceutical industry, especially when Vietnam joined the AFTA and the domestic market is open to foreign pharmaceutical companies.

To deal with foreign competition, the Government and Drug Administration started to limit the import of drug and beef up the control over distribution of drug, especially of generics, with a view to supporting local producers.

Table 4: Import of drug

Year	Imported drug value (US\$)
1997	387,096,000
1998	415,727,000
1999	361,250,000
2000	397,935,000

The system of laws, however, isn't perfect and many law documents are contradictory. For example, the Companies Law encourages all kinds of companies to develop while the circular on private health care services introduces many restrictions on the drug trade. Those two documents exist in parallel causing a lot of difficulties for law enforcement agencies.

On March 4, 1998, the Ministry of Health issued Directive 04 on thrift in expenditure by state-run hospitals and use of locally-made drugs of high quality. This Directive offers an opportunity for local pharmaceutical factories to enter hospitals and health insurance services. This Directive, however, hasn't so far taken effect although many local producers have spent a lot of money in producing high-quality drugs. Meanwhile, foreign pharmaceutical corporations with advantages of financial resource and well-devised marketing campaigns have taken the lion's share of this market although their products are much dearer than local ones.

To produce a medicine, local producers have to import many raw materials (even ingredients and package) but these goods are to pay high import duties. Duties on raw materials used for the pharmaceutical industry have been cut but they are still high and become an obstacle to reduction in production cost and improvement in competitiveness of the industry.

The industrialization and modernization of the coun-

tries lead to increases in certain diseases (blood pressure, diabetes, heart disease, etc.). In addition, the life expectancy of the Vietnamese people is on the increase. This situation forces local factories to invest more in the R&D activities in order to produce new drugs for these diseases and the increasing number of old folks.

Vietnam is in the tropical and monsoonal region; its weather is hot, wet and humid. The climate can affect the model of common diseases. Urbanization and destruction of forests also influence the public health and demand for drugs. Local producers should pay attention to these factors.

Climatic conditions in Vietnam are also suitable to many herbal plants. In addition, the common trend in the world is to prefer drugs with natural origin and the pharmaceutical industries in two neighboring countries, Laos and Cambodia, are poorly developed. This is an advantage for Vietnam to produce and export raw materials from herbal plants.

However, the tropical climate which is hot and humid also affects unfavorably on product quality when drugs are produced, stored and distributed. This problem could be solved by importing new technology and equipment. To become more competitive in the regional market, Vietnamese drug companies have invested in new factories of ASEAN standards. Up to June 30, 2000, 19 factories have received certificates of GMP standard from the Ministry of Health (seven of them are foreign-invested companies, eight factories at central level, three at provincial level and one limited companies).

The pharmaceutical industry in Vietnam is also facing shortage of researchers, technicians and well-trained laborers, along with limited financial resources. It could be defeated by much more powerful multinationals, especially when the domestic market is to be open to foreign companies as required by trade agreements Vietnam has entered.

The trade liberation is coming. It forces the Vietnamese pharmaceutical industry to work out a strategy to survive international competition and develop. Lack of business experience, backward techniques, poor marketing methods and product quality and shortage of capital are great obstacles to the development of the industry in both domestic and foreign markets. We hope that our analyses of opportunities and disadvantages in the business climate could help the public health authorities work out an effective development strategy for the pharmaceutical industry ■

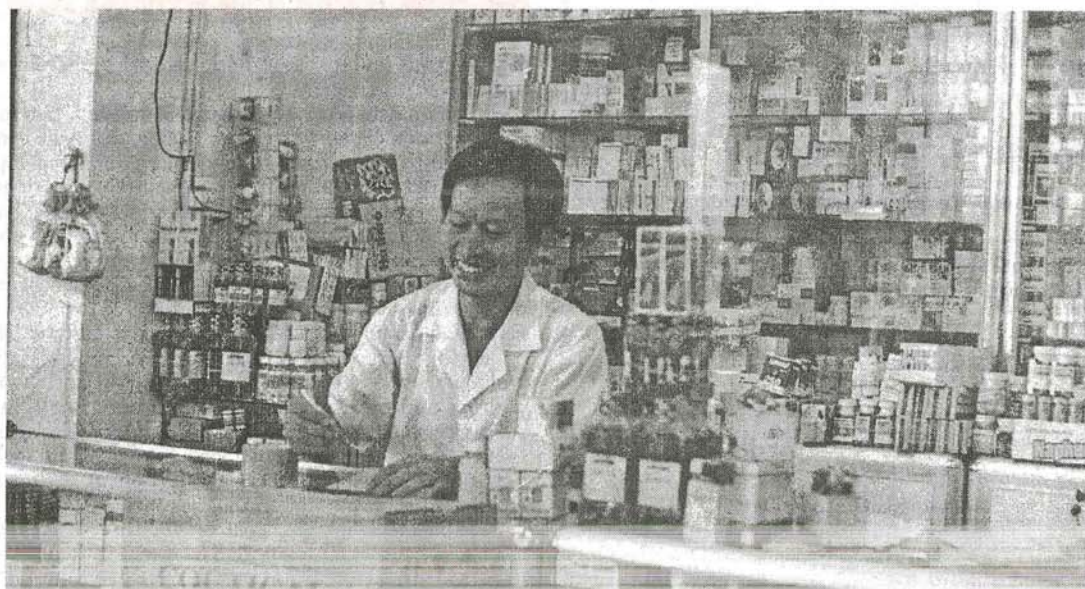


Photo by Thiên Triều