



Vietnam's Pharmaceutical Industry on Its Way to International Integration

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According to the UNIDO (United Nations Industrial Development Organization), development level of the Vietnamese pharmaceutical industry is in somewhere between 2.5 and 3 in the scale varying from 1 to 4 suggested by the WHO (in which Level 1 means depending totally on imports; Level 2: producing some generic drugs and importing the rest, Level 3: producing some generic drug and exporting some of them; and Level 4: producing raw materials and inventing new products.)

With a population of over 80 million and an average growth rate of 8%, Vietnam spends some US\$600 million on drugs and medicines, or US\$7 per capita, which is a moderate figure in comparison with the world average.

It is predicted that by 2010 the personal spending on drugs will reach US\$25-30, and the growth rate of this industry will be 20% - a rather high one as compared with other industries. The industry is covering some 40% of the market demand.

Statistics show that the drug distribution network comprises 897 companies (limited, joint stock or private ones); 29,541 drugstores; 7,490 privately-run pharmacies;

7,948 pharmacies run by commune health care stations; 464 pharmacies run by state-owned companies. The industry expects to account for some 60% of the spending on drugs by 2010, and have 30% of its output based on traditional materials and formulas.

I. Import of drugs and raw materials

1. Import of drugs

It's predicted that the total output of the industry will be worth some VND90,000 billion in 2007 making a year-on-year increase of 23.6%; the import value will reach US\$829.5 million (increasing by 17%) and export value US\$22 million, increasing by 15.5%

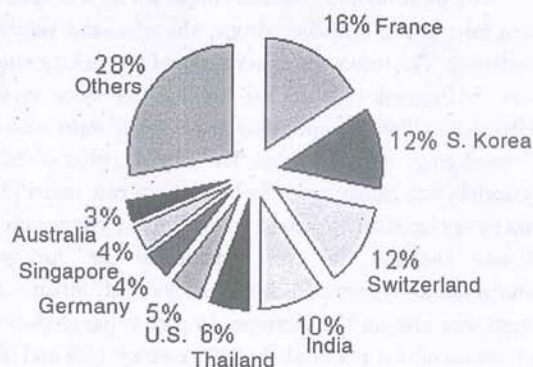
Table 1: Drug import and export (US\$ mn.)

Year	Import value	Export value
1995	280	13.60
2004	327	11.18
2005	500	17.70
2006	709	19
2007 (est.)	830	22

Source: Health care Yearbook & Thông Tin Magazine

The domestic market is flooded with imported drugs because the local industry has a small capacity, limited investment and unreasonable structure of products while consumers still prefer imported drugs to the locally-made ones. And as a result, Vietnam has become a market for drugs and medicines from some 70 countries

Figure 1: Structure of drug imports in 2005



- France was the leading supplier with the total export value of US\$81.6 million accounting for a market share of 16% and increasing by 14.2% compared with 2000

- Switzerland and South Korea occupied the second and third positions. Their export values were US\$60.2 million (increasing by 19.3%) and 58.2 million (rising by 14.1%) respectively.

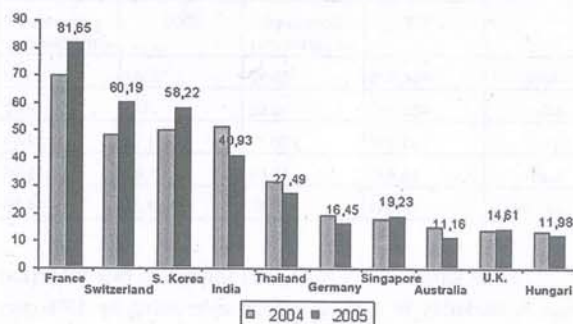
- India sold US\$51.6 million worth of drug to Vietnam accounting for 10% of the import value and increasing by 20.1%.

- They were followed by Thailand (6% of import value), the U.S. (5%), Germany (4%) and others (28%).

Table 2: Drug Suppliers in Vietnamese market

Supplier	2004	2005	Supplier	2004	2005
France	70.03	81.65	Germany	19.55	16.45
Switzerland	48.63	60.19	Singapore	18.40	19.23
South Korea	50.25	58.22	Australia	15.28	11.16
India	51.59	40.93	U.K.	14.17	14.61
Thailand	31.85	27.49	Hungary	13.73	11.98

Figure 2: Top 10 suppliers of drugs to Vietnam in 2004-05 (US\$ mn.)



At present, drugs distributed in Vietnam are divided into 23 categories and imported drugs are present in all of these categories. This means that Vietnam imports all kinds of drugs, including herbal ones. The local industry couldn't control any category.

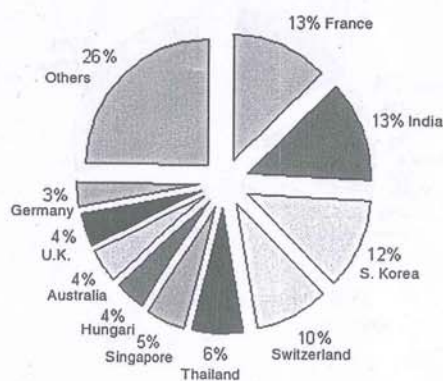
Of the most popular drugs, the antibiotic one had the biggest import value, reaching US\$105 million increasing by 18.13% compared with 2004 and accounting for 21% of the total value of imported drug. It was followed by nutritional metabolic drug whose import value was US\$54.7 million in 2005.

Table 3: Drug imported in 2005

Drug group	2005 import value (US\$ mn.)	Compared with 2004 (%)
Antibiotic drug	105.2	18.13
Nutritional metabolic drug	54.7	5.21
Cardiovascular drug	41.2	6.64
Digestive drug	28.7	7.20
Vaccine	26.6	51.92
Anesthetics	17.9	24.95

In the first quarter of 2006, the drug import was worth US\$125.9 million increasing by 13.5% compared with the corresponding period of 2005. Main suppliers were France, India, Switzerland and South Korea. This group of sellers accounted for 51% of the total import value. The EU sold US\$51.5 million worth of drug to Vietnam, equaling 40.9% of the total import value. France in particular exported a wide range of drugs to Vietnam. Number of French pharmaceutical companies in Vietnam also increased because the profitability in this business was high according to consumers.

Figure 3: Main suppliers of drugs to Vietnam in Q1/2006



Local pharmaceutical companies have maintained good relations with their trading partners all over the world but in the past 12 years, the import value have made a three-fold increase while the export value stayed almost the same. This means that the pharmaceutical industry needs a strategy to exploit and develop inner strength and domestic resources in

preparation for international integration and foreign competition.

Table 4: Per capita spending on drug in Vietnam (US\$)

1993	2.5	2001	6
1994	3.4	2002	6.7
1995	4.2	2003	7.6
1996	4.6	2004	8.6
1997	5.2	2005	9
1998	5.5	2006	9.76
1999	5	2007	10.6
2000	5.4	2010	25-30

Source: Drug Administrative Bureau

Generally, per capita expense on drug has increased steadily over years and is expected to reach somewhere between US\$25 and 39 by 2010. Many factors affect this increase: abundant supply of drug; fluctuations in prices; dependence on the exchange rate; improvements in personal income and living standard; increased concerns about health and longevity.

2. Import of raw materials

The total value of imported raw materials in 2005 reached US\$114 million increasing by 14% over 2004 with suppliers from some 25 countries. China and India played the leading roles along with Singapore. The better part of raw materials was from China. Import from this country reached US\$33.3 million in 2005 increasing by 16% over 2004. Taking raw materials for making antibiotic drug alone, China sold some 465,000 kg that was worth US\$12.64 million to Vietnam. Import from other sources, such as Germany, Netherlands, Belgium and Hong Kong, however, showed signs of decline.

Figure 4: Source of raw materials imported by the pharmaceutical industry

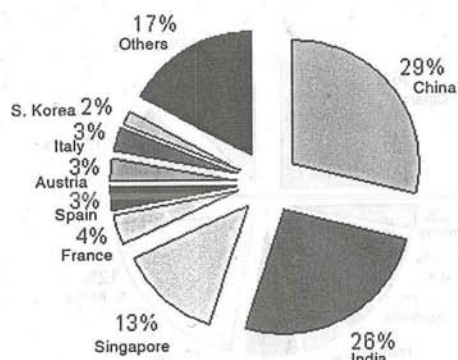


Table 5: Leading supplier of raw materials (US\$ mn.)

Supplier	2005	2004	Supplier	2005	2004
China	33.3	28.7	Hong Kong	2.1	2.2
India	29	25.2	U.S.	2	0.8
Singapore	14.5	12.8	Thailand	1.8	1.7
France	4.3	3.7	U.K.	1.5	0.4

Austria	3.7	3.4	Netherlands	1.4	2
Spain	3.5	2.8	Japan	1.3	1.2
Italy	3.4	2.1	Belgium	1.1	1.3
Germany	2.5	4.4	Others	3.6	3.5
Ireland	2.5	0.4			
South Korea	2.3	2.4	Total	113.8	99

The most needed materials imported by Vietnam were used for making antibiotic drugs, vitamins and veterinary medicines. The volume of materials used for making vitamin was the biggest (2.9 million kg) but its value is small (US\$21.6 million) because they are cheaper than ones used for producing antibiotic drugs. The main supplier of vitamin materials was Singapore. The best part of raw materials for veterinary medicines was imported from Singapore and China. Demand for raw materials for Antipyretic-analgesic-antispasmodic drugs and for Anti-inflammatory drugs was also on the increase. Import value of those two categories of raw materials in 2005 rose by 18% and 34.2% respectively.

Five suppliers that took the biggest shares of the volume of imported raw materials in Vietnam were China, India, Spain, Austria and Germany. Items with high unit prices were usually from India. Spain and Austria gained higher earnings in comparison with 2004 while Germany's earnings were slightly lower.

Table 6: Imported raw materials for making some kinds of drugs

Category	Value (US\$ mn.)		Quantity (kg)	
	2005	Compared with 2004	2005	Compared with 2004
Antibiotic drug	55.68	+1.38	2,050,481	+4.7
Vitamin of various kinds	22.63	-21.79	2,864,092	-12.67
Veterinary medicine	12.35	+12.92	1,019,189	+8.93
Antipyretic-analgesic-antispasmodic drugs	5.28	+34.21	888,795	+28.45
Anti-inflammatory drug	3.63	+18.04	157,448	+9.89

Table 7: Import of raw material from leading suppliers in 2005

Supplier	Quantity (kg)		Value (US\$ mn.)	
	2005	Compared with 2004 (%)	2005	Compared with 2004 (%)
China	464,123	-29.12	12.64	-20.73
India	460,583	-3.95	20.6	-8.64
Spain	61,100	+26.77	2.45	+23.61
Austria	45,493	+18.05	1.83	+9.95
Germany	29,091	-16.52	2.22	-4.96

In the Quarter 1 of 2006, the import of raw materials rose remarkably to US\$32 million increasing by 40% over

the previously corresponding period. Structure of imported raw materials experienced some changes. Materials for vitamin of all kinds required the biggest sum: US\$10.37 million (33% of the import value), and it was followed by ones used for making antibiotic drugs: US\$4.67 million (14.6%).

Over 90% of raw materials are imported ones, which is one of the biggest obstacles to the development of the industry in the coming years.

II. A pharmaceutical market for asean

This market is divided and cut by various tariff and non-tariff barriers, which prevents a smooth circulation of products and investments to and from this industry. This situation goes against the effort to form the AFTA and the international integration trend as a whole.

The 11th conference in Hà Nội on standards and quality of pharmaceutical products attended by health authorities of ASEAN countries, along with many regional and international pharmaceutical companies, has discussed various technical problems with a view to making ASEAN a free and common market in which products from one member could be sold to others without being checked. ASEAN countries agreed that they would share the same standards by the end of 2008.

Vietnam's Minister of Health informed that the Vietnamese pharmaceutical industry has tried its best to improve the quality of its products, and meeting the ASEAN standards of drug quality was one of its biggest concerns. The Chief of the Drug Administrative Bureau said that although the ASEAN standard of drug registration would come into effect by 2008, Vietnam was ready to apply it in 2006.

Vietnam has also asked European pharmaceutical companies to observe requirements suggested by the ASEAN technical rules and ensure that their products are suitable to tropical climate and local consumers. In addition, they should meet criteria for raw materials, environmental protection and factory building, among others.

III. Strategy to develop the vietnamese pharmaceutical industry up to 2010 adopted by the government

- To modernize and industrialize the pharmaceutical industry, the Ministry of Health suggests cooperating with foreign partners to produce new drugs by employing high technologies, and encouraging production of drugs based on local materials, because Vietnam has an abundant supply of herbs and animals while the world market demand is on the increase. The problem is how to meet international standards when producing such medicines.

- Beefing up the state control over the production, export and import, distribution, advertisement and use of drugs and medicines.

- Stabilizing prices of drugs by manipulating market economic laws and necessary regulating instruments.

- The legal infrastructure must be perfected to ensure that drugs are sold at their real prices and competitiveness of the industry is improved.

- Protecting local production reasonably and legally could be implemented by supplying low-interest loans and export incentives to pharmaceutical companies without violating international agreements signed by Vietnam.

Some specific targets are as follows:

+ Beefing up the specialization among pharmaceutical companies based on their technological level, managerial ability and financial strength.

- Encouraging the production of generic drugs of high quality.

- Zoning regions for growing herbs and animals used as raw materials according to the GAP standards.

- Applying advances in biological technology and genetic engineering to the drug production based on foreign investment.

- Increasing investment in factories extracting essence from herbs and producing substances after their intellectual rights reaches maturity.

IV. Some suggestions

- Local drug producers and distributors must pay full attention to the strategy to build their trade marks and brand names with a view to ensuring footholds in the domestic market. Statistics of drug import show that Vietnam is a potential market for these products. Local producers should enhance their competitiveness and product quality in order to persuade consumers to use locally-made ones instead of imports

- Drug producers had better establish good relations with doctors and retailers by providing them with information about locally-made medicines in order to assure them about the product quality and encourage them to recommend local drugs to consumers.

- Drug companies had better help medicine students get access to the local production of drugs, and establish close relations with schools for nurses and health care officials with a view to promote the public image of local drug producers.

- The Ministry of Health and Drug Administrative Bureau should carry out studies in price and quality control in order to prevent fluctuations in prices and ensure legitimate interests of patients who enjoy medical insurance.

- New policies should be adopted to deal with such problems as work ethics, salary and income, required skills, and allocation of resources in this industry with a view to making it healthier and more competitive ■