

LA Latin Swing

Latin America is a potential sleeping giant, where the pharma market has been growing steadily but quietly. In this report, **GlobalData** investigates the market, its drivers and assesses the investment opportunities.

The Latin American pharmaceutical market is among the fastest growing across the world. The top eight pharmaceutical markets in Latin America were worth more than \$30 billion dollars in 2009. Although individual markets are growing at different rates, the total market is expected to grow at a compound annual growth rate of more than 10% over the next seven years. Such high growth rates do attract the big pharmaceutical companies to the region.

One of the major drivers of growth for the pharmaceutical markets is the growth of population aged above 65 years, which provides ample opportunities for the growth of drugs treating Alzheimer's disease, rheumatoid arthritis and osteoarthritis.

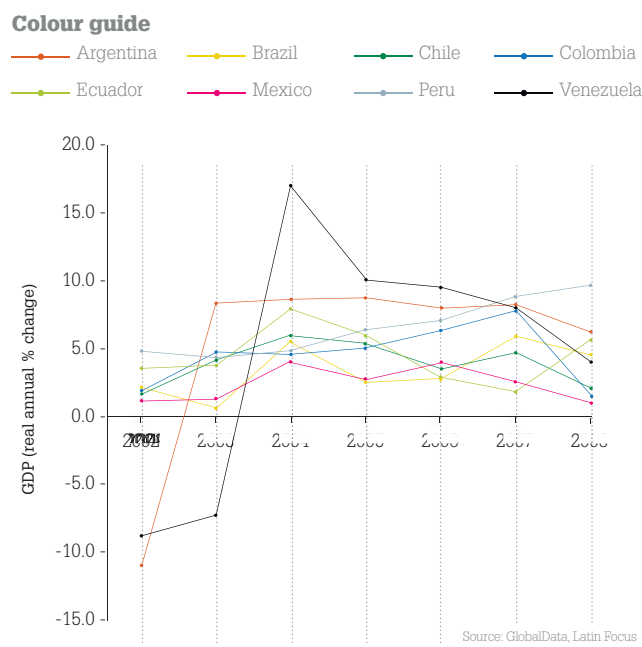
In addition, the national governments have stepped up efforts to increase access to healthcare for its citizens. The Latin American markets, which are already growing at double-digit rates, will receive a huge boost from the increasing use of pharmaceuticals. The economic growth of the Latin American countries is also a key driver in the growth of pharmaceutical markets.

However, Latin American countries differ from each other in their regulations, healthcare expenditure and in the composition of the pharmaceutical industry. There are key challenges that need to be watched for in each of these nations. In most Latin American countries, the growth of pharmaceutical markets is highly dependent on the growth of its Gross Domestic Product (GDP). In countries such as Mexico, where a large proportion of the population pay out-of-pocket for healthcare, a decrease in economic growth will affect the growth of the pharmaceutical markets.

In most countries, private insurance covers a very low percentage of the population, so economic instability could affect the pharmaceutical industry. However, the Latin American markets performed admirably during the global recession by maintaining their growth rates.

Brazil is the largest pharmaceutical market in Latin America and accounts for more than \$14 billion dollars, growing at double-digit

Figure 1: Gross domestic product, real annual percentage change, Latin America



rates. Approximately 20% of the pharmaceutical market is accounted for by generics. Regulations and initiatives in Brazil encourage the development of the local pharmaceutical industry.

Although Brazil is in agreement with the TRIPS agreement on Trade-Related Aspects of Intellectual Property Rights, the national legislation permits the cancellation of patents during emergencies. Such concerns over the intellectual property rights might discourage foreign pharmaceutical manufacturers from entering the market. However, Brazilian companies account for only 30% of the local market, so the Brazilian government is increasing its investment to

create a strong local pharmaceutical manufacturing industry. The high growth of the generics market, coupled with the expiry of several blockbusters, has attracted the attention of overseas manufacturers.

Argentina's pharmaceutical market is dominated by local players who account for 57% of the market value. Despite the increasing inflation and manufacturing costs, the pharmaceutical industry has managed to keep the price of its drugs low. A discount of approximately 30% was given on 600 drugs by the Argentinian government to increase affordability and to maintain growth. Demand continues to rise significantly in Argentina's pharmaceutical market propelled by the efforts of the government and its commitment to increasing access to healthcare.

The Chilean market is characterised by a protectionist regulation that aims at strengthening the local pharmaceutical industry. In 2006, PhRMA claimed that the Government of Chile had failed to adequately

“ The free trade embargo placed on Cuba by the US greatly affects Cuba's ability to trade with the world's largest pharmaceutical industry. ”

implement its obligations under the Chilean-US Free Trade Agreement and the TRIPS agreement on the protection of certain test data and linkage requirement. Chile has had a history of non-adherence to intellectual property right laws, which makes it difficult for foreign manufacturers to register product with the Chilean regulatory authorities and market it in the country. However, the nation's pharmaceutical industry has shown strong growth due to encouragement shown to the local pharmaceutical industry.

Mexico is the second-largest pharmaceutical market in Latin America after Brazil and is growing rapidly. Signing the North American Free Trade agreement required Mexico to assure its members on the protection of intellectual property rights. In doing so, Mexico has opened the door to trade with large pharmaceutical markets. Enforcement of patent protection laws has also increased foreign investment. It also enables foreign manufacturers to register their patents with the Mexican regulatory authorities and manufacture their products in Mexico. Branded products are purchased primarily by population with higher income, while generics are bought by population with lower income. Expiry of patents of blockbuster products is also expected to spark an increase in the growth of generics. Mexico is one of the most attractive destinations for foreign manufacturers, however, the research and development sector has not matured and so the majority of foreign investment in Mexico is targeted at its manufacturing industry.

The pharmaceutical market in **Colombia** is highly fragmented, but it is inching towards maturity. Also, the country has the third largest population in Latin America whose demands will need to be met by either local production or imports. Increasing demand for drugs in the country due to its economic recovery is also expected to accelerate its pharmaceutical market's growth. However, recent delays in a free trade agreement with the US might affect the possibility of the US exporting its drugs to Colombia. Currently, US exports to Colombia face an 11% tariff, which reduces the US pharmaceutical industry's

access to Colombia's pharmaceutical markets. US industries are losing their share of Colombia's import market due to the lack of a bi-lateral trade agreement between the two countries.

The pharmaceutical market in **Cuba** is the smallest among the top eight pharmaceutical markets in Latin America. However, it does have a strong domestic pharmaceutical industry, which accounts for more than three-quarters of the nation's pharmaceutical market. The government provides strong incentives that help the domestic industry. Also, the economy has been growing at a steady rate and in turn helps the growth of its pharmaceutical industry. The free trade embargo placed on Cuba by the US, however, greatly affects Cuba's ability to trade with the world's largest pharmaceutical industry in the US.

Peru's pharmaceutical market is expected to grow rapidly, owing to the introduction of universal healthcare coverage. Peru has signed a Free Trade Agreement with the US that will help enforce intellectual property (IP) laws in the country. Enforcement of IP laws will result in encouragement of the use of legitimate generic drugs and in the increase of healthcare expenditures. The domestic pharmaceutical industry will capitalise on the increase in demand due to the implementation of universal healthcare coverage. There is plenty of opportunity for foreign manufacturers to capitalise on the fast-growing pharmaceutical market and use the increase in demand.

Venezuela's pharmaceutical market does not provide attractive options for investments in its pharmaceutical industry. Although the new Barrio Adentro mission will increase the healthcare coverage provided, the country's economic stability is in question as recession in the country is expected to deepen in 2010. Venezuela is also against patent protection of costly drugs and has moved to invalidate the patents for Bayer's antibiotic Avelox. Non-adherence to IP protection proves to be a barrier for foreign pharmaceutical companies.

Latin American markets are hotspots for conducting clinical trials due to the availability of large patient pools. A large percentage of the population does not have access to high-quality healthcare and medicines, so will be more willing to participate. Also improvement and enforcement of healthcare regulations, intellectual property regulations increase the attractiveness of the region for conducting clinical trials.

The majority of the Latin American pharmaceutical markets are dominated by generic consumption. Overseas manufacturers are presented with opportunities to capitalise on the growing economies', increased access to healthcare and the consequent increase in demand from cheap drugs. The region offers numerous opportunities for setting up manufacturing facilities and acquisitions of local drug manufacturers. Entering the Latin American market during its current state of economic recovery and continuous implementation of healthcare reforms is ideal for pharmaceutical companies targeting the attractive and rapidly pharmaceutical markets. ■

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