Healthcare in 2019

A special report from The Economist Intelligence Unit
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Healthcare in 2019: Health checks

Trade tensions and political pressures will fail to derail long-term progress in the healthcare and pharmaceuticals sector.

The political events of the past two years have brought considerable uncertainty to the global healthcare sector. That will continue in 2019. In the US, efforts to rein back state involvement in the health sector mean that from January 1st it will no longer be mandatory for individuals to buy insurance. In Europe, Brexit is likely to bring disruption to pharmaceutical markets, healthcare recruitment and research in the life sciences. In China, the government will continue to push through far-reaching reforms to all aspects of healthcare, as it tries to stem a rise in non-communicable diseases. And in nearly every market drug pricing will remain under pressure from strained healthcare budgets. None of this will prevent healthcare spending and pharmaceutical sales from rising in most markets, although the market will be weighed down by weaker economic growth.

Our key forecasts

- Healthcare spending will climb by 5.1% worldwide in nominal US dollar terms, down from 8.2% growth in 2018.
- This will include a 5.7% rise in spending on pharmaceuticals in 2019, down from 6.3% in 2018.
- While the US will move away from universal healthcare, many other countries, including South Africa, Oman, India and Nigeria, will seek to widen and deepen their public insurance systems.

Healthy progress

The underlying expectations for the healthcare sector in 2019 are mostly positive, regardless of world events. Life expectancy in the 60 countries covered by our global forecast will tick upwards again, adding an extra two months, to reach 73.7 years. Every single country will benefit, including South Africa—where life expectancy has been recovering since 2010 as AIDS treatment is rolled out. Infant mortality rates, meanwhile, will carry on declining nearly everywhere, thanks to better neonatal care and wider vaccination programmes. As a result of improving health, the global population will grow by 0.8%, while the number of people aged over 65 will rise by 3.5%.

Although many of these gains will come from economic growth and improving living standards, the rollout of healthcare systems will also play a role. We forecast that global health spending...
will rise yet again, increasing by 5.1% in nominal US dollar terms. Drivers will include the expansion of healthcare coverage in developing markets, the increasing care needs of elderly populations, and advances in treatments and health technologies. Healthcare workers should also benefit from pay rises in all but the most cash-strapped countries, amid growing international competition for healthcare staff. Pharmaceutical sales will rise by 5.7% amid strong demand—and despite the continuing pressure on prices.

Not spared
Yet despite this steady growth, the healthcare sector will still be vulnerable to disruption. Global trade tensions will not target the sector specifically—most developed markets maintain zero tariffs on pharmaceuticals, while even emerging markets keep them low. Nevertheless, the industry has not been entirely sheltered from the US-China trade tensions (see box page 5). The US has imposed tariffs on some medical technology imports from China, as well as on some active pharmaceutical ingredients (APIs). That could backfire if US pharma companies end up paying more for APIs or failing to find alternative suppliers. China, in contrast, has dropped tariffs on some of its medicine imports, particularly those for cancer.

Brexit, meanwhile, still poses considerable risks for the UK’s healthcare sector and its important life sciences industry. The European Medicines Agency will move from the UK capital, London, to the Dutch city of Amsterdam by the end of March 2019, and there remains huge uncertainty about how regulations surrounding drug approvals, clinical trials and drug safety will change. If a transition deal is secured, it could stave off the immediate need to stockpile drugs in case they are held up at the border in March. However, it will not solve longer-term problems, including whether the UK will still be able to secure enough research and development (R&D) funding or staff and whether its pharma companies will need to reroute their supply chains. The UK’s National Health Service has also become reliant on EU staff to plug gaps during the past decade. It will now need to lure workers in from further afield.

The biggest trade risk, however, is the indirect one: whether a global trade war will slow the world economy. Many governments, particularly in the euro zone and in commodity-dependent economies, are only just emerging from a period of austerity that obliged them to rein back healthcare spending. Expenditure carried on rising regardless in nominal terms in most countries, but often failed to keep up with increasing demand for care. The strains on public health systems are still clear, meaning that there is limited room for more cost-cutting measures. This is particularly true in countries struggling with population ageing, including Japan, South Korea and most of western Europe.

Universal pressures
In most countries, however, governments will remain keen to improve access to healthcare in 2019, often by expanding or deepening public insurance. South Africa is aiming to pass its long-awaited law on a national health insurance system in 2019, with a view to rolling it out by 2025. Oman’s government has also said that it aims to introduce mandatory health insurance next year, although it will struggle to implement this by January as hoped. In Nigeria, the government approved a basic public health package in 2018 and will start to roll this out during 2019. It is aiming for universal healthcare by 2030.

China, meanwhile, long ago set itself some ambitious health goals for 2020, by which year it aims to provide “safe, effective, convenient and affordable” healthcare to all residents. In 2019 it will scurry to implement yet more far-reaching reforms in an effort to promote this ideal. It has already been working
hard to strengthen competition in the pharmaceuticals sector, reforming the distribution chain and attempting to prevent providers from demanding extra payments from patients. These efforts will continue next year, with the new National Health Commission (set up in March 2018) taking the lead. China has said that its priorities include better-trained general practitioners, a robust referral system that directs people to the right specialists, and raising health awareness among the population.

Going against the trend, as so often, is the US. Although efforts by the administration of the president, Donald Trump, to repeal and replace the 2010 Patient Protection and Affordable Care Act (known informally as Obamacare) have failed, his administration has used piecemeal legislation to reverse some of the law’s provisions. Most importantly, tax reforms in December 2017 mean that from January 2019 Americans will no longer face a penalty if they do not buy health insurance, eliminating the individual mandate. This will widen choice, but will also undermine the risk-sharing principles that underpinned Obamacare. The administration claims that enrolment will rise, while many other commentators say it will fall.

The US will also step up its pressure on pharmaceutical companies to reduce their prices. While other counties have been bearing down on pharma prices for years, prices in the US have carried on climbing. This is partly because Medicaid and Medicare, the federal funds for low-income people and the elderly respectively, have been barred from considering prices when it comes to reimbursement decisions. That is starting to change and could alter further in 2019, although the idea of “health rationing” remains hugely controversial.

Even if pricing pressures increase in the US, it will remain by far the world’s biggest pharmaceutical market, accounting for around one-third of the global total (see chart). Moreover, the US pharmaceutical industry will continue to be buoyed by the tax reforms passed in November 2017, which helped to free up more money for investment in R&D. Innovations will continue to emerge: in 2019 US scientists are likely to begin their first trials using CRISPR, a gene-editing technique that holds huge potential. With artificial intelligence, robotics, stem cells and other technologies also developing, the world’s health should continue to improve.

**Russian recovery: health spending growth in 2019**

<table>
<thead>
<tr>
<th>Region</th>
<th>% change in nominal US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Europe</td>
<td>2.2</td>
</tr>
<tr>
<td>Asia &amp; Australasia</td>
<td>4.2</td>
</tr>
<tr>
<td>North America</td>
<td>4.6</td>
</tr>
<tr>
<td>Latin America</td>
<td>5.2</td>
</tr>
<tr>
<td>Middle East &amp; Africa</td>
<td>5.8</td>
</tr>
<tr>
<td>Transition economies</td>
<td>7.0</td>
</tr>
<tr>
<td>World</td>
<td>5.1</td>
</tr>
</tbody>
</table>

Source: The Economist Intelligence Unit.
US-China: Medtech rivals

Although the pharmaceutical industry was mostly spared, the medical technology (medtech) sector became embroiled in the US-China trade dispute during 2018. The first tranche of US tariffs, which came into effect in July, affected Chinese medtech imports worth around US$1bn a year—roughly one-fifth of all US medtech imports from China. For its part, China has imposed tariffs in the range of 5% to 25% on US imports in 33 medtech product categories, ranging from low-value medical consumables such as syringes to high-value items such as computed tomography (CT) equipment.

On both sides, the tariffs were intended to benefit domestic companies at the expense of foreign rivals by raising import costs. However, this aim ignores the role of global supply chains in the medtech sector. Global medtech companies with operations and manufacturing facilities in both the US and China have been caught in the middle, with those in the medical-imaging sector the clearest casualties. With the US now likely to impose a fourth round of tariffs in December or January, the trade risks to other segments will increase in 2019.

The battle over medical imaging

The Made in China 2025 plan, which aims to develop particular industries in China, has been a focus of US tariffs. So far, those tariffs have targeted only one of the many medtech categories identified under the plan: imaging equipment. This is China’s biggest medtech market segment and the US is a major buyer, not only of finished products but also of inputs.

The Medical Imaging & Technology Alliance (MITA), an industry association in the US, estimates that US tariffs will cost imaging companies in the US about US$138m a year, by raising the cost of supplies. In order to pay for this, medical-imaging industry representatives surveyed by MITA say that they will have to reduce investment in research and development, hurting the competitiveness of their products in global markets.

US-China trade tariffs on medical-imaging technology and equipment

<table>
<thead>
<tr>
<th>Product Description</th>
<th>US Import Value 2017</th>
<th>China Import Value 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Magnetic resonance imaging (MRI)</td>
<td>US$ 44.9m</td>
<td></td>
</tr>
<tr>
<td>Ultrasound scanning</td>
<td>US$ 86.0m</td>
<td></td>
</tr>
<tr>
<td>X-ray*</td>
<td>US$ 40.1m</td>
<td></td>
</tr>
<tr>
<td>Computed tomography</td>
<td>US$ 134.8m</td>
<td></td>
</tr>
<tr>
<td>Gamma scanning</td>
<td>US$ 0.4m</td>
<td></td>
</tr>
</tbody>
</table>

* X-ray equipment for medical, surgical and veterinary use

Sources: Flexport; Ministry of Finance (China); US Census; United States Trade Representative (USTR).
It will become even more challenging for multinationals to grasp opportunities in the fast-growing imaging market in China, where The Economist Intelligence Unit expects recent healthcare reforms to expand and develop the infrastructure for imaging.

**Medtech segments at risk**
Forecasting all the trade risks to other medtech market segments in 2019 is difficult. Areas where intensifying competition between the US and China can be expected—either owing to government policies such as the Made in China 2025 plan, or as a result of medtech companies driving activity and innovation in fast-growing, lucrative markets—are likely spaces for fresh trade tensions to emerge.

The other medtech areas where China wants to boost local development of high-performance, high-value medical devices include medical robots, high-value medical consumables (such as degradable vascular stents), remote diagnosis and treatment devices and gene sequencing technologies. As with medical imaging, it is the sectors that are growing rapidly that are most likely to be targeted by tariffs.

These include CT equipment. In the past five years, US imports of Chinese CT equipment have doubled, from US$64m in 2012 to almost US$135m in 2017. As a result, China has overtaken Japan as the second-largest exporter of CT equipment to the US. Chinese companies such as Shanghai United Imaging now offer buyers a wide choice of good-quality and innovative imaging equipment.

Other segments that the US may target include in-vitro diagnostics (IVD) and high-value medical consumables. These are sectors where Chinese companies have emerged as strong competitors in recent years and are hot on the heels of global market leaders. According to analysis by EIU Healthcare, four of the top ten companies in China's IVD market are domestic firms, whose sales growth has outpaced that of foreign rivals. The fast-growing companies in major IVD market segments, such as molecular diagnostics and point-of-care testing, are all domestic players.

Chinese medtech companies are increasingly winning a larger share not just of their domestic market but also of overseas markets, and are doing so in higher-value segments. During 2019 that may put them at risk from the US-China trade dispute.

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**About EIU Healthcare**
Part of The Economist Group, EIU Healthcare delivers world-renowned analytical and strategic advisory services, providing businesses and institutions with unparalleled custom insights and strategies, evidence-based solutions and robust health data analytics on all areas of the global healthcare industry. Our specialised practices comprising Health Policy & Clinical Evidence, MedTech & Life Sciences and Pharmaceuticals, in addition to our Data Solutions offering, ensures we provide our clients with focused expertise to support their business and commercial decisions.
2019 calendar: Healthcare and pharmaceuticals

**January**
- Gilead to launch generic sofosbuvir (Sovaldi)
- Deadline for Brazil’s Anvisa to clear backlog of generic approvals
- 21: US implements revised Common Rule for clinical trials
- 24: Bristol-Myers Squibb reports 2018 results
- 29: Pfizer report 2018 results
- 30: Novartis reports 2018 results
- 31: Roche reports 2018 results

**February**
- 5: Gilead reports 2018 results
- 6: GlaxoSmithKline 2018 results
- 7: Sanofi reports 2018 results
- 9: EU’s Falsified Medicines Directive comes into force
- 13: Eli Lilly reports 2018 results
- 14: AstraZeneca reports 2018 results
- 21: Patient Value Summit, Economist Events, Brussels, Belgium
- 27: Bayer reports 2018 results

**March**
- 6-7: European Pharma CI Conference, Milan, Italy
- 7: Merck KGaA reports 2018 results
- 12: War on Cancer Middle East, Economist Events, Dubai, UAE
- 18-20: 18th World Pharma Congress, Edinburgh, UK
- 24: WHO World TB Day
- 28: War on Cancer Asia, Economist Events, Singapore
- 29: UK leaves the EU unless extension to Article 50 process is agreed
- 29: Deadline for European Medicines Agency to move from London to Amsterdam

**April**
- 4-6: HIV and Hepatitis in the Americas, Bogota, Colombia
- 7: World Health Day
- 24-30: WHO World Immunisation Week
- 25: WHO World Malaria Day
- 28-May 1: 16th Annual World Health Care Congress, Washington, DC

**May**
- 8-9: 11th Asia Pacific Global Summit on Healthcare, Tokyo, Japan
- 20-28: 72nd World Health Assembly, Geneva, Switzerland
- 27-29: 15th International Conference on Health and Primary Care, Barcelona, Spain
- 14: WHO World No Tobacco Day
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June
14: WHO World Blood Donor Day
17-21: World Preclinical Congress, Boston, US
28: WHO World Hepatitis Day

August
22-23: 21st International Conference on Medical, Biological and Pharmaceutical Sciences, Kuala Lumpur, Malaysia

September
16-19: WHO Regional Committee for Europe, Copenhagen, Denmark

November
12-18: WHO Antibiotics Awareness Week

December
1: WHO World AIDS Day
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- Systematically compare markets to examine opportunities, risks and barriers to entry.
- Assess growth prospects in your current markets, and identify markets with long-term investment potential.
- Leverage The EIU’s global network to extend your research capabilities.

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- Daily events analysis by sector, including regulation updates.
- Global Outlook reports updated semi-annually, highlighting upcoming global industry trends.
- News and analysis for key companies in each sector.
- Historical data to 1990 and five-year forecasts with up to 286 series per industry, as well as macro-level series.

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- Market Outlook
- Business environment rankings – assessing the national investment climate.
- Economic and demographic outlook data and analysis.
- Regulatory and logistical concerns that need to be considered when making an investment.
- Long-term outlook – forecasts and analysis on both population and labour force growth, and the economic and productivity outlook.

For more information please get in touch.
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International company intelligence for 6 key industries covering 26 industry subsectors

Find out what your competitors are doing and planning. A complement to The Economist Intelligence Unit’s Industry Briefing service, Competitor Intelligence adds important company-level information to our industry coverage. Competitor Intelligence is updated daily to provide essential and hard-to-get information on competitor activity across 72 markets.

Use Competitor Intelligence to:

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- Discover companies rarely reached by the English-language press
- Rest assured that all information is cross-checked by our internal team for reliability

What’s included?

- Information on local and international companies, including your key competitors
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