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COVER

SILVER MEDICAL MARKET ARISING



Westernization of the Japanese traditional diet and the rapid aging of the population have combined to unleash a rising demand for the treatment of diseases new to Japan but long familiar in the West.

BY JANET PURDY-LEVAUX

"NEW" DISEASES DEBUT IN JAPAN

A quick survey of Japanese hospitals, physical fitness centers, or doctors' offices usually reveal the presence of foreign-made equipment, technology and medicine. In a popular private gym in Osaka, American exercise machines and weights are everywhere. And who is using them?

Young and old alike, the Japanese are increasingly turning to gyms to help them stay in shape and work off fat and stress. For some generations, exercise helps to counter the effects of their new diets and office lifestyles, while for others working out is a way to improve the condition of their cardiovascular system, bones, and muscles as they get older.

Overall, Japan's population is going through an intense aging process and in

addition is encountering a host of relatively new problems due to changes in the basic diet. These health challenges involve physical as well as financial strains for Japanese society. As for foreign firms in the health care industry, there are plenty of opportunities for expansion if the right corporate positioning takes place.

MARKET DIAGNOSIS

"The most important change in Japan's health care industry is the aging or growing Silver-Age population," explained Life Technologies' Timothy E. Pierce, who has chaired the ACCJ's high technology committee and biotechnology subcommittee. Statistics support this.

There are 23.3 million Japanese 60 years of age or older out of a total population of



124.4 million, according to the Management and Coordination Agency. The percentage of people age 65 or over now stands at 13% of Japan's population, but this number should exceed 20% by the year 2025.

Coping with this demographic change will not be easy. Large numbers of this population—also known as the “New Elderly”—may be bedridden, afflicted by senility, or both, and their numbers are expected to triple by 2025. What makes Japan's situation unique is not the percentage of the population which will be elderly, but rather the rapid pace at which its population is aging.

As the size of Japan's elderly population increases and its birthrate stabilizes, the finances needed to support this age group

skyrockets. Ministry of Health and Welfare (MHW) documents covering medical treatment of elderly persons show that expenditures reached ¥609,000 per capita in '90, with a total budget of over ¥6.2 trillion in '91 borne by the insurance system for the elderly. This represents 28.5% of the nation's medical treatment expenditure.

Pressures on Japan's health care system also stem from a variety of additional problems. In '50, the leading cause of death was tuberculosis, and in '75, it was cerebrovascular disease (strokes). Today, cancer and heart disease are the nation's top killers.

“The classic case of hypertension leading to stroke is related to aging and a diet low in protein and high in sodium,” explained physician and Kansai Medical

University researcher Tatsuharu Kobayashi. “Today, we call it *karoshi* (death from overwork), but the majority of these fatalities are caused by coronary heart disease which we didn't have much of two or three decades ago,” he added. His theory is that because eating habits have been drastically changed and Westernized as a result of the country's economic development, Japan's high consumption of meat and fatty foods has created a new type of hypertension that starts at an early age, causing coronary atherosclerosis associated with obesity, diabetes, and hyperlipidemia.

Although the MHW does not plan to implement strict dietary regulations in the near future, it does intend to control health care costs more stringently, limiting coverage

for certain services. "The principal goal of health care reform is to decrease costs," commented one industry analyst. MHW is considering a fixed-rate system for reimbursement of some products and ways to pass on the costs to patients, such as charging ¥800 for regular hospital meals.

SUPPLYING THE RIGHT CURES

With experience and expertise to offer, foreign firms bring to Japan the pills, products, and health care packages to deal with these health care developments. Firms such as Baxter International (80% of the home dialysis business), Ciba Corning (60% of the blood gas analyzer market), General Electric working with its Japanese partner Yokogawa Electric (over 30% of the CT scanner market), and Medtronic (40% of the pacemaker market) have developed a strong presence in the Japanese market, noted the *Forbes* issue dated December 20, 1993.

Non-Japanese pharmaceutical firms sell about 40% of all drugs consumed in Japan. Recent statistics compiled by the Japan Pharmaceutical Manufacturers' Association indicated that the country had the world's largest trade deficit in medicines in '92—¥246.8 billion yen. During this period, imports rose 4.3% to ¥430 billion with Germany topping the list of

importers (¥106 billion in sales). The United States ranked second with ¥80 billion, followed by the United Kingdom, Switzerland, and Sweden, respectively.

In other areas of health care such as the over-the-counter (OTC) market, Procter & Gamble Health Care ranked fifteenth in '92 sales, followed by SmithKline Beecham Consumer Products which ranked twentieth. Foreign insurance firms have made good inroads into the "third sector" of products

not clearly defined as "life" or "non-life"; *Financial World* reported that American Family Life Assurance Company of Columbus (Aflac) earned 79% of its almost \$4 billion in '92 revenues in Japan, through sales of its cancer insurance policies.

FOREIGN ATTITUDES

What are foreign companies attitudes towards the changing Japanese health care market? One chief concern continues to be the system



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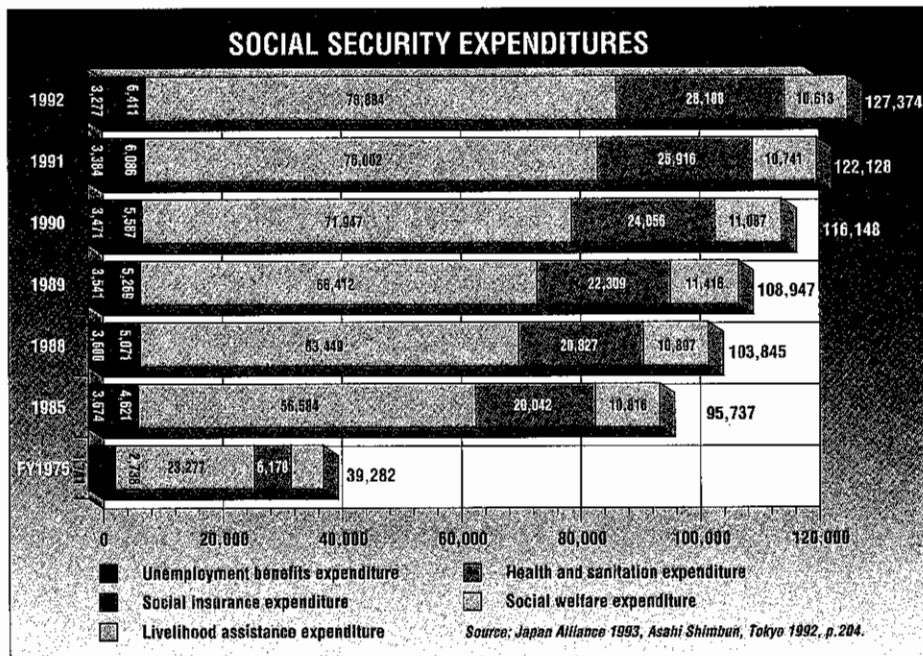
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of reimbursement (revised in April '92), which affects domestic producers as well. "Sometimes manufacturers of innovative devices complain that they are not reimbursed quickly enough, a problem we hope will be solved . . . through increased transparency, which U.S. industry is discussing with MHW," commented a U.S. official.

In addition to MHW regulation of highly advanced medical technology (HAMTS), some businesses complain that there needs to be much more transparency in the procedures for gaining approval for new devices as well as new drugs. Then there is the matter of MHW funding of medical device development. Research conducted by *Forbes* found that the Japanese government is funding research to develop pacemakers and magnetic source imaging (MSI) technology in an attempt to challenge U.S. superiority in medical devices and equipment.

Also complicating the business of foreign (and Japanese) firms in the Japanese health care system is the pricing system. MHW grants a new product an initial price, then reduces that price on a routine basis—every two years for drugs. All drugs, medical devices, and diagnostics are subject to this system in theory, although the prices of all products are not actually reduced.



"Pacemakers and special treatment materials had escaped until recently, but are now treated like all other products," said Pierce. Since the system has been in place for a long time, it does not specifically represent a barrier to foreign firms, he believes.

However, there are instances of unfair treatment. An update to the ACCJ White

Paper prepared by the subcommittee on medical equipment and supplies noted, "In the past three years, MHW has targeted five product categories for significant reimbursement price decreases. All five are known as Special Treatment Materials (STMs), and all five are supplied almost exclusively by U.S. manufacturers."

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Kyle Murphy, managing director of KMG Japan Inc. (a consulting firm specializing in regulation and biotechnology), does not feel the Japanese government is out to get the United States. He explained, "What the ministry wants ultimately is a rationalized system. To get results it is bringing products under its control. This is not purely a budget issue, but rather an issue of financial reallocation." His conclusion: the MHW's efforts to reshape the health care system are going to produce winners and losers.



FUTURE PROSPECTS FOR HEALTHY GROWTH

Foreign officials and executives are generally convinced that non-Japanese firms making medical products will continue to do well in Japan. "New opportunities exist and are growing in the care of the Silver-Age people. More hospital stays, the beginning of long-term care facilities and nursing homes, and home care will contribute to opportunities for instruments, devices, and consumables used in these types of care," stated Pierce.

Another factor working in favor of foreign producers is the changing attitudes of patients. "They are unsatisfied with existing conditions and options, and are thus becoming more and more demanding," explained Jean-Pierre Millon, president and general manager of Eli Lilly Japan. The combination of new demands, the aging population, and budget pressures will create more possibilities for growth rather than problems for the industry. "You must have appropriate products and direct R&D at this," Millon emphasized. His firm has chosen to specialize in treatment for illnesses of the central nervous system (CNS), cancer, and diabetes, for instance.

Where demand is rising most and appears most profitable, foreign firms have resources which give them a competitive edge. "New, hard-to-get products will be priced higher, and therefore firms are moving into areas of R&D which could lead to such products," said Schering-Plough marketing director James Attley. This means that companies are devoting less to antibiotics (an area Japanese firms have specialized in) and more to heart disease

and cancer (areas U.S. firms are particularly strong in). Attley believes that Japanese pharmaceutical firms may also be at a disadvantage in terms of their international networks. They are trying to develop their global business infrastructure and improve profits from foreign sales at a time when they are vulnerable due to price reductions and limited increases in sales in their home markets.

GE Medical Systems-Asia president Goran Malm insists: "The Japanese market has a huge potential for premium technology," which is especially good news for foreign producers who possess the know-how to supply it. As the market for medical equipment matures and patterns of demand becomes similar to those in the United States, the use of sophisticated technology should be much more widespread.

THE SILVER LINING

These developments in the health care system promise new areas of business development for foreign firms, if the ministry does not stifle innovation in the process. American firms, in particular, are poised to offer many products that promise to save lives as well as costs.

Non-prescription products like cold medicine or pain relievers are cheaper than prescriptions which involve the cost of doctors' visits. "In the Japanese health care system, prescription drugs have a low out-of-pocket cost to patients, but the costs to society are high," pointed out Paul Schwamm, general manager of the American Drug Corporation. Many of the health problems commonly faced by older people can also be effectively treated via OTC products, and the Japanese government supports increased self-medication as a safe and cost-effective way to lower the country's health care expenses, he explained.

"The aging of the population and the government's support of self-medication present viable market opportunities in the world's second-largest OTC market. But it is also the world's most competitive OTC market, and the costs of entry are very high," concluded Schwamm. According to its general manager, American Drug Corporation (a subsidiary of American Home Products Corporation) aims to launch an OTC business in Japan this year.

Early diagnosis of illnesses through the use of medical technology and periodic health checks can make substantial contributions to cheaper and higher quality health care. Malm explained that with the elderly, it is common to diagnose problems with imaging technology, and as the costs of this technology become cheaper over time, the advantages and cost-effectiveness of the technology will improve sharply.

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As the government tries to limit insurance coverage, foreign insurance firms hope to pick up business. CIGNA Insurance's Theresa Carney states that her firm sees health care as a good growth area in Japan. "With the aging society and changes requiring patients to pay more out of their own pockets, there is a real area of need in coverage," she said. Hence, foreign insurance firms can bring their experience in designing and selling diverse supplementary medical products to the Japanese market at a time of deregulation in the insurance field.

MYOPIC PERSPECTIVES

The developments in Japan's medical market may make some foreign businesses healthier, but others will be left with scars. In pharmaceuticals, reforms have produced a damaging downward price spiral. This has occurred through modifications in the reimbursement price revision system and planned reductions in the reasonable zone, the "R-zone," which represents the difference between the discount price doctors and hospitals pay and the reimbursement price they receive from government and insurance companies. The government plans to decrease the R-zone from 15% in '92 to 10% by '98, leaving wholesalers with smaller margins.



This is bad news for business, according to executives. Caught in this downward price spiral, companies will be forced to launch products with shorter life cycles at a much faster pace, and indirectly there will be fewer opportunities for business to recover profit margins—a complaint domestic producers are also voicing.

Decreases in R-zone rebates to medical institutions will put greater financial pressures on these firms as well. Under such conditions, do patients stand to benefit in the long-term from health care reform? If regulation of medical devices is any indicator, the answer could be "no."

Mark Throdahl, president of Becton Dickinson and chairman of the ACCJ's medical equipment subcommittee, claimed that MHW is focusing on the costs of devices and not on the results of these products, i.e., the quick recovery of patients and other cost-saving

considerations. "There is a myopia: the price of the device is more important than the outcome the product has on the patient," he explained.

What makes the Japanese health care reform different from that of the United States and several European countries is the absence of easily accessible alternatives. "Since there's no free market for health care here, people cannot get access [to needed products] on their own," Throdahl argued. There may be relatively few "free" health care markets in the world today due to the need for equitable medical delivery systems. In Japan, the public is living longer and no longer wants just a "fair" system: it is calling for a higher quality system at precisely the time when financial pressures are imposing spending limits.

This leaves Japanese patients at the mercy of bureaucrats who are looking only at device costs when they should be examining the situation more holistically. With patients' increasing expectations for higher quality health care and the aging of the population, the situation promises to grow tougher and tougher. Providers of health care products and services face an uncertain future in a market with quite a "silver" lining.

Janet Purdy-Levaux is a freelance writer, editor, and instructor based in Osaka.

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