Competitiveness, Innovation and Investment

Murat ASIK MD, MBA
MSD HC Policy Director, EEMEA

2 April, 2014

Agenda

- Innovation
- Current situation
- How to improve the investment environment
- Competitiveness aspect

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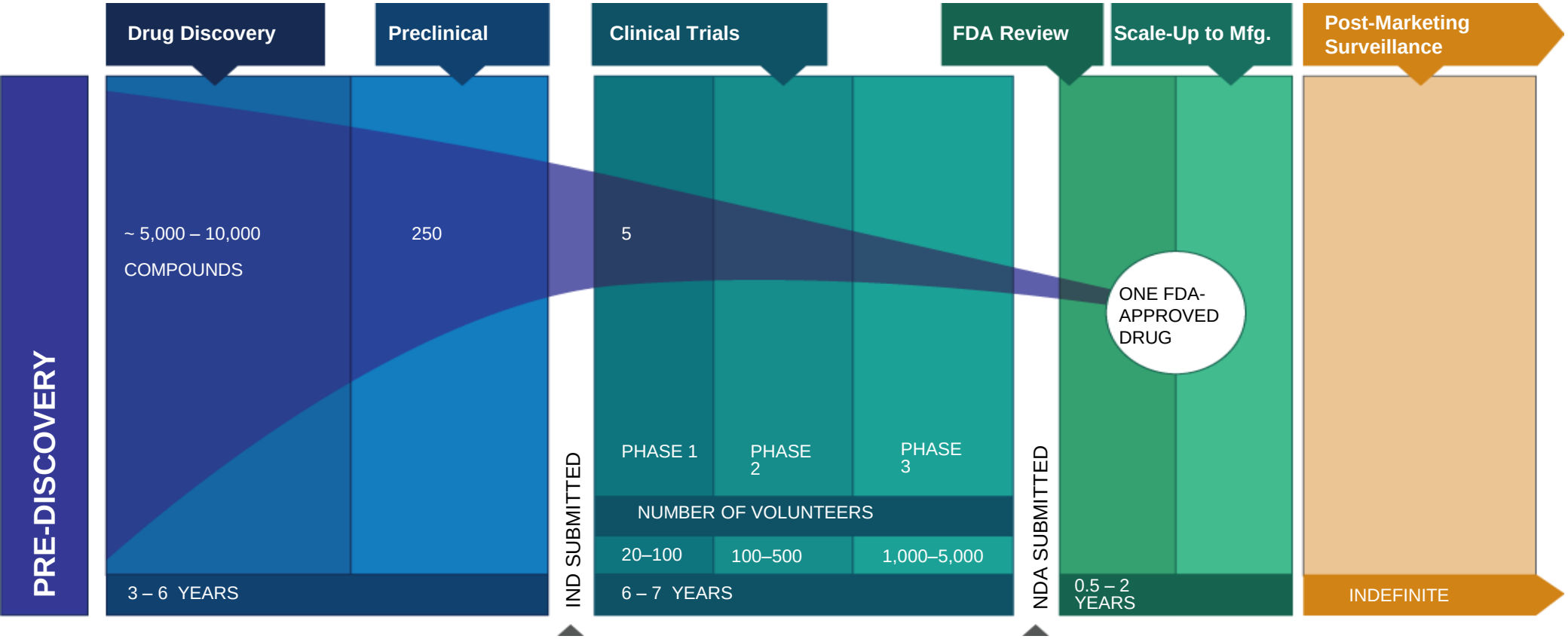
Valuable But Vulnerable:
Limitless Opportunities, Growing Challenges

Developing a new medicine is lengthy, risky, and costly.
New drug development takes an average of 10–15 years, and costs approx. US $1.3 billion.



Sources: Drug Discovery and Development: Understanding the R&D Process, www.innovation.org

What's At Stake: Meeting Urgent Medical Needs

Medical advances are crucial to address health challenges on the immediate horizon

✓Deadly New Strains of Diseases

Research is vital to stay ahead of global pandemics yet-to-be-identified diseases

✓Unprecedented Rise in Chronic Diseases

Today, 1 in every 2 Americans suffers from a chronic disease or illness

CDC: The number of new diabetes cases nearly doubled in the last ten years

✓Impact of Aging Population

By 2030, nearly 1 in 5 Americans will be 65 or older

Parkinson's : cases are projected to double by 2030, more research and new treatments are the answer say study authors

Alzheimer's: Delaying the onset or slowing the progression of Alzheimer's by 5 years could save $100 billion per year by 2020 in Medicare and Medicaid costs

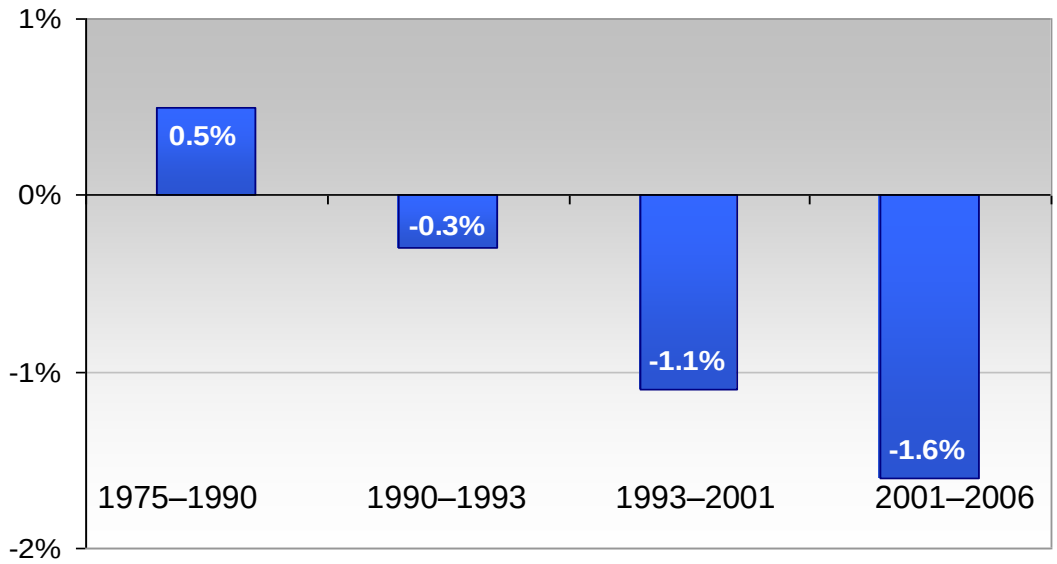
Cancer Death Rates Down

A major study concludes that improvements in treatment have helped cut cancer death rates in half

> *From Killer to Chronic Disease: Drugs Redefine Cancer for Many*[2]
>
> *—Washington Post*

> *I think we really are in the midst of a revolution in the treatment of cancer*[3]
>
> *— Dr. Len Lichtenfeld, American Cancer Society*

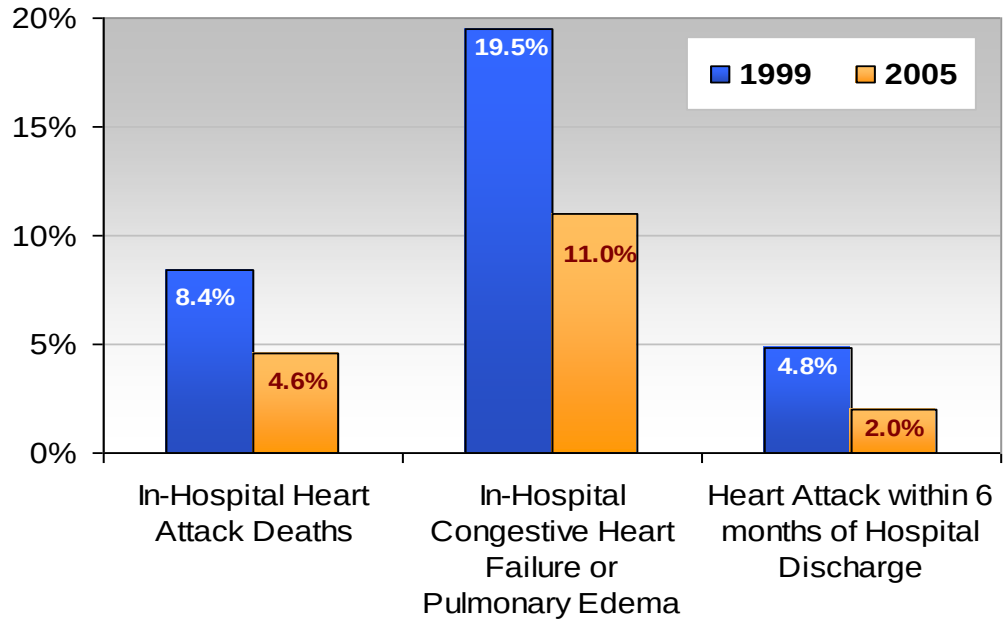
Annual Change in U.S. Death Rate from Cancer[1]



Sources: [1]B.K. Edwards, et al. "Annual Report to the Nation on the Status of Cancer, 1975-2006, Featuring Colorectal Cancer Trends and Impact of Interventions (Risk Factors, Screening and Treatment) to Reduce Future Rates," *Cancer*, 1 February 2009, p. 544-573; [2]R. Stein, "From Killer to Chronic Disease: Drugs Redefine Cancer for Many," *The Washington Post*, 2003.; [3]J. L. Lichtenfeld, PhRMA "Future of Innovation" Briefing, (Washington D.C.) 2006.

Heart Failure Rates and Heart Attack Deaths Are Declining

Adverse Events Among Patients with Coronary Disease* in a Study of 14 Countries[1]



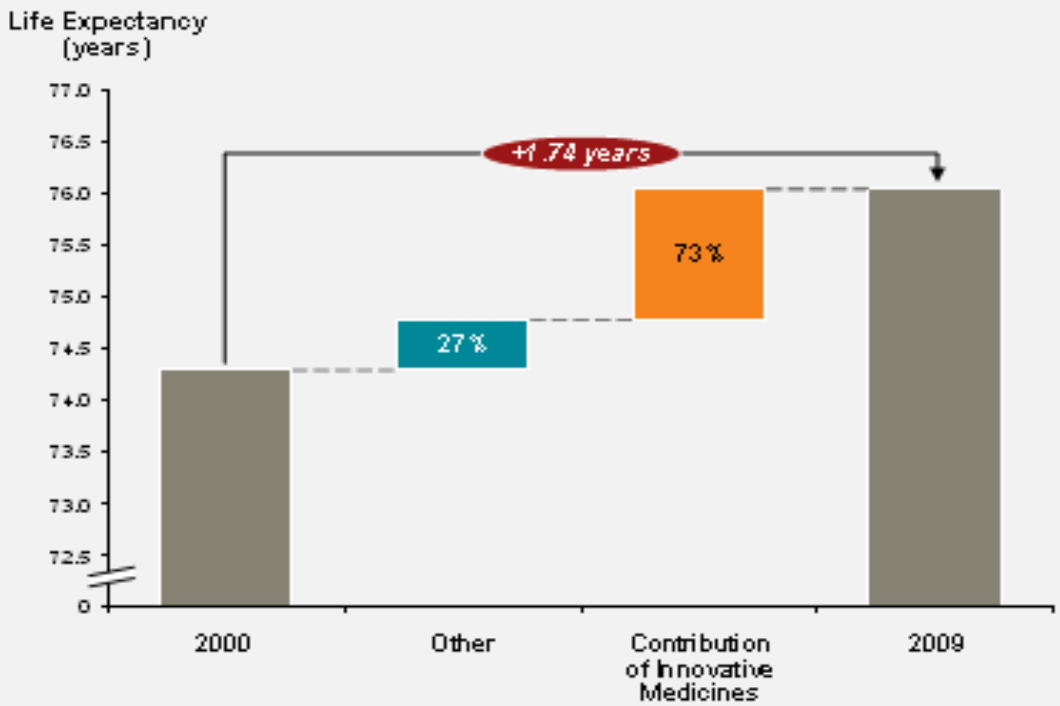
> *"Factors contributing to the decline in heart disease and stroke mortality include better control of risk factors, improved access to early detection, and better treatment and care, **including new drugs and expanded uses for existing drugs.**[2]"*
>
> *–Centers for Disease Control and Prevention*

*Patients with ST-segment elevation acute coronary syndromes (STEMI). Reduced adverse events also observed among non-STEMI patients.

Sources: [1]K. Fox et al, "Decline in Rates of Death and Heart Failure in Acute Coronary Syndromes, 1999–2006," *Journal of the American Medical Association*, (2007). (Note: Patients followed for six months into 2006); [2]CDC, National Center for Health Statistics, *Health, United States, 2006 With Chartbook on Trends in the Health of Americans*, 2006.

Contribution of new drugs to life expectancy: OECD

Contribution of innovative medicines to increase in life expectancy (2004-2009)



- From 2000 – 2009, an improvement in population weighted mean life expectancy at birth of 1.74 years was seen across 30 OECD countries.
- Innovative medicines are estimated to have contributed to 73% of this improvement once other factors are taken into account (e.g. income, education, immunization, reduction in risk factors, health system access).

Source: Lichtenberg, F: Pharmaceutical innovation and longevity growth in 30 developing OECD and high-income countries, 2000 - 2009 (2012)

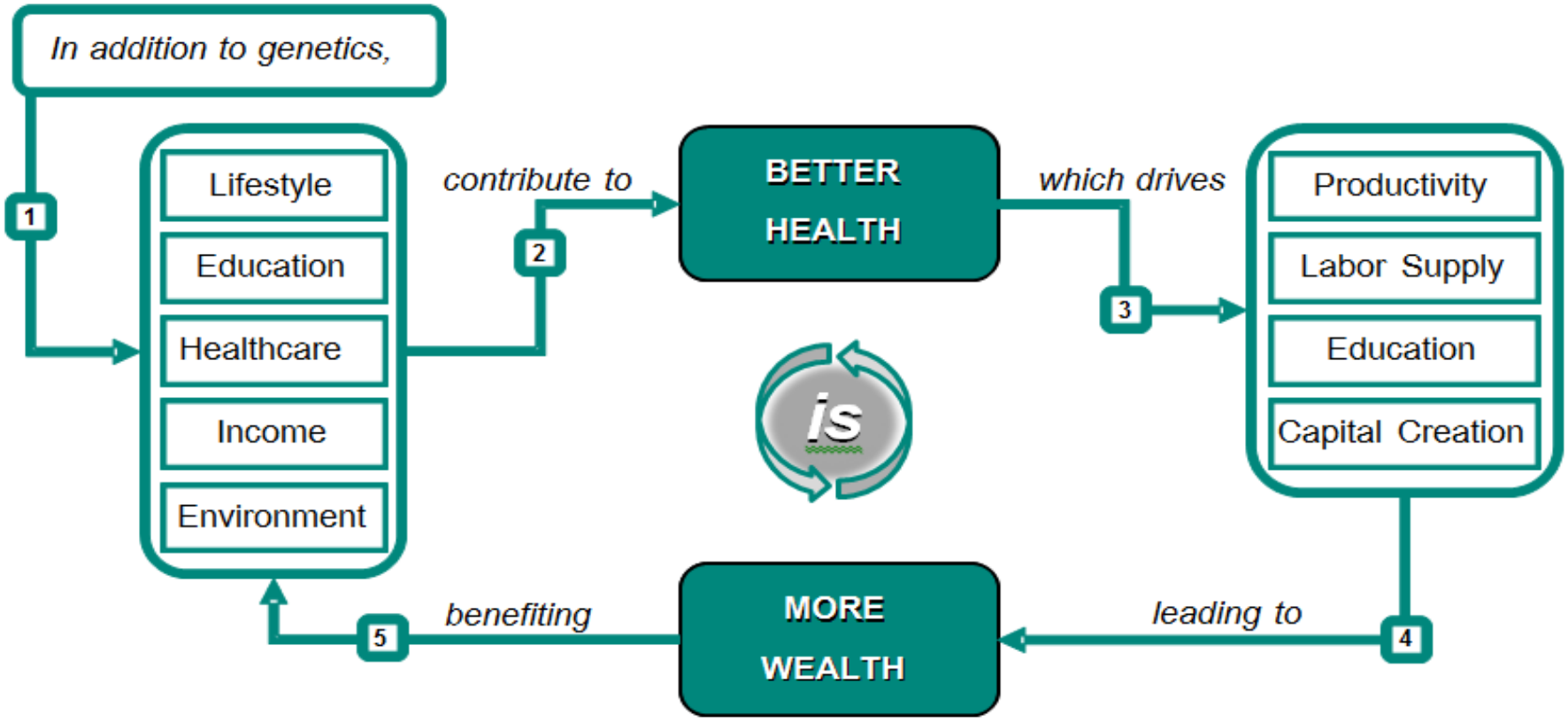
Healthier Means Wealthier

Higher income goes hand-in-hand with better health – and vice versa

Note: Each point is a country, with the location of the point reflecting the country's income per capita and the life expectancy of its people in 2010. Source: World Bank, World Development Indicators. Online data, 2012.

Health as an investment

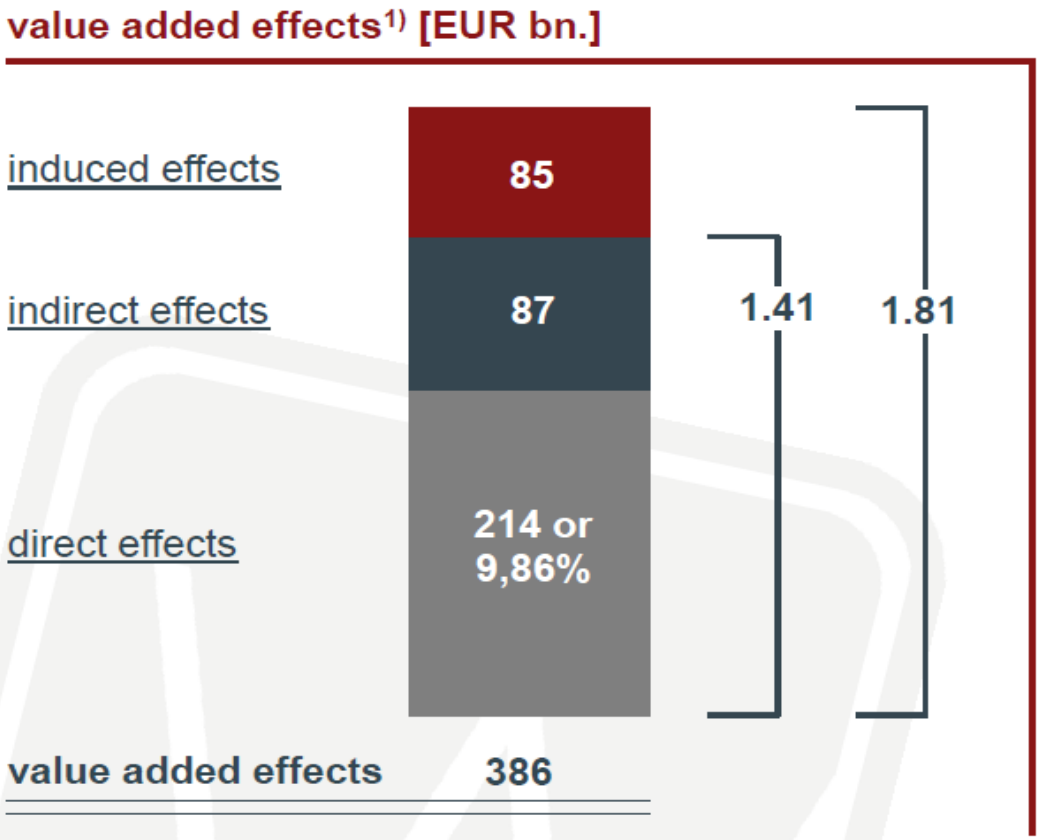
Health spending is a crucial investment to promote economic growth



SOURCE: MSD, adapted from “The contribution of health to the economy in the European Union”, Suhrcke, McKee for the European Commission, DG Sanco (2005)

Economic benefit of the health economy

Health spending in Germany generates considerable indirect and induced value added effects



1) Model calculations based on the 2007 HIOT domestic production (excluding imports and processing of production)

Through the added value of the health economy, additional indirect and induced effects with a value of EUR 386 billion are generated.

The multiplier for the indirect value added effects (including the direct ones) is 1.41, i.e. **one Euro produced in the health economy generates an additional production of 0.40 EUR in the upstream industries.**

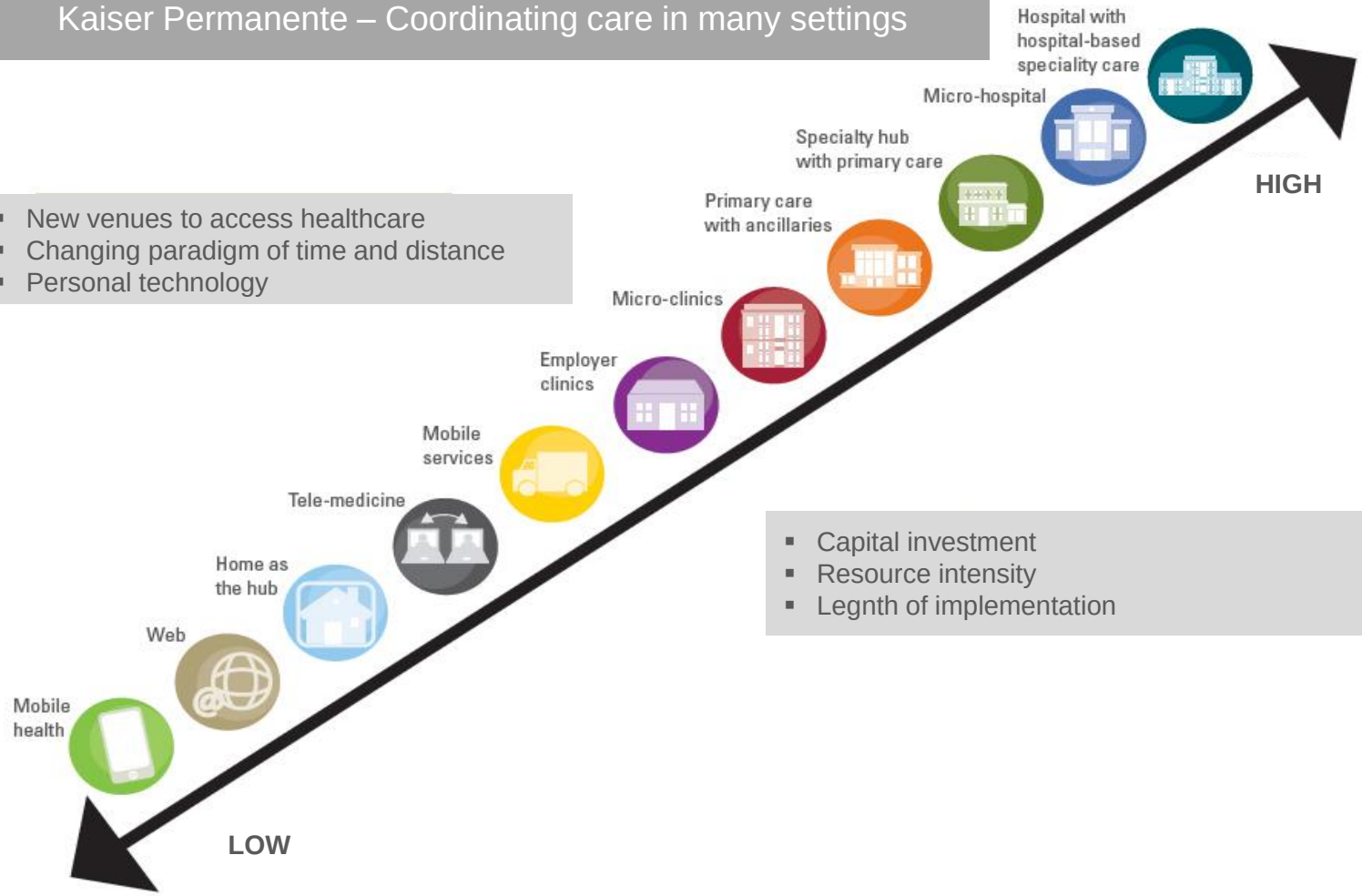
By taking the consumption of generated incomes into account the multiplier rises to 1.81

SOURCE: © 2011 WifOR | Prof. Dr. Klaus-Dirk Henke | *Improving value for money from a health economics perspective*

New approaches to coordinating care

Kaiser Permanente – Coordinating care in many settings

- New venues to access healthcare
- Changing paradigm of time and distance
- Personal technology

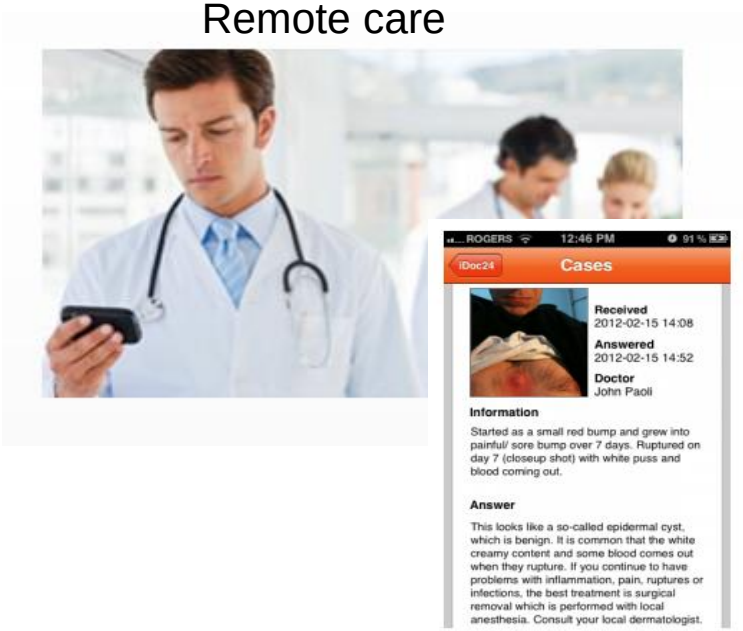


- Capital investment
- Resource intensity
- Legnth of implementation

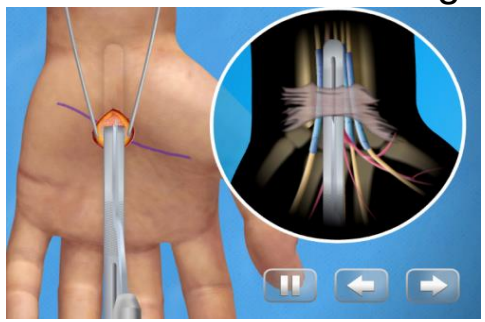
Source: Kaiser Permanente (2012) – Cited in *Global Perspective in Healthcare*, KPMG (2013)

Innovative technologies are already available

Remote care



Tablet devices for training

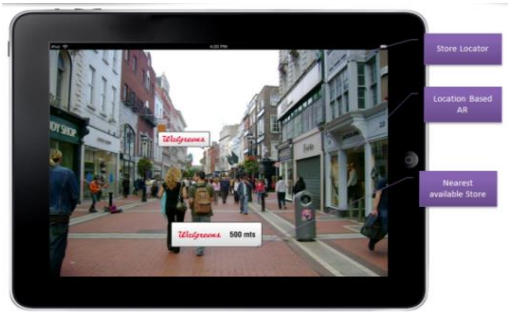


eDiary

Kinect technology embedded in daily life

e.g., Early detection of stroke symptoms, detection of falls

Augmented Reality



Patient self-monitoring

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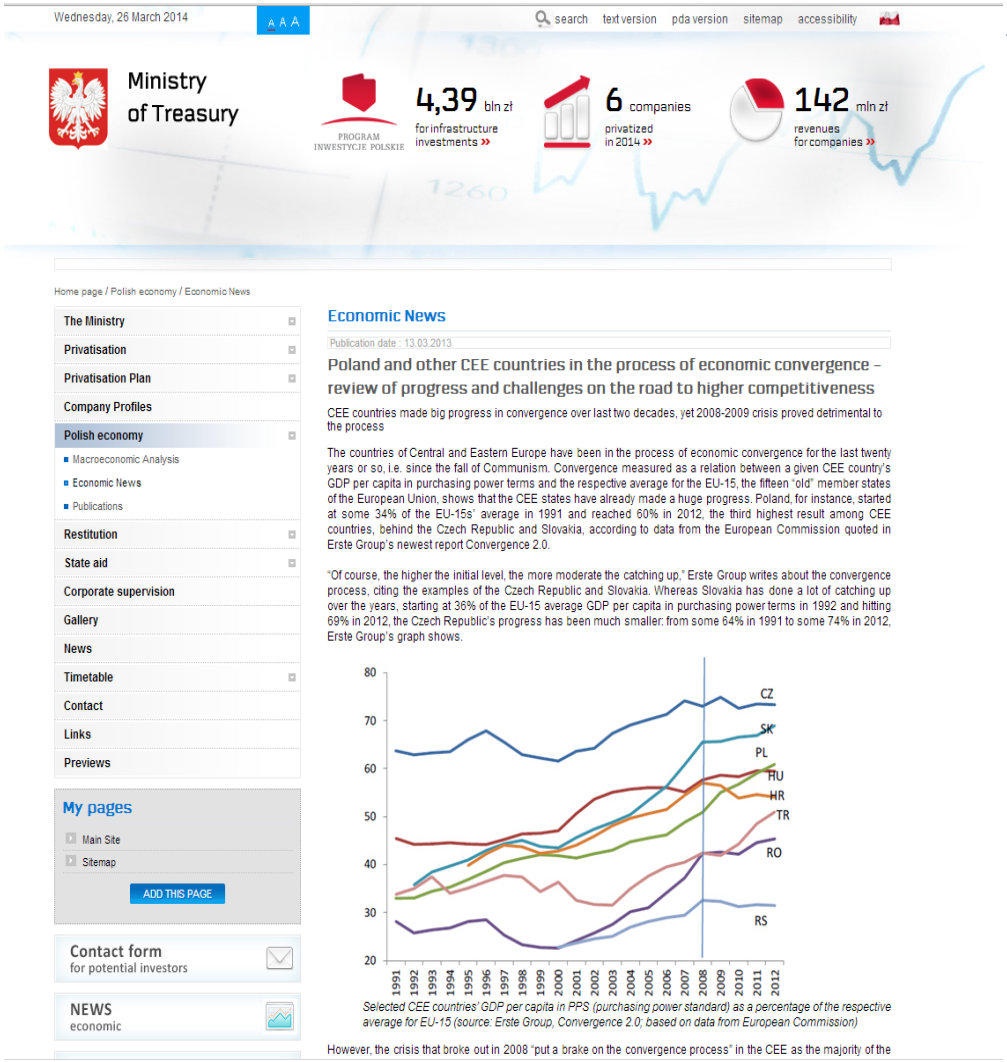
CEE states on the global competitiveness scale



Wednesday, 26 March 2014

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4,39 bln zł for infrastructure investments »

6 companies privatized in 2014 »

142 mln zł revenues for companies »

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Economic News

Publication date : 13.03.2013

Poland and other CEE countries in the process of economic convergence – review of progress and challenges on the road to higher competitiveness

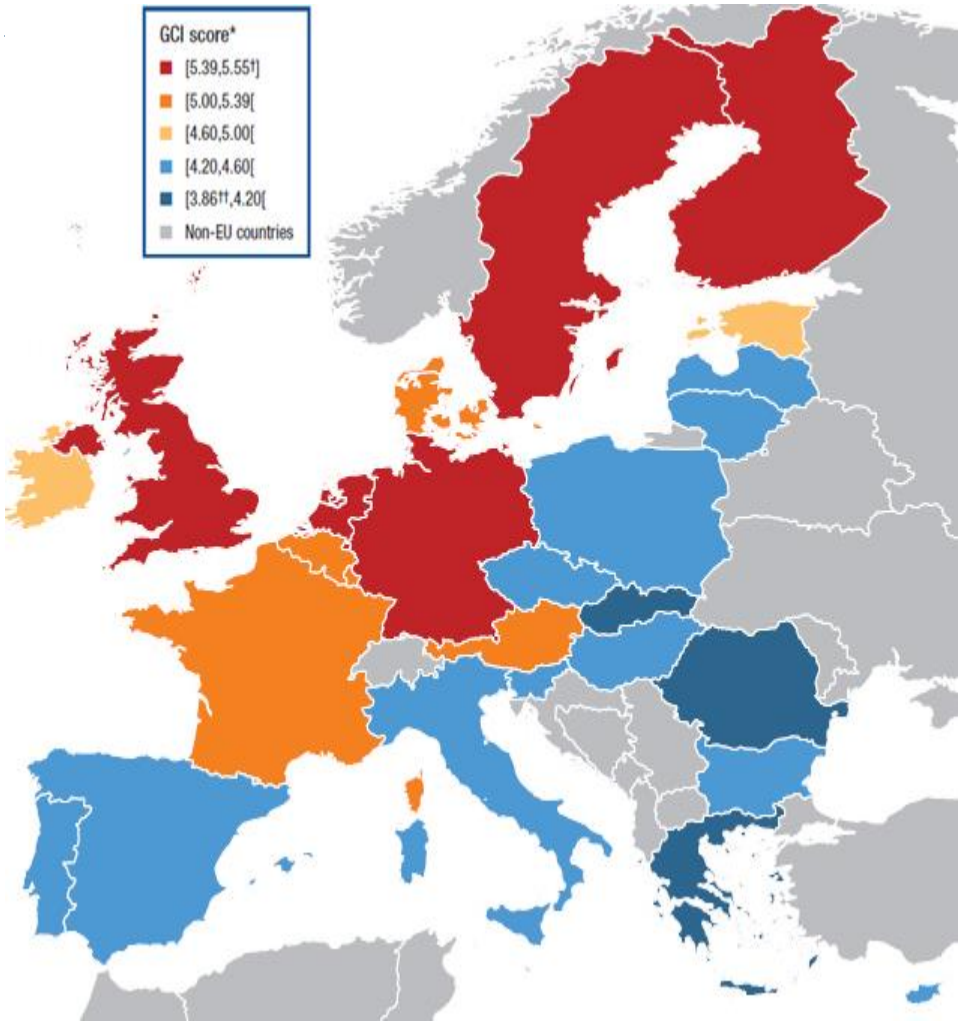
CEE countries made big progress in convergence over last two decades, yet 2008-2009 crisis proved detrimental to the process

The countries of Central and Eastern Europe have been in the process of economic convergence for the last twenty years or so, i.e. since the fall of Communism. Convergence measured as a relation between a given CEE country's GDP per capita in purchasing power terms and the respective average for the EU-15, the fifteen "old" member states of the European Union, shows that the CEE states have already made a huge progress. Poland, for instance, started at some 34% of the EU-15s' average in 1991 and reached 60% in 2012, the third highest result among CEE countries, behind the Czech Republic and Slovakia, according to data from the European Commission quoted in Erste Group's newest report Convergence 2.0.

"Of course, the higher the initial level, the more moderate the catching up," Erste Group writes about the convergence process, citing the examples of the Czech Republic and Slovakia. Whereas Slovakia has done a lot of catching up over the years, starting at 36% of the EU-15 average GDP per capita in purchasing power terms in 1992 and hitting 69% in 2012, the Czech Republic's progress has been much smaller: from some 64% in 1991 to some 74% in 2012, Erste Group's graph shows.

Selected CEE countries' GDP per capita in PPS (purchasing power standard) as a percentage of the respective average for EU-15 (source: Erste Group, Convergence 2.0; based on data from European Commission)

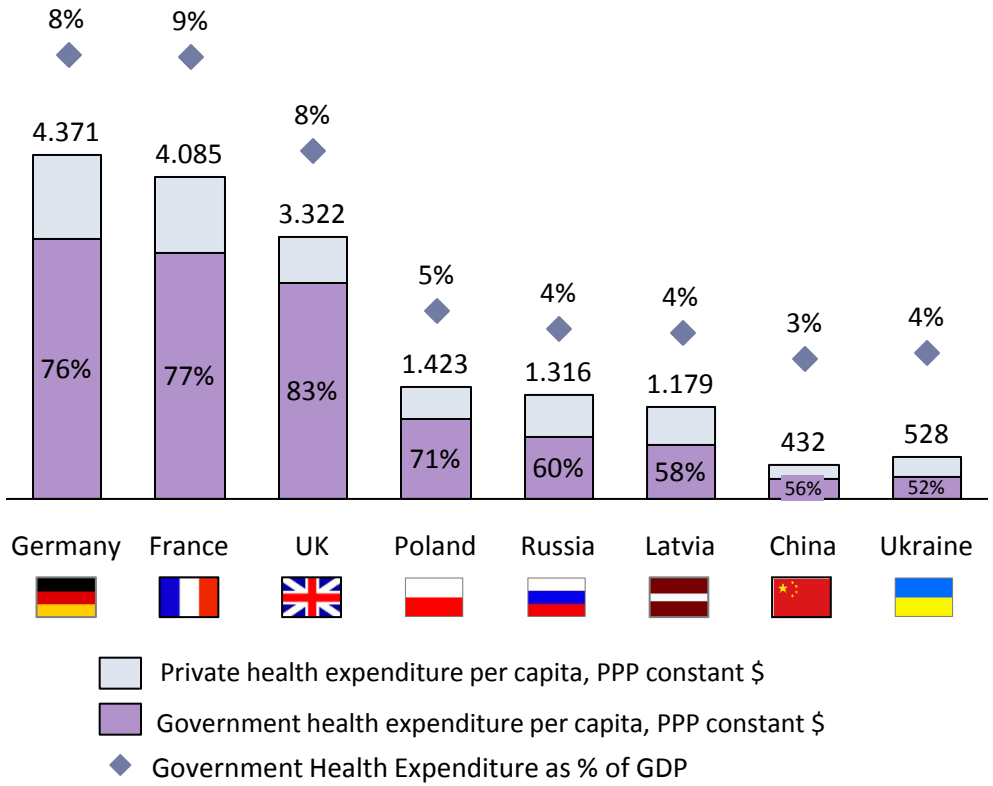
However, the crisis that broke out in 2008 "put a brake on the convergence process" in the CEE as the majority of the



- http://msp.gov.pl/en/polish-economy/economic-news/4019,Poland-and-other-CEE-countries-in-the-process-of-economic-convergence-review-of-.html

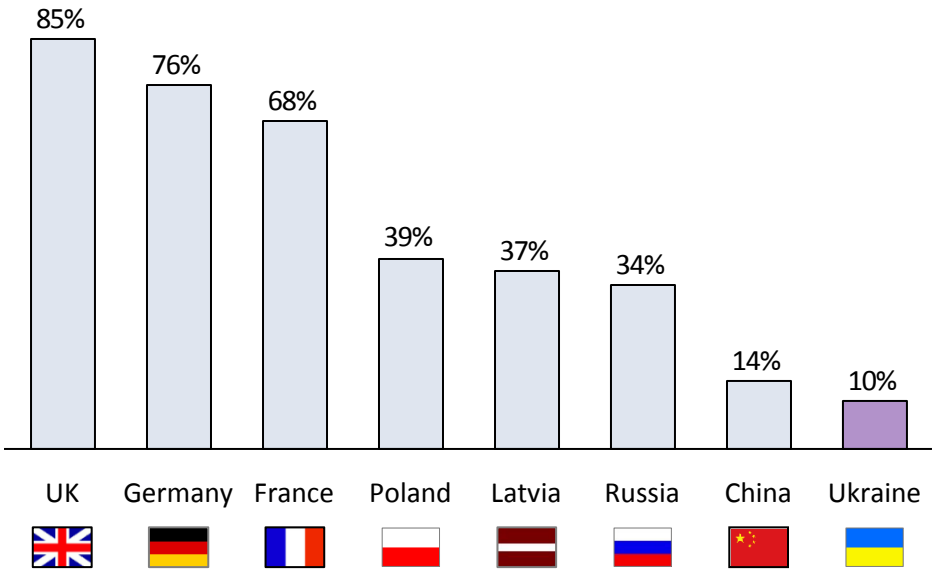
In many developing countries, healthcare is heavily underfinanced, especially in pharmaceuticals

Total Health Expenditure, 2011



Overall health expenditure in CEE is far below the level of other European countries; recent economic and consequent budget restraints put further pressure on the government financing

Share of Public Financing in Total Expenditure on Medicines (incl. hospital segment), 2011 or latest available

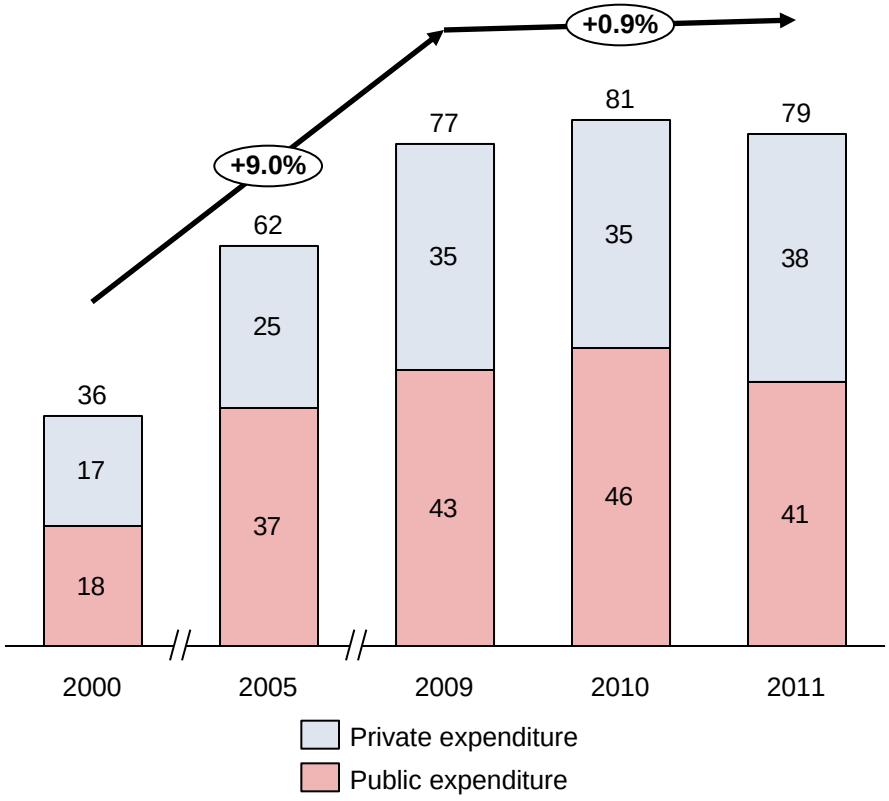


The share of public financing in the CEE pharmaceutical market is extremely low due to lack of out-patient drug reimbursement programs and low share of the hospital segment in the market

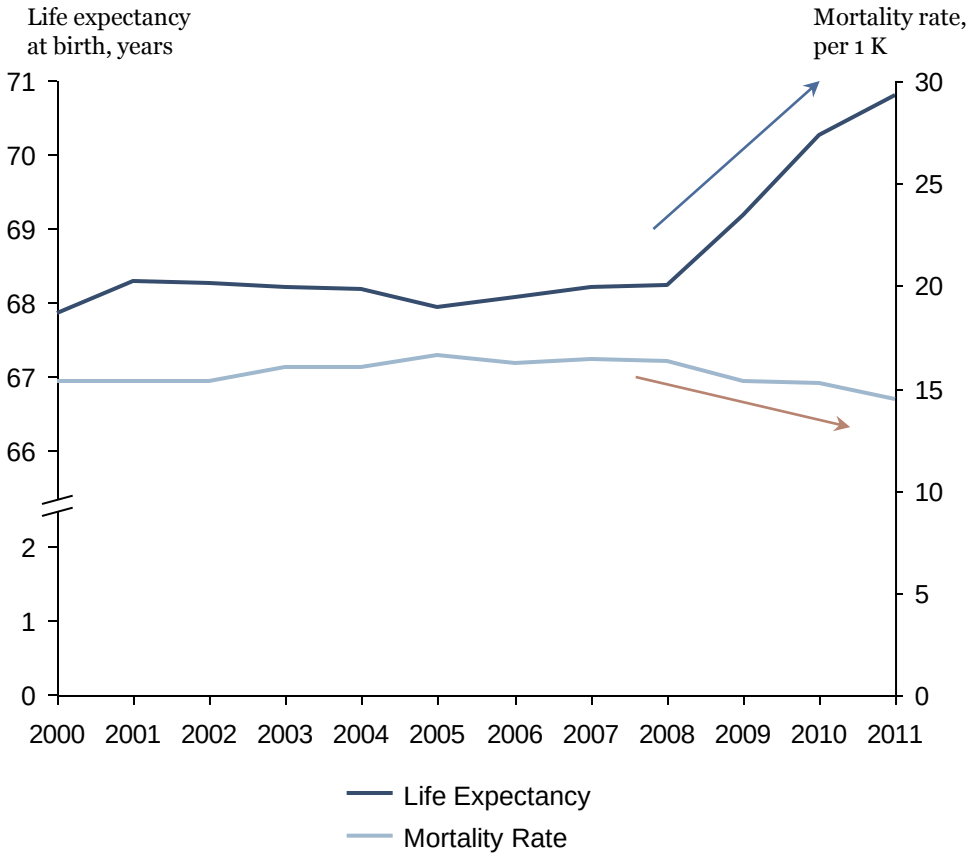
Source: State Statistics Committee of Ukraine; Worldbank; WHO; OECD; PwC analysis

Ukrainian healthcare, in the post-Soviet recession in the early nineties, started gradual improvement driven by country's rising healthcare expenditures and economic growth

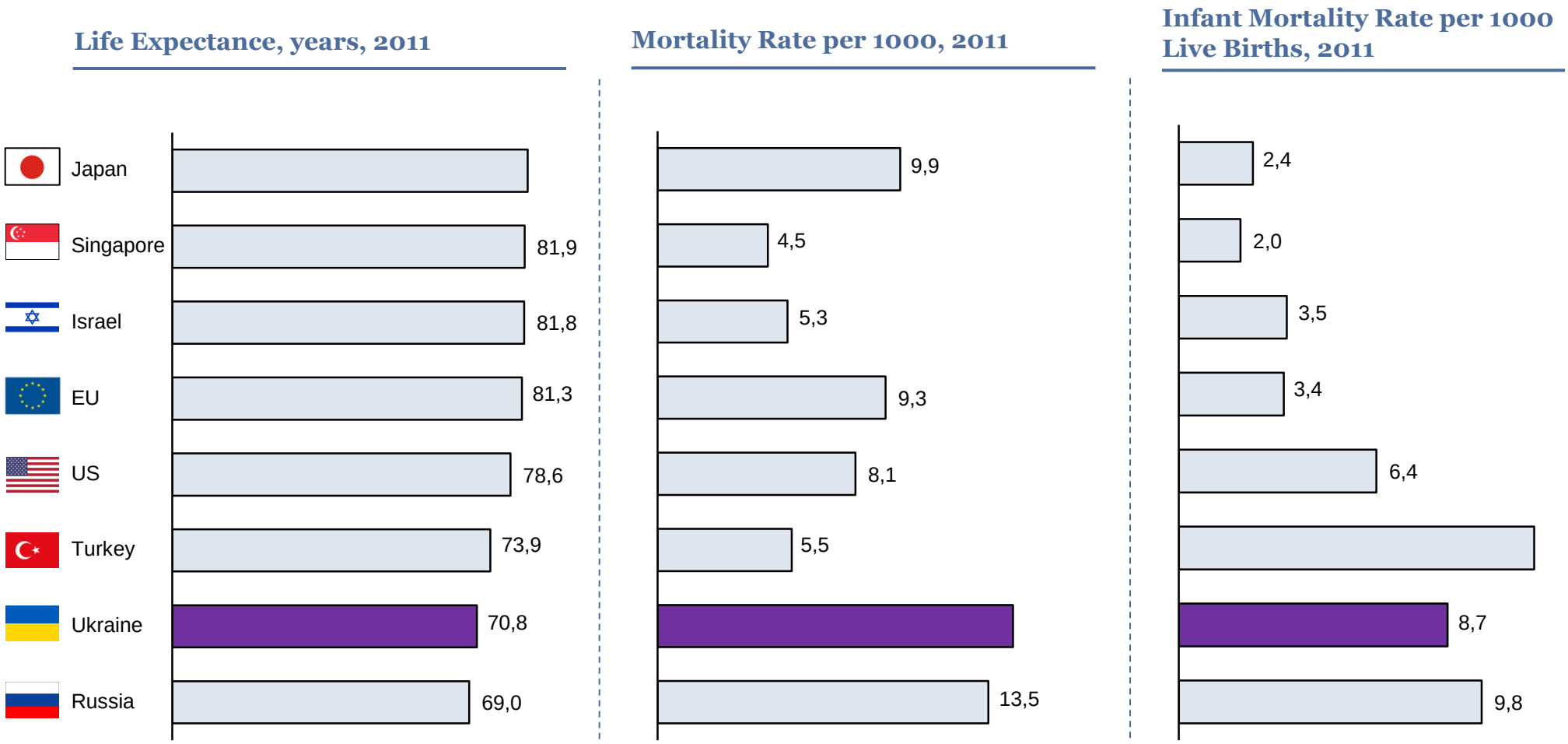
Total Health Care Expenditure per Capita, constant 2000 USD



Demographical indicators in Ukraine, 2000-2011



However, Ukraine still lags behind many developed nations in terms of vital healthcare indicators



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Healthcare reforms in Poland, Turkey, Latvia and Czech Republic included similar initiatives across all of the healthcare system elements, however the healthcare financing schemes vary across the countries

	Healthcare Reform Content: National Health Insurance	Healthcare Reform Content: Pluralistic Model	Healthcare Reform Content: Socialized Health Insurance
1 Patients	• Patient **Education** • Update of the **immunization** programs • Introduction of patient **right to choose physician / medical institution**		
2 Payers	• Introduction of the **mandatory national insurance program** with universal coverage	• Increase in **private healthcare financing** through introduction of mandatory **fees and co-payment** for medical services	• **Universal health insurance** provided by a **number** of health insurance **funds**
	• **Separation of providers and payers** of healthcare services • Shift to the **activity-based payment models**: fee-for-service in out-patient segment and DRG-system in in-patient • Introduction of prescription drug reimbursement		
3 Providers	• **Reform of medical education** • **Optimization** of the number and composition and gradual **privatization** of **hospitals** • **Optimization** of the number and composition of **medical staff** and shift to the **private labor regulation** and **self-employment** of the individual practitioners • Focus on the **primary care** development • Creation of the **health information system**		
4 Suppliers	• **Harmonization** of pharmaceutical market **regulation with EU**		

Source: WHO's Health Systems in Transition

Industry Vision aims to deliver benefits to patients and governments

Benefits to the Government

Understanding of Key Areas for Improvement

- Complete picture of the areas for improvement in the healthcare and pharmaceutical industries regulations based on the internationally recognized best practices

Increased Efficiency of the Whole Healthcare System

- Up-to-date approaches to manage costs, allow efficient financing and deliver required healthcare services for the vast majority of patients

Actionable Steps for Improvement

- Actionable steps for regulations improvement

Benefits to Patients

Transparent Access to Healthcare Services

- Overview of the ways how to improve patients' access to the required services, how to make it transparent and predictable

Improved Access to the Innovative Drugs

- Additional ways to finance and deliver up-to-date medicines to patients

Trust in the Healthcare System

- Impetus to increased trust in the healthcare system from patients based on the availability of transparent and easy access to innovative treatment methods and medicines

Different efforts, one aim:
To get the lion's share from investment and innovation

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AmCham Romania Launches Impact Study on Its 20th Anniversary

Date: 11/28/2013
Source: AmCham Romania

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The American Chamber of Commerce in Romania (AmCham Romania) has launched today its Impact Study, an analysis of its member companies overall impact in the Romanian economy. The Impact Study has been developed on the occasion of celebrating 20 years of AmCham activity in Romania, therefore it also includes a review of the most important milestones in AmCham's activity, as well as AmCham's vision for Romania's future economic development.

"The Impact Study is unique to AmCham, being the first such analysis of the economic impact of member companies in Romania. This is also a timely occasion to thank and acknowledge our members' contribution to consolidating AmCham as leading business association in Romania. The Impact Study results confirm AmCham's representativity and relevance and compels us to remain an active promoter of a stable, predictable and competitive business climate" declared Valeriu Nistor, AmCham Romania President in his event opening address.

In 2013, twenty years away from its set-up by 22 founding members, the American Chamber of Commerce (AmCham Romania) has over 350 members, U.S., international and Romanian companies, both large corporations and medium and small enterprises.

The most important indicators analyzed by the Impact Study regarding AmCham's representativity are the total number of jobs created by AmCham Romania member companies, of over 200,000 and the overall volume of investments, reaching USD 20 billion. Between 2010 -2012 AmCham member companies have invested EUR 1.2 billion in Romania, a volume that represents 24% of the total direct investments made during this 3 year period.

The overall contribution to GDP of AmCham's 350 member companies amounted to 11.2% in 2011. Other type of contributions paid by AmCham members to the state budget and reflected in the Impact Study, include: contributions to the profit tax budget of 7.79%, pensions contributions to the social security budget paid by employers of 6.47% and contributions paid by employers to the healthcare budget of 6.39%.

On launching the Impact Study, AmCham Romania's President also outlined AmCham's vision for Romania's economic growth and the main measures and

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Innovation Management in Central and Eastern Europe: Technology Perspectives and EU Policy Implications

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3. Institute of Management, Corvinus University of Budapest, 1093 Budapest, Fővám tér 8, Hungary
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Abstract

The purpose of this study is to investigate empirically the role of innovation activity in Central and Eastern Europea (CEE). We also identified those internal and external factors, which might cause improvements in innovation performance of CEE companies. Our main focus was on technology-based innovations within the healthcare industry. We applied qualitative research methods.

Erste Group im Überblick
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Themen (DE / EN / CZ / RO)
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18.03.2014
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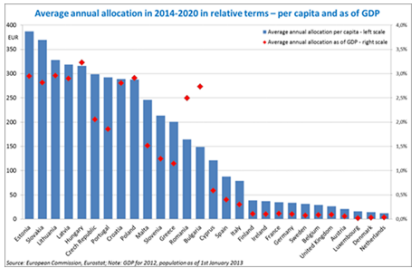
EU Cohesion Policy 2014-2020: Will EUR 167bn of EU funds give CEE a boost?

11.03.2014

- **EUR 167bn of EU structural and investment funds allocated to CEE-6 for 2014-2020 - approx. half of the total EU funds**
- **A 90% absorption rate in CEE-6 would spur average GDP growth by 0.3-0.8pp per year**
- **Poland receives the highest total amount of all EU-28 members; Hungary is winner in terms of total allocation/GDP; Slovakia ranks second as to average annual allocation per capita**
- **Erste Group analysts highlight transport, infrastructure, education and R&D as high-priority sectors**
- **Poland had the best absorption rate (67.9%) of the 2007-2013 EU funds; Romania had the lowest EU funds utilisation (37.8%)**



European Union's financial assistance to Central and Eastern Europe via the EU Cohesion Policy 2014-2020 could reach the scale of a "Marshall plan" for the region, finds the recently published Erste Group analysis conducted by the EU Office of Česká spořitelna in cooperation with Erste Group Research.

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AmCham-GE Roundtable Discussion on Innovation

February 18, 2013

The event looked at ways to increase, through collaboration, the role Hungary and Central & Eastern Europe play in global innovation.

Press Release

Innovation – You can't do it alone

Financing, long-term collaboration and a strategy adapted to global trends are needed to strengthen the role of Hungary and Central & Eastern Europe in global innovation.

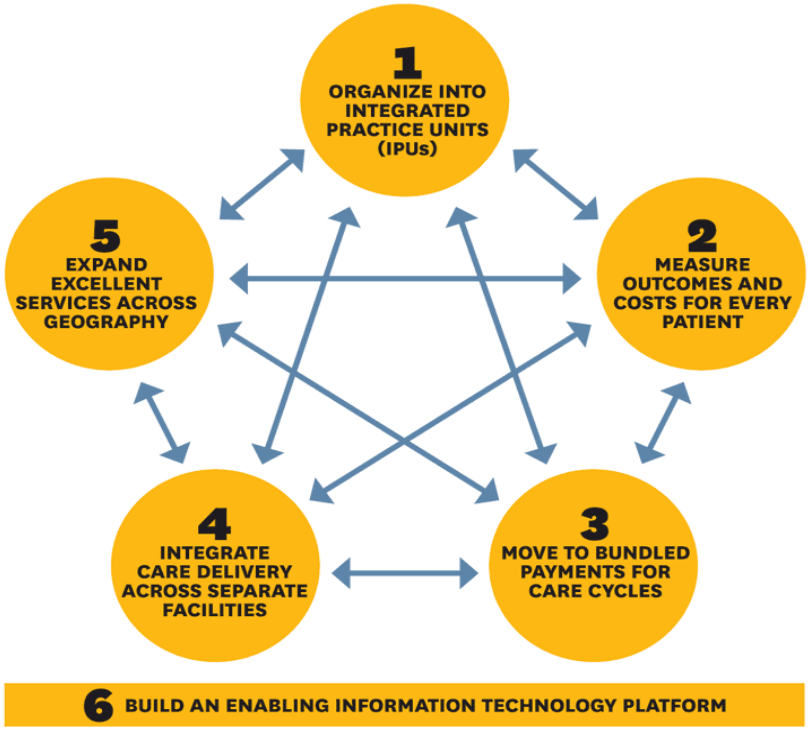
In line with the Hungarian Government's innovation strategy and using key findings from the GE Global Innovation Barometer, the American Chamber of Commerce, an organization working to improve Hungary's competitiveness, and GE, a strategic partner to the Hungarian Government held a roundtable discussion on February 14, 2013 at the Hungarian Academy of Sciences. Attended by representatives from the European Parliament, the Ministry for National Economy of Hungary, Szent István University of Godollo and the GE Foundation Scholar-Leaders Program, the event looked at ways to increase, through collaboration, the role Hungary and Central & Eastern Europe play in global innovation.

Innovation as an opportunity

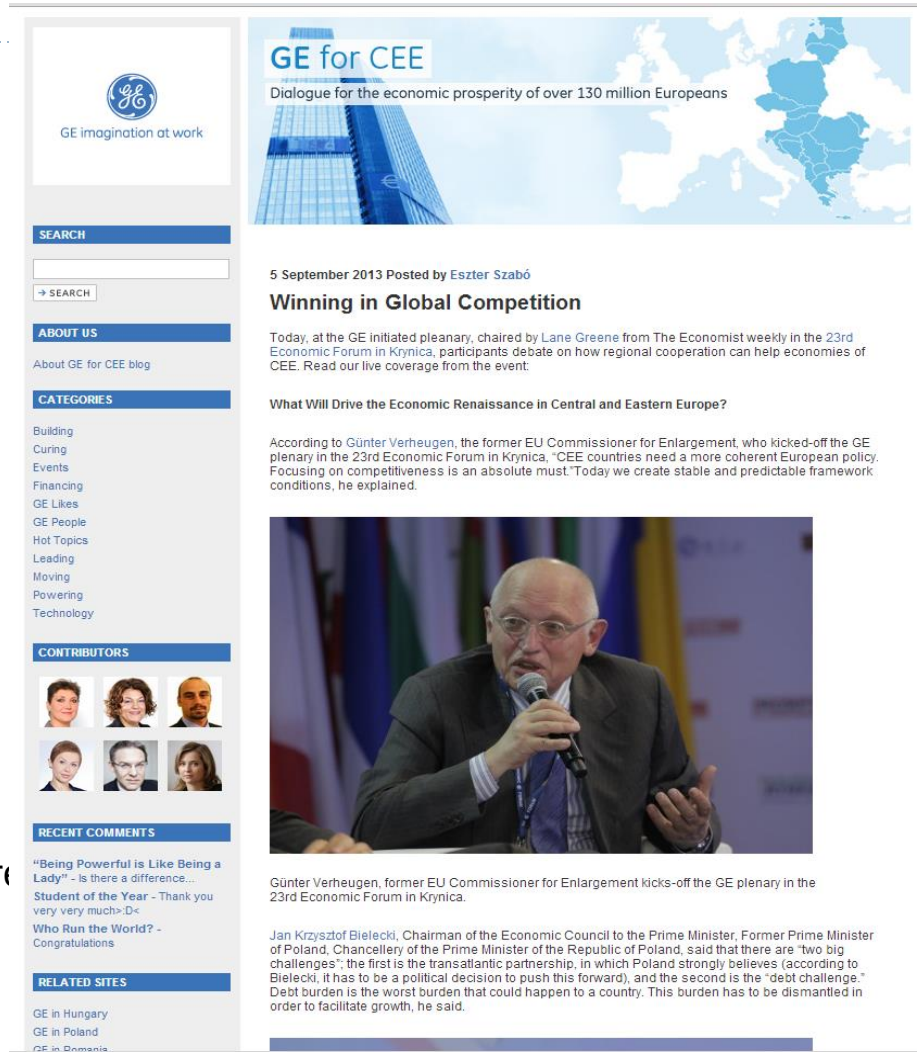
GE's Global Innovation Barometer, a survey to explore how 3,000 business leaders in 25 countries of the world view innovation, found that while business executives continue to value innovation as a strategic priority, a general uncertainty is seen in today's challenging economic environment. According to statistics, while countries in CEE lag behind the leaders in terms of investments in innovation, the region's high share in high tech exports and underlying foreign direct investments is a proof of innovation's increased importance and economy-shaping impact.

How can Hungary's and the CEE region's role in global innovation be promoted to improve their competitiveness through presenting best practices and developing new ones while reinforcing stakeholder collaboration? The roundtable discussion, which can be the first leg in a series of roundtables according to the organizers' plans, was designed to provide answers to this question.

The Strategy That Will Fix Health Care* ?



The strategic agenda for moving to a high-value health care delivery system has six components. They are interdependent and mutually reinforcing. Progress will be greatest if multiple components are advanced together.



*The Strategy That Will Fix Health Care by Michael E. Porter and Thomas H. Lee, at HBR Oct 2013 . Accessed online on 26 March 2014 via http://hbr.org/2013/10/the-strategy-that-will-fix-health-care/ar/2

Agenda

- Innovation
- Current situation in Ukraine
- Vision 2020 for Ukraine
- Competitiveness aspect

Innovation-Competitiveness-Growth

- **Innovation: a path to competitiveness and economic growth. The case of CEE countries**

- Ioan Radu PETRARIU(The Bucharest University of Economic Studies)
- Robert BUMBAC(The Bucharest University of Economic Studies)
- Radu CIOBANU(The Bucharest University of Economic Studies)

- **Abstract**
- Innovation is often considered to be a typical activity of the developed countries. If we put behind the leading excellence research institutions and the high educated specialists we can tell that innovation is, in the end, the attempt to create new or improved products or processes. The aim of this study is to show the empirical evidence on the link between innovation and economic growth in the Central and Eastern European countries (CEE). Even if this part of Europe was highly affected by the economic crises, we consider that innovation can be the most important component of long-term economic growth. Our study considers a number of different proxies to measure innovation, such as R&D spending, patenting or the number of researchers as well as firms characteristics and mergers and acquisitions. **Our findings are consistent with the existing literature that innovation makes significant contribution to national competitiveness and economic growth and the gap between the Western and Eastern economies can be reduced by investing in innovation**.

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Competitiveness

"The set of factors, policies and institutions that determine the level of productivity of a country taking into account its level of development."

Top 10

1. Switzerland
2. Singapore
3. Finland
4. Germany
5. United States
6. Sweden
7. Hong Kong SAR
8. Netherlands
9. Japan
10. United Kingdom

The 12 Pillars of Competitiveness

- Institutions
- Infrastructure
- Macroeconomic environment
- Health and primary education
- Higher education and training
- Goods market efficiency
- Labour market efficiency
- Financial market development
- Technological readiness
- Market size
- Business sophistication
- Innovation

Encourage — Encourage evidenced-based, data-driven policymaking

Inform — Inform multi-stakeholder dialogue

Monitor — Monitor progress

Identify — Identify good practices

Improve — Improve statistical standards

Warn — Raise awareness about competitiveness

Alert — Create a sense of urgency

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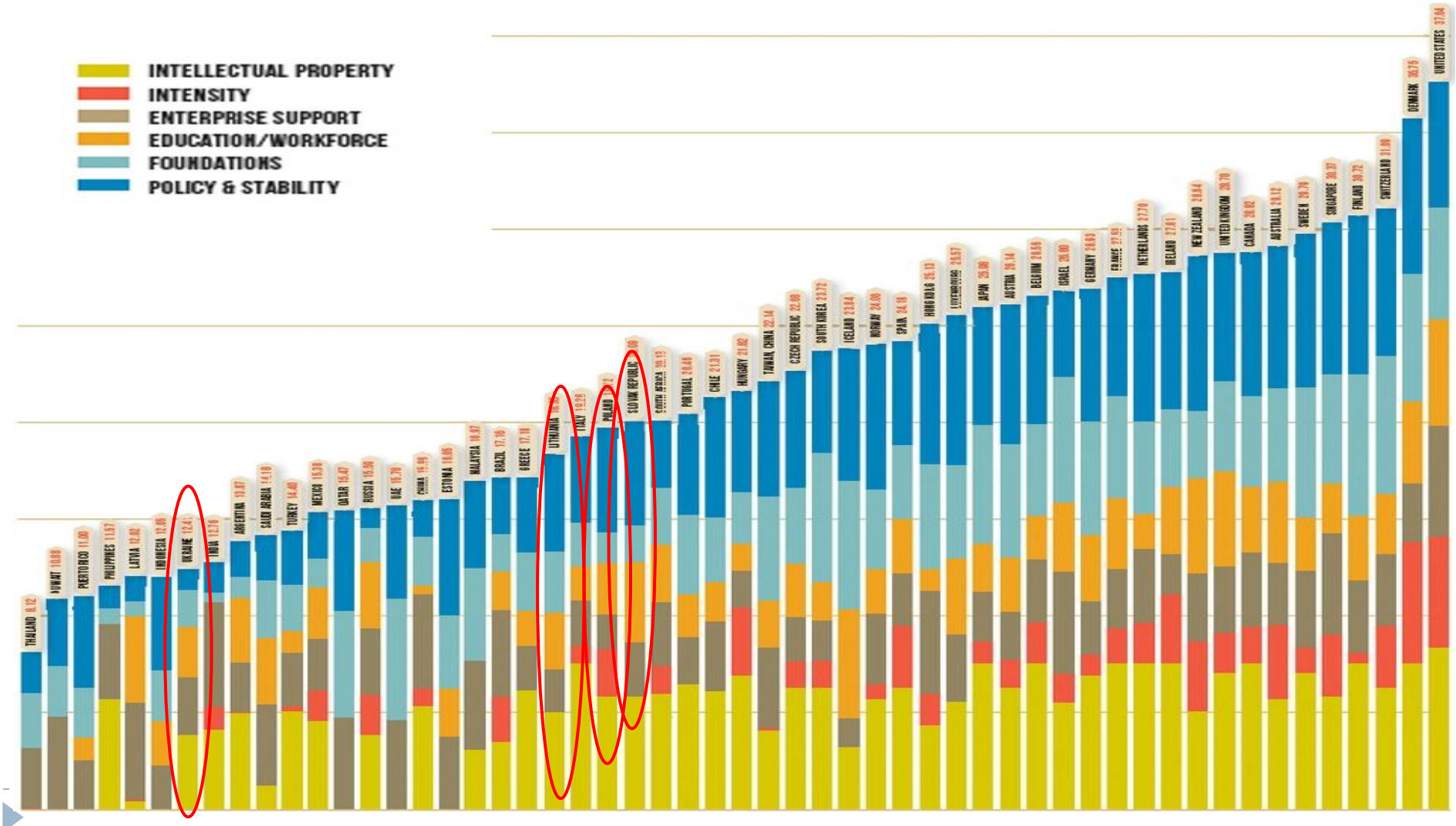
Table 2: Countries/economies at each stage of development

Stage 1: Factor-driven (38 economies)	Transition from stage 1 to stage 2 (20 economies)	Stage 2: Efficiency-driven (31 economies)	Transition from stage 2 to stage 3 (22 economies)	Stage 3: Innovation-driven (37 economies)
Bangladesh	Algeria	Albania	Argentina	Australia
Benin	Angola	Bosnia and Herzegovina	Barbados	Austria
Burkina Faso	Armenia	Bulgaria	Brazil	Bahrain
Burundi	Azerbaijan	Cape Verde	Chile	Belgium
Cambodia	Bhutan	China	Costa Rica	Canada
Cameroon	Bolivia	Colombia	Croatia	Cyprus
Chad	Botswana	Dominican Republic	Estonia	Czech Republic
Côte d'Ivoire	Brunei Darussalam	Ecuador	Hungary	Denmark
Ethiopia	Gabon	Egypt	Kazakhstan	Finland
Gambia, The	Honduras	El Salvador	Latvia	France
Ghana	Iran, Islamic Rep.	Georgia	Lebanon	Germany
Guinea	Kuwait	Guatemala	Lithuania	Greece
Haiti	Libya	Guyana	Malaysia	Hong Kong SAR
India	Moldova	Indonesia	Mexico	Iceland
Kenya	Mongolia	Jamaica	Oman	Ireland
Kyrgyz Republic	Morocco	Jordan	Panama	Israel
Lao PDR	Philippines	Macedonia, FYR	Poland	Italy
Lesotho	Saudi Arabia	Mauritius	Russian Federation	Japan
Liberia	Sri Lanka	Montenegro	Seychelles	Korea, Rep.
Madagascar	Venezuela	Namibia	Slovak Republic	Luxembourg
Malawi		Paraguay	Turkey	Malta
Mali		Peru	Uruguay	Netherlands
Mauritania		Romania		New Zealand
Mozambique		Serbia		Norway
Myanmar		South Africa		Portugal
Nepal		Suriname		Puerto Rico
Nicaragua		Swaziland		Qatar
Nigeria		Thailand		Singapore
Pakistan		Timor-Leste		Slovenia
Rwanda		Tunisia		Spain
Senegal		Ukraine		Sweden
Sierra Leone				Switzerland
Tanzania				Taiwan, China
Uganda				Trinidad and Tobago
Vietnam				United Arab Emirates
Yemen				United Kingdom
Zambia				United States
Zimbabwe				

Scientific American Worldview Scorecard 2013 For the Innovative Biopharmaceutical Sector

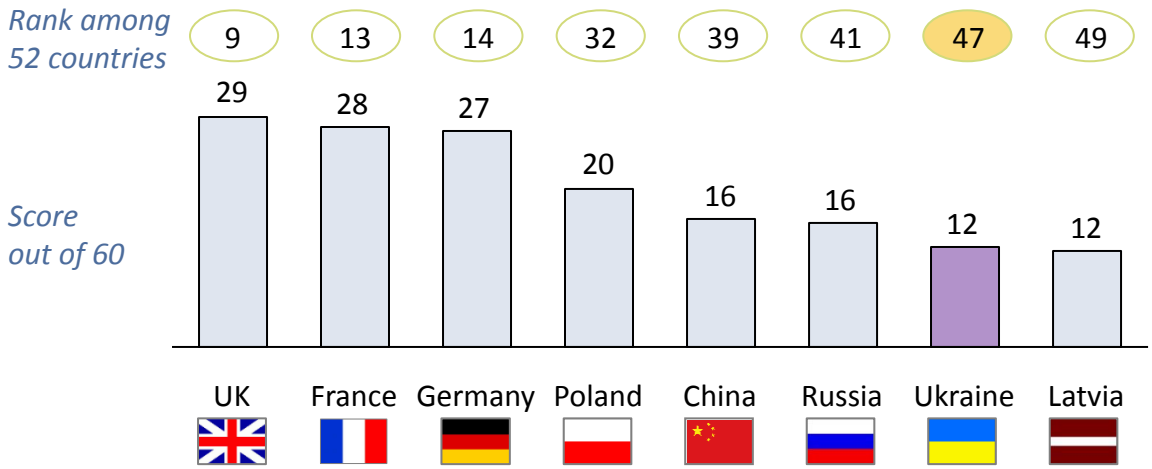
Scientific American Worldview Scorecard 2013



CEE countries have significant unrealized potential in terms of pharmaceutical FDI attraction and drug market access

Country Position in the Worldview Biotechnology Scorecard

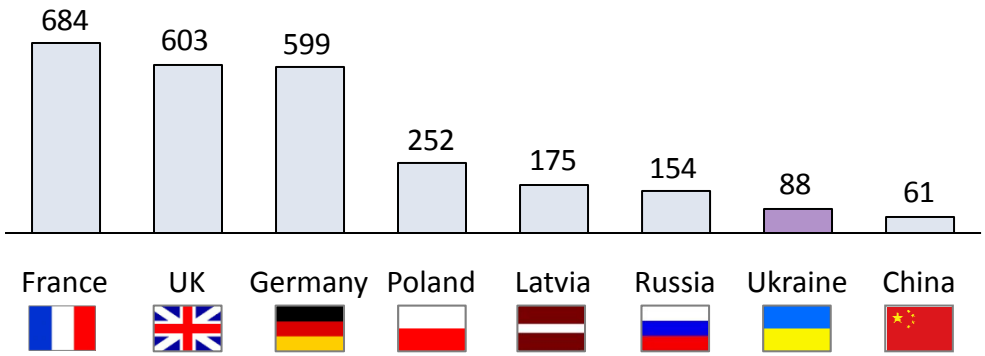
The index illustrates the country's capabilities in the pharmaceutical innovation and as a result attractiveness for pharmaceutical FDI (especially R&D-related)



Preliminary Identified Issues

- Unpredictability and non-transparency of decision-making
- Cumbersome regulation
- Inefficient bureaucracy
- Weak IP rights regime
- Brain drain
- Stringent price regulation

Pharmaceutical Sales per capita 2012, USD



- Ever-changing regulations
- Access issues
- Lack of universal healthcare
- Lack of transparent rules for interactions between HCPs and pharmaceutical companies

Source: Scientific American; BCI

Which countries are globally competitive for investment?

- Key factors
  - Efficient, transparent regulatory system
  - Recognizes and rewards innovation
  - World-class intellectual property systems
  - Open market, free of discrimination
  - Favorable taxation
  - Strong education-private sector links
  - Stable, transparent political system
  - **Policy dialogue on best practices with government**

Conclusion

- Innovation propels healthier and wealthier countries
- World is at a cross-roads for significant changes in healthcare
- Industry is willing to support any country that is:
  - Willing to be competitive
  - Seeking innovation and investment,
  - Seeking a better healthcare infrastructure
  - Seeking to be an industrial hub