GEN Genetic Engineering & Biotechnology News
Feature Articles: Mar 1, 2012 (Vol. 32, No. 5)

# Myths about Doing Business in China

David Jiang, Ph.D.

## This Large and Growing Country Provides Many Opportunities for Companies in the Know

China is growing fast, along with demands for Western products. Since 2000, U.S. exports to China have grown 468%. At $92 billion in 2010, China is now America's third largest export market.

General Motors held its first board of directors meeting in China in 2011. The company sold more light vehicles in 2010 in China than it sold in the U.S. At the end of October 2011, Starwood had 84 hotels in China and was planning to develop 100 more. In order to be closer to future customers, Starwood's CEO moved his entire management team and board to Shanghai for a month. It is not too late to enter China, but several myths need to be dispelled before taking this step.

### Myth 1: Companies go to China because of the cheap labor

During the past several decades, Western companies benefited greatly from taking advantage of cheap labor in China. Now, cost savings is no longer the primary motive for Western companies to set up research and manufacturing facilities in China. More companies now make the move to China to take advantage of the swift speed to market and the access to talent. Most importantly, by developing and manufacturing products in China, companies gain access to a large, rapidly growing market.

As China develops, new business models focus on selling to the growing middle class. The new model will encompass "Made for China" in addition to "Made in China." China already has the world's second largest economy, and it is continuing to expand. China contributed 19% of global economic growth in 2010. China is already the largest auto market, largest cell phone market, the second largest luxury market, and the third largest pharmaceutical market globally.

### Myth 2: Most people in China cannot afford and do not want Western medicine

With rising earning power, the Chinese can afford and are demanding high-value products. According to the Boston Consulting Group, there are over a million millionaire households in China. Some estimate that in the next decade as many as one billion Chinese will be in the middle class. With this economic growth, people are expecting and demanding top quality medicines and products.

In addition, the Chinese Central government committed over $120 billion in 2009 to provide healthcare for people living in rural areas. With this government help, more people can afford and have access to Western medicine. Furthermore, many Chinese patients and physicians prefer Western medicine; Western brands are perceived to be high quality, trustworthy, and efficacious.

## Myth 3: Minimal or no innovation occurs in China

In the next five to ten years, we will see a major paradigm shift from “Made in China” to “Discovered in China.” The government has committed $308 billion to invest in science and technology development over the next five years, with a focus on biotechnology.

In addition, many highly educated, ambitious, Western-trained professionals are returning to China to take advantage of better career opportunities at home. They play a major role in starting new innovative companies, and they are leading the development and commercialization of new products in China.

I predict there will be a surge of Sino-U.S. life science partnerships in the coming years. Selling traditional Chinese medicines and generics no longer satisfies many Chinese companies. To stay ahead of the competition in a market where growth is 25–30%, Chinese companies are actively seeking partners in the West to co-develop innovative medicine.

In the U.S., many groundbreaking products are currently shelved due to lack of resources for further development. Biotech companies are searching for partners to provide the much needed capital for costly research programs and clinical trials.

This environment creates an excellent opportunity for win-win partnerships. A common model is for a U.S. company to find a Chinese partner that will share the R&D costs and risks to co-develop a new product. The Chinese partner earns the commercial rights in China, while the U.S. company retains the global rights outside of China.