

At the Speed of Relationships

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Steve, do I have the author's names right?

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Even small biotech

companies can benefit from working in China—if they remember some key tips, including the importance of building good relationships with local officials and partners.

Establishing a business presence in China is becoming necessary for many US biotech companies. Most, if not all of the top 50 pharmaceutical companies have already set up shop in China—in sales/marketing operations, basic research, local manufacturing of generic drugs, or some combination.

Traditionally, small and medium-sized enterprises (SMEs)—which includes most biotech companies—have shied away from China, partly because of less than adequate in-house resources and partly because they feared the risk and uncertainty involved. The strategies laid out here will allow SMEs to wisely select a biopharmaceutical manufacturing environment in China.

ALL THE SAME TO YOU

In some ways, beginning operations in China is the same as opening a new office anywhere else. You'll need to decide what you want and weigh some costs and benefits against others. Thousands of locations in China might suit your company's business, and each has its own advantages and disadvantages. Shenzhen's strong export position and commercialism may make the best sense for some companies. For others, Kunshan in the Shanghai area may offer the best supply chain. Or the predictable, stable environment in Beijing/Tianjin might be the most important consideration.

After gathering information on the quantitative side, consider some of the following issues as well.

- How important is it to you to have local partners?
- How important is the availability of your supply chain/upstream vendor?
- How will you ensure consistent quality in production output and still keep costs down?
- What about quality of living for your key management staff?
- Will the skilled labor pool be big enough to supply your local technical staff?

The answers to those questions will help determine which site will be the best one for your company.

GOVERNMENT WORK

After two decades of market reform, China has gradually developed a unique dual-track system where capitalism meets central planning. Within it, local government officials play an important role in attracting foreign investments: They behave much like entrepreneurs and compete with one another. Insufficient central government funding motivates these local officials to recruit investments into their jurisdictions to build a larger tax revenue base and increase local employment.

Lucrative businesses in China—including pharmaceutical manufactur-

ing—also fall under several layers of central government jurisdiction and scrutiny. That means that many steps of a business require some sort of central government agency approval. For instance, GMP, GCP, and XXX certifications are all required to operate in China. **Steve, what are XXX certifications?**

Building good relationships will come in handy. Recognizing government officials' dual roles as governing authorities and businessmen will serve you well in almost all situations. Local official endorsement and assistance will bring much needed cooperation from potential local partners and central governmental agencies and will pave the way for smooth operations down the road.

SPECIAL PRIVILEGES

To be successful in a Chinese venture, you need to recognize and understand China's special economic zones (SEZs). SEZs are set up to attract foreign direct investments (FDI). The zones are leading China's economic development and technological advancement as well as providing attractive locations for multinational firms who desire a presence in China. SEZs are approved by either the central or local government and run by corresponding government agencies with special administrative staff. These zones are empowered to give special incentives for foreign enterprises, which provides an environment conducive to foreign investments.

In general, SEZs boast sound management, a well-developed infrastructure, and highly skilled and efficient administrative support staff. When combined with favorable tax incentives and land deals, SEZs are some of the best options in China for foreign companies to establish joint ventures and wholly owned businesses.

State-Level Zones: More than 4000 SEZ sites in China—of varying size and quality—fall under different jurisdictions. Start by focusing on the large, top-tier, state-level zones, which are authorized by the central government. State-level zones provide you with access to higher-level local officials who can support you with their increased access to more central government resources.

There are 49 state-level zones all over China, providing ample location choices. These zones account for more than 70% of all FDI enterprises in China. They are usually supported by large local governments such as Beijing, Shanghai, Shenzhen, Tianjin, and Guangzhou, and they attract a large number of multinational enterprises.

How SEZs Look: The Tianjin Economic and Technological Development Area (TEDA) was one of the earliest state-level development zones in China. It enjoys top rank among all the state-level SEZs in productivity, return on investment, export output, and other measures. Today, more than 3300 foreign companies have settled in TEDA, including forty Fortune 500 companies such as Motorola, Toyota, Nestle, Pepsi, and Coca-Cola. Major sectors include electronics, automobiles, metallurgy, machinery, chemistry, textiles, and medicine. TEDA is strategically located east of Beijing, resting along a large seaport in northern China and a convenient transportation system.

TEDA has a biomedical industrial park under construction. Through many years of effort in this industry, TEDA

has equipped itself with the infrastructure necessary for the successful operation of biomedical enterprises and has attracted a large number of overseas-funded companies such as GlaxoSmithKline (GSK), Servier, Novo Nordisk, and Tanabe Seiyaku. The 65 biomedical enterprises in TEDA have made a total investment of \$710 million.

TEDA, like most SEZs, offers incentives in land, rents for factory buildings, energy subsidies, and taxes to the biomedical industry, one of the industries encouraged in Tianjin. Moreover, TEDA has set up Tianjin TEDA Venture Capital Corporation Limited to provide venture capital and comprehensive corporate management services to biomedical projects. It can guarantee construction of infrastructure facilities for the development of its medical industry, offer funds of no less than one billion Yuan (\$121 million), and leverage funds to attract more domestic and overseas industrial investment.

Another SEZ worth considering is CBP of Beijing's Daxing District. CBP is a new SEZ established by the Beijing city government at the end of 2002 and is fully dedicated to the biomedical and pharmaceutical industries. CBP has been building infrastructure to attract foreign investment. It offers additional ways to help investors, including programs to assist high-value investors with financing and industry support.

REGIONAL ADVANTAGES

For bioprocess companies, the Beijing and Tianjin areas offer access to the central government and an abundant skilled labor market. These areas boast the highest concentration of China's higher education centers, pumping out more qualified college graduates than any other regions in the country.

In Beijing are Beijing University and Tsinghua University, China's elite universities. Another 30–40 universities and colleges are in the same region, supplying a good skilled labor force. This area also provides access to an ever-increasing group of returnees who studied and accumulated management-level work experience abroad to staff middle- and high-level management positions.

Regulatory Support: Companies bringing new drugs into the Chinese market will benefit from proximity to China's State Food and Drug Administration (SFDA), which serves roughly the same role as the US FDA and is located in Beijing. Both TEDA and CBP provide better access to help bioprocessor companies accelerate the approval process compared with SEZs in outlying areas.

Other government and government-sponsored agencies that are especially vital to the bioprocessor industry abound in the Beijing area. Among them is the Chinese National Center for Biotechnology Development, under the Ministry of Science and Technology (MOST), whose charter is to promote China's biotech industries.

Central Planning: China's 863 Plan and 973 Plan call for both the 10th five-year plan, which ends in 2005, and 11th five-year plan to continue to focus on the biotech industry as a favored industry. Most SEZs follow suit in formulating favorable incentives to attract foreign investments. Unlike in the West, the Chinese private sector still follows the cen

tral government's strategic direction and takes advantage of favorable policies.

Review the top eight to 10 SEZs in China to get as much quantitative data as possible. Get to know the contact person from each zone and get your questions answered as fully as possible. (See "Top Biotech SEZs in China.") **Steve: Please send a list of the top 10 SEZs, with appropriate contact information. Thanks!**

CHINESE ROAD TRIP

After you've done the background work, it's time for that all important face-to-face meeting with SEZ officials and staff. A road trip to China is about building trust, establishing relationships, and laying the groundwork for negotiations. But most important, it is about assessing the qualitative side of the decision-making equation.

Meet with local government officials, SEZ zone staff, and local potential collaborators and get a sense of what it's like to do business there. Ask lots of questions pertinent to your selection criteria to observe how the SEZ staff responds. Get a feel for the location and people, and do frequent "gut checks" to see if you would like to work with these people. A one to two week trip should allow you to visit six to 10 SEZs. Afterward, you can narrow your list down to two or three potential sites.

A good SEZ can introduce you to an established network of suppliers and customers, reducing your start-up cycle. About 5000 pharmaceutical manufacturers in China—most still state-owned—are hoping foreign investors will come in and buy them outright, create joint ventures, or provide new products, technology, or management know-how. Your SEZ hosts will have access to many of these companies. They can also help you with qualitative considerations. GSK, for instance, is very happy with its investment decision at TEDA. It says the "service attitude" of TEDA support personnel and high-level officials saved the day on many of the issues it faced.

Don't Forget Dinner: One thing to remember on your road trip is the importance of dining with your Chinese partners and local officials. Dining occasions are used by the Chinese to get to know you, to sound you out, and to introduce you to other people. Your relationship to the host will affect how others at the dinner table act in later business dealings with you. Edit ok? There is much to be observed in seemingly casual dinner gatherings, in between many 'ganbei' (toasts).

FINAL SELECTION

When you are making your final site selection, it is important to remember that although physical changes in China—such as erecting a new building or taking out a few—move very quickly, relationships take time to develop. Don't let your project outpace the relationship building needed to foster and sustain it. China does not dominate the pharmaceutical manufacturing world, but it has the potential to be world's drug factory.

Welcome to China, and good luck! ☺

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