Chapter 11

International Market Entry Modes:
The Case of Chinese Pharmaceutical Companies

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ABSTRACT

The Chinese pharmaceutical market has become the world’s second largest market. The Chinese pharmaceutical industry is becoming a growing player in global pharmaceutical chain. This chapter aims to solve following issues: the market orientation and resource base of Chinese pharmaceutical industry, the role in the global pharmaceutical industrial chain, and the international market entry modes of Chinese pharmaceutical companies. The sample companies are selected and surveyed with a focus on the international market entry modes. Through an empirical research, this chapter summarizes the experience of Chinese pharmaceutical internationalization and finds the effective modes of international market entry are product upgrading along the industrial chain, international certification and cooperation, outsourcing and licensing, and other paths of overseas expansion. The implication for pharmaceutical companies of emerging markets is to choose the suitable entry modes based on advantages, learn from the experience of other emerging markets and domestic leading companies of internationalization, and gradually enter the standard market. This study not only provides international market entry modes for the latecomer of Chinese pharmaceutical companies but also enriches the internationalization theory of emerging markets.

1. INTRODUCTION

The data of Chinese Food and Drug Administration (CFDA) shows that it accepted 3413 applications for drug registration in 2008, in which 1520 applications for the approval of generic drugs while only 165 applications for the approval of new drug production. According to statistics of CFDA, more than 97% of drugs made in China are generic drugs, new drugs market is basically controlled by foreign companies, and the industry is dependent on...
foreign technology at a high degree. In large cities, foreign brand drugs and imported drugs have accounted for 60% - 65% of the market, the market of some drugs is almost monopolized by foreign products, for example, Eli Lilly occupies 99% of China’s insulin market.¹

After a rapid development of several decades, China has 6700 Good Manufacturing Practice (GMP) pharmaceutical companies to meet the demand of 1.3 billion people with adequate medicines, ²it is a remarkable achievement, but Chinese drugs have not gone global like other Chinese-made products. When “Made in China” sweeping the world, Chinese drugs are not popular in the world as other Chinese-made products. Chinese drugs are rare in pharmacies and hospitals of Europe, the US and Japan. Several decades ago China has established a good basis for the pharmaceutical industry, but its development is visibly slow since the reform and opening up compared with communication, household appliance, automobile, machinery manufacturing and other industries.

During the past two and a half decades, a number of developing countries around the world have undertaken economic reforms with the objectives including a move away from inward-oriented import substitution policies towards outward-oriented export-led growth (Kotler et al., 1997); access foreign technology and capital in order to make domestic firms competitive in the global economy; enhance capabilities in value-added industries rather than relying on traditional commodity goods (Aulakh et al., 2000; Thomas et al., 2000). China and India have developed the Active Pharmaceutical Ingredient (API) since 1980s in the pharmaceutical industry, but the late 1990s India focused on the market of Europe and the US while China focused on domestic market, the gap between China and India in the international market began to widen (Wadhwa, et al., 2008). The Chinese government and pharmaceutical companies have realized that the Indian pharmaceutical industry has made great progress, since 2000s both industry and academia of China are keen on comparative study between India and China, and learn from India on pharmaceutical internationalization. China could draw valuable lessons from India, there are also synergy and strategic fit in the pharmaceutical industry between the two emerging economies (Li and Huang, 2007; Wang, 2010; Yue and Yue, 2010).

Emerging markets are countries experiencing rapid economic development, with their economic institutions also undergoing rapid adaptation to free market ideologies (Arnold and Quelch, 1998; Hoskisson et al., 2000). Within a decade these markets underwent a radical change, with increasing globalization and openness to international competition: Foreign competition and newer opportunities brought by globalization have led many firms in emerging markets to seek internationalization. Despite their motivation to seek international markets, firms from these markets face several constraints in pursuit of their international expansion strategy. Unlike established multinational firms, the competitive advantages of these firms are based on price competition rather than on leading edge technology or product differentiation (Kumar and McLeod, 1981; Lall, 1983; Wells, 1993). Therefore, while these firms possess some resources, they are not of the kind that would lead to monopolistic advantages in international markets. Since these firms’ focus was on low-cost products, they operated as suppliers to other manufacturers or depended on third-party distributors to distribute their products. As a result, they lack requisite international experience compared with established firms in developed countries (Vernon-Wortzel and Wortzel, 1988; Brouthers et al., 2005). Therefore there is a need for these firms to learn and develop the capabilities to operate abroad (Barkema and Vermeulen, 1998), and the more effective paths to expand abroad (Pradhan and Alakshendra, 2006; Nayyar, 2007; Chittoor and Ray, 2007). The stimuli for
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