Chapter 15
Internationalization Strategies of Chinese Pharmaceutical Firms

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ABSTRACT

China’s pharmaceutical market value is about USD 110 billion in 2009, and it has become the world’s second largest market. Chinese pharmaceutical firms are becoming a growing player in the global pharmaceutical chain. Through empirical research, this chapter summarizes the internationalization experience of Chinese pharmaceutical firms, finds that the effective strategies of international market entry are product upgrading along the industrial chain, international certification and cooperation, outsourcing and licensing, and other paths of overseas expansion, and presents that pharmaceutical firms in emerging markets should choose suitable entry paths and strategies according to their own advantages, learn the experience of internationalization from leading firms in emerging market, and gradually enter the standard market.

1. INTRODUCTION

China’s 6700 pharmaceutical firms have passed the certification of Good Manufacturing Practice (GMP), and their medical products have met the demand of 1.3 billion Chinese, it is a remarkable achievement. When “Made in China” is sweeping the world, Chinese drugs are not popular in the world as other Chinese-made products. Chinese drugs are rare in pharmacies and hospitals in Europe, the US and Japan. Several decades ago China has established a good basis of pharmaceutical
industry, however, compared with other industries such as communication, household appliance, automobile, and machinery manufacturing, its development is visibly slow since China’s reform and opening up.

During the recent decade China’s pharmaceutical markets have undergone a radical change in globalization and openness to international competition. Oversea competition and new opportunities brought by globalization are leading pharmaceutical firms in emerging markets to seek internationalization. Unlike multinational firms from advanced countries, the competitive advantages of these firms in emerging markets are based on price competition rather than on leading technology and product differentiation (Kumar and McLeod, 1981; Lall, 1983; Wells, 1993). These firms focus on low-cost products, and serve as suppliers to other manufacturers or distribute their products depending on third-party distributors. As a result, they lack experiences of international operation compared with firms in developed countries (Vernon-Wortzel and Wortzel, 1988; Brouthers et al., 2005). Therefore there is a need for these firms to develop the capabilities of oversea operation (Barkema and Vermeulen, 1998), and explore the more effective paths of oversea expansion (Pradhan and Alakshendra, 2006; Nayyar, 2007; Chittoor and Ray, 2007). Higher margins, market diversification, and survival in global competition are identified as stimuli of internationalization (Dixit and Yadav, 2008). While internationalization can be a source of profitability growth for firms, it can also generate huge losses since it is very risky for firms to survive in the internationalized environment. The empirical evidence shows that success in the home countries does not guarantee success internationally (Bianchi and Ostale, 2006). Currently a growing interest is on the competitive strategies and paths of firms from these economies as they begin to compete in global markets (OECD, 2006; BCG, 2006, Dixit and Yadav, 2008; Chittoor et al., 2008; Chittoor et al., 2009). Choosing more effective paths and strategies of overseas expansion in the early phase of internationalization, and building capabilities required by internationalization so as to overcome the barriers of international market entry are still an important issue.

The total output value of Chinese pharmaceutical industry from January to October 2010 is RMB 9455.06 billion yuan, an increase of 26.32% over the same period of last year. According to released statistics of Foreign Trade Division, Chinese Ministry of Commerce, Chinese pharmaceutical exports of 2010 are USD 39.733 billion with an increase of 24.87%; imports are USD 20.464 billion with an increase of 23.98%. China’s pharmaceutical industry is moving toward international market (Guo, 2003; Matthew, 2006; Wadhwa et al, 2008), China is in impressive economic growth in recent decade. China’s growing aging urbanization of population as well as improved life standard makes China becoming a huge potential market of pharmaceutical products. With a cost-effective workforce and established generic industry, plus the resources of traditional Chinese medicine (TCM), Chinese pharmaceutical industry has its unique opportunities to become a growing player in global pharmaceutical chain.

China as an emerging economy has attracted a large number of world market stakeholders, the study on internationalization strategies and paths of Chinese pharmaceutical firms based on resources and institutions is not only helpful to Chinese pharmaceutical latecomers, but also meaningful to internationalization theory of emerging markets.

2. LITERATURE REVIEW

Boisot and Meyer (2008) claim that when the costs of crossing domestic borders exceed the costs of crossing international borders, firms will internationalize at a relatively early stage of development. Internationalization has today become a major strategic component of most
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