

# Interview with James Liu, Honorary Chairman, R&D-based Pharmaceutical Association Committee (RDPAC)

---

04.04.2012

Tags: [R&D-based Pharmaceutical Association Committee](#), [R&D-based Pharmaceutical Association Committee \(RDPAC\)](#)

---

You have a long experience in the Chinese pharmaceutical market, and in particular you saw it evolve tremendously over the last 10 years. From a management perspective, would you say that it is easier or harder to tackle today or a decade ago?

In my view, the Chinese market is much more challenging to handle today than 10 years ago. Not so long ago, it was not a very large or important market for multinational companies, but China's strong and sustained growth has changed this. By 2005 it was already among the top 8 pharmaceutical markets in the world, very soon it is expected to move into the top 5 - just behind the US, Japan, Germany and France. Most people believe that China will overtake the mentioned European countries by 2015, thus becoming the third largest pharmaceutical market in the world. In fact, in terms of the OTC market, China is already in the top 3 and will surpass the number 2 (Japan) in a few years time.

While many of the world's leading pharmaceutical companies have been downsizing their operations in other countries, in China they are increasing their size significantly. Their main purpose is to penetrate China's market beyond the most prosperous and accessible first and second tier cities - Beijing, Shanghai and provincial capitals - looking towards the relatively smaller but numerous cities spread across the vast country. Some foreign companies have already begun concentrating on the third tier cities and a few have ventured into the fourth tier as well. They are

encountering large opportunities there, but also many challenges.

The main topic of discussion within the sector is the healthcare reform plan, which the Chinese government is slowly revealing, and its implications for the pharmaceutical industry. How are the multinational companies receiving the most recent announcements?

The government's recent announcements regarding the implementation of its healthcare reform plan are going to give a big boost to the industry. In particular, the Chinese authorities are talking about setting up new healthcare facilities throughout the country and spreading coverage to 90% of the population, from a current level of about 30%. This will be achieved through several mechanisms, such as extending healthcare insurance to family members of employees and establishing a subsidized system for China's 800 million farmers. This huge leap is planned to take place over a three-year period, so the size of China's pharmaceutical market should increase significantly. On the other hand, we can expect that as the government extends insurance to many more people it will also get more aggressive in terms of price controls.

What kind of strategies will foreign companies in China have to implement in order to make the most of this booming but highly fragmented market that is emerging?

I believe that in order to capture the opportunities arising in China, pharmaceutical companies will have to adopt an 'ambidextrous approach' by both capitalizing on the existing products in order to expand throughout the country, yet also continuing to introduce innovative products to the market. This is a strategy which we were already implementing in Novartis in 1999 when I arrived from Taiwan, for example in the field of hypertension. We had a new hypertension product that was launched in the more prosperous areas of China, and at the same time we were able to offer an older but still high-quality product at half the price to the inland and rural areas.

The correct implementation of such a combination strategy involving old and new products is key for a company's ability to capture the whole range of opportunities in the Chinese market. Players that rely exclusively on either old or new products will have a tougher time maximizing the opportunities in China, and indeed we see many companies adapting their portfolio strategy in consequence.

Essentially one has to recognize, such as a distinguished professor of Peking University and economic advisor at the World Bank has said, that in reality China has two distinct markets: one made up by the coastal cities that resembles developed countries and another inland that is more similar to the poor parts of Africa or Southeast Asia. So a single, monolithic approach could not work well in such a diverse environment.

The current boom is not only in terms of sales on the market; it seems that every major MNC is investing in manufacturing and/or R&D activities in China. What do you make of this trend?

Indeed, MNCs in China have been enjoying growth levels between 20-30% for several years and aggressively expanding their operations in the country. For example, Bayer has been active in acquisitions and is currently the leading MNC in China by revenues, a considerably better performance than compared to its positioning in global rankings. In the highly attractive Chinese OTC market, Bayer is now competing with the traditionally big players in the field such as Johnson & Johnson and GSK. Some other MNCs were late to make the decision to invest in the OTC segment and are probably regretting that today.

But on top of the market opportunities, it is clear that many foreign companies are investing in China in areas besides sales and marketing. For example, Novartis has made important investments in its R&D facilities in Shanghai, which is evolving from its support status to take on a more prominent role in the company's global research strategy, forming a triangle with Boston and Basel. Novartis has also established an API factory in Zhengzhou – the only such by an MNC in China. These trends respond to several factors, like China's abundance of talent, availability of raw materials, cost-competitiveness, etc.

Novartis also went a step further by setting up a talent training center with Beijing University's International MBA Course, in which most of the company's brand and sales managers participate and get a diploma at the end. This not only motivates them, but also helps retain precious talent in an industry with such a high turnover rate.

How is RDPAC helping its member companies address the biggest challenges they face amid the current transformations in China's healthcare sector?

The healthcare reform means that there will be many new opportunities in China's pharmaceutical market, but it is also full of risks and challenges. There will undoubtedly be an impact on sales due to the expected price cuts. In this context, RDPAC is making big efforts in order to effectively communicate to the government the particularities of its member companies' quality products that justify a higher price. China's domestic industry has faced numerous problems and scandals in recent years related to quality issues, so RDPAC is preparing a study together with Ernst & Young that aims to show how, on the contrary, our members contribute to enhancing quality in China from different angles, from manufacturing to corporate culture.

RDPAC has another important ongoing project together with McKenzie, which focuses on demonstrating to the government that including innovative products in the reimbursement list in

the end reduces healthcare costs through, for example, reduced hospitalization time for patients.

Intellectual property protection was long a concern for multinational companies doing business in China. Would it be safe to say that this is no longer the case?

So far it seems like the new patent law is quite effective and that the government has good intention to implement it, therefore for the most part companies are satisfied with the IP situation in China today. However, there are specific cases where disagreements persist such as with Pfizer's VIAGRA. Most signs are encouraging though; for example, Novartis has a patent on a leukemia product in China which is being respected by the generic companies capable of manufacturing it, which is not the case in India. Generally speaking the government seems truly committed to IP protection, and RDPAC member companies are acknowledging the progress made in this area.

How do you expect China's complex distribution system to evolve in the coming years?

There are too many layers and intermediaries in China's distribution system, which makes it have significantly higher mark-ups (around 15%) than other Asian markets like Taiwan or Singapore. Of course, China has a much bigger territory and it has traditionally been difficult and expensive to transport products, but this has changed in recent years as the country has vastly improved its infrastructure. The government is aware of the inefficiencies of the current system and the costs it entails, and is therefore encouraging a restructuring that would leave only a handful of big distributors in the market that can compete with the foreign players that are entering China.

What type of relationship do you see emerging between Western and Traditional Chinese Medicines (TCM) in the pharmaceutical industry?

I believe that the market share of TCM will gradually reduce since foreign products are currently growing at a faster rate. At the same time, there is a trend in the OTC segment of combining TCM with Western medicines, which has shown effectiveness and is growing in popularity. There are also examples of Western and TCM companies collaborating in product development, such as Novartis and a local Chinese player in the area of Malaria. This represents a means of TCM companies taking their products through the global clinical trials and eventually becoming global brands. TCM players are making more efforts to penetrate Western markets and this is something that the Chinese government is strongly supporting as well.

How would you explain the surge in clinical trial activity by foreign pharmaceutical companies in China recently?

China is increasingly taking part in global clinical trials for new drugs, and this is a trend that concerns all multinational companies. China has a huge patient and disease pool, and it is possible to gather enough people even for orphan drug trials that are impossible in other countries. There are many other reasons for this growth, such as the highly qualified and motivated doctors, and their improved knowledge of international standards. The government has also overcome its initial misunderstandings and now recognizes the importance of clinical trials for achieving innovative products for patients. There are still some challenges, for example in terms of certification for the clinical trial centers and the competition from other countries with similar advantages like India.

Based on your personal experience and insights, what is your final message to the readers of Pharmaceutical Executive, especially those interested in succeeding in the Chinese market?

Although I come from Taiwan, my ancestors came from the mainland and naturally I am very interested in China, and have lived here many years now. I think it is important to be passionate about the country, learn about its culture and show respect. Another fundamental thing is to establish good relations with key stakeholders and opinion leaders.

[See more interviews](#)