

CHINA'S

中国对外贸易

FOREIGN TRADE

The Export-Import Bank of China:
Want to Be the Best in A Better World?

SPECIAL REPORT

Keywords in 2009

Dr. Lau Yau Bor,
Chairman of
Jiwa Bio-Pharm
Holdings Limited

邮发代号: 80-799
国内刊号: CN11-1020/F
国际刊号: ISSN0009-4498

ISSN 0009-4498



<http://www.ccpit.org>

2009.24

COVER STORY

In the early days of China's reform

In later 1970s when China first launched “reform and open” policy, there were numerous business opportunities all around China, so were there all kind of uncertainties and obstacles. At the beginning of his business, Dr. Lau recalled one unforgettable event – he and his secretary had once hand typed and sent out more than 1,000 letters to suppliers in one week just to accomplish a commission of emergent product importation on behalf of a local government agency in China. Pitifully, these commissions often brought no profit to the company.

In middle of 1980s, being one of the most important Chinese agents of MNCs like Scherring Plough and fostering strategic partnerships with a number of significant European pharmaceutical companies such as Pirrel, Lisapharma, Sicor and ASW, Jiwa had already a prominent position in the China pharmaceutical market. However, with the multinational pharmaceutical groups setting up production bases in China respectively, it was obvious that business model of distribution alone had to undergo a transformation to include manufacturing in order to survive. The neglecting of such need of change was the reason why many Hong Kong based well-known drug agencies disappeared in the 1990s. Dr. Lau made a judgment at that time that the demand of pharmaceuticals in China would grow exponentially over the years, while the productivity and research capabilities in China would continue to improve, making China a significant player in the world drug market. And his business acumen is now proven as a very correct foresight.

Following the diversification of company businesses, Jiwa had adopted the approach of consortium development and subsequently set up Jiwa Investment Co., Ltd., Jiwa Pharmaceuticals Co., Ltd., Jiwa Advertising Company, Jiwa Pharm & Chemicals Co., Ltd., Contemporary Research Institute of Traditional Chinese Medicine and Tech-Medi Development Limited. In 1990, Dr. Lau founded Jiwa Austwools Pty. in Australia. While these companies covered an extensive range of booming businesses, including some manufacturing, Dr. Lau was nevertheless still not quite satisfied at being not able to achieve a desirable industrial scale. Since 1990, Dr. Lau had been exploring industrial development, and eventually in August 1993 he set up his first pharmaceutical manufacturing plant in China - Kunming Jida Pharmaceutical Co., Ltd. (KMJD).

Why Kunming, Yunnan, and not elsewhere in China? This is a query often asked of Dr. Lau. Below is his fascinating story: In July 1993, during his first visit to Yunnan, while very impressed by the rich resource reserve of the province, Dr. Lau found the local pharmaceutical industry relatively undeveloped. That means the Yunnan Province could be the right location to set up a bio-pharmaceutical enterprise. Spotting the opportunity, Dr. Lau immediately decided to invest in Yunnan, and established KMJD as a Sino-foreign joint venture. At that time, the approval of a joint venture was a complicated and tedious matter. Yet with the timely policy of one-step review and approval introduced in the Summer of 1993, the incorporation of the company was done in unprecedented speed. In a couple



Heart in China,

Vision on the World

—An Australian Chinese's Business Legend in China

years, the company had developed many sophisticated formulations of chemical and biological drugs, as well as traditional Chinese medicines. Through the years, KMJD has prospered significantly and is now being recognized by the Yunnan government as one of the top ten pharmaceutical manufacturers in the province. Besides supplying China, the company also registers and markets products in Southeast Asia, US, Canada and South America.

Innovations in science and technology

While focusing on development of western pharmaceuticals at KMJD, Dr. Lau also paid attention to the development of traditional Chinese medicine. He set up Contemporary Research Institute of Traditional Chinese Medicine and Tech-Medi Development Lim-

ited. The former being a platform for TCM experts from China mainland, Hong Kong and Taiwan for scholarly exchange, while the later focus on development of Chinese medicine and healthcare products. Back in the 1980s, there were many senior and well-known doctors of traditional Chinese medicine who could not find investments to have their decade-long research to bear fruit, causing losses to themselves and also the country. Since some of these doctors were Dr. Lau's friends for many years, and out of friendships he was motivated to invest in traditional Chinese medicine. What were initially friendship offers have turned out to be savvy businesses. Up to now, Jiwa has developed 20 plus traditional Chinese medicine products that are popular in Hong Kong and Southeast Asia. Dr. Lau tries to bridge the East and West in pharmaceutical development, with Jida engaging in manufacturing of western medicine, while Tech-Medi focusing on traditional Chinese medicine. This dual approach definitely broadens the company's mandate for future growth.

In 1996, KMJD began to make significant profits. Through the implementation of rigorous quality systems, the emphasis of innovation for incessant technology development, and by putting people first, making "loyalty, accountability and efficiency" as the criteria for employee selection, training and developing, the company has been growing in vibrant way all along the years. From 1994 to 2008, Jida had an accumulated industrial production value of RMB 2.13 billion and profit before tax of RMB 396 million. According to the statistics from State Economic and Trade Commission, KMJD was ranked in 2003 114th in sales and 73rd in profit among the top 400 chemical pharmaceutical companies in China.

Following the success of KMJD, Dr. Lau set his vision to form a vertically integrated pharmaceutical enterprise. In 2002, he again invested in Yunnan for a pharmaceutical logistics company. Later in 2005, through the introduction of the Overseas Chinese Affairs Office of The State Council, Dr. Lau acquired a chemical manufacturer and set up Jiangsu Jiwa Rintech Pharmaceutical Company Limited in Jiangsu, China. This entity is engaged in the devel-



opment of advanced active pharmaceutical ingredient (API) that meet requirements of the US and the European Union and strives to become the global production base for a range of API with patents expiring between 2010 to 2015. The total investment for the first phase of construction, which occupies an area of 43,900 square meters, amounts to RMB 95 million.

In 2008, Dr. Lau demonstrated once again an investor's courage and resolve while the world was facing the financial tsunami. To promote high-tech development within the Group, Dr. Lau decided to set up Yunnan Jiwa Biotech Limited, which manufactures world-class new products with proprietary IP rights, including GSH and new types of cephalosporin intermediate in Kunming. The Company plans to spend a total of not less than USD40 million in new drug projects in the next three years.

In September 2009, Jiwa Group was accredited as "Best Under a Billion" by Forbes Asia. "Best Under a Billion" were selected out of 12,000 listed companies in the Asia Pacific region with substantial growth in sales and profit in the past three years and a promising future. The accreditation demonstrates that the group is extraordinarily resilient and has a strong competitive edge in the challenging economic environment.

Colourful Yunnan, countless opportunities in investment

As economic globalization progresses, the collaboration and economic flow between China and ASEAN are accelerating. Taking advantage of the geographical location of Yunnan bordering on three ASEAN countries, KMJD could have an important role to play. Since the two

GMS (Greater Mekong Sub-regional Cooperation Mechanism) conferences, trade between China and ASEAN grew significantly. In addition to special geographical location, Yunnan has a comparative industrial and complementary advantage. With inter-governmental efforts, cooperation between Yunnan and ASEAN progresses quickly. "Kunming-Bangkok" expressway in China reached Jinghong



COVER STORY

in 2006, together with the completion of the China-aided segment of the highway in Laos and the 220 KV transmission line from Yunnan to Vietnam, the logistics transferring base is also under planning and so on. Since the issue of "Kunming Declaration" on the second GMS conference held in Kunming, Yunnan and neighboring regions welcome the opportunity of enhancing economic and trade activities across the borders. All these events would provide KMJD a good environment to enter ASEAN market.

In a recent interview by journalists, Dr. Lau said, "To expand into the ASEAN market, we have formulated two strategic plans. The first is through exportation. With KMJD as the bridgehead, we'll take full advantage of our regional proximity to export our products to Burma, Thailand and Vietnam. KMJD has years of experiences in this aspect, and we have very good development prospects. The second is by direct investment. Within the scope of health business, we will seek opportunities to have capital investment in the form of merge or acquisitions. This way we'll enter the ASEAN market by forming a China-ASEAN-US three-prong interactive operation."

As to how to grasp the business opportunities to enter ASEAN, Dr. Lau said, "Governmental promotions provide important policy environment and development room for the operation of enterprises. However, it can't provide all the elements for a project to be successful, and the key to success is whether the company can ride on its competitive advantages to get into the appropriate entry points.

"KMJD position itself as high-tech, export-oriented, with

a good manufacturing system to meet export requirements. Entering ASEAN is one of our plans, and we believe that we will continually find new entry points as the overall economic environment rapidly improves," said Dr. Lau.

Meeting the challenges of healthcare industry in China

As an expert in entrepreneurship, Dr. Lau has an unique insight of the current status of China pharmaceutical industry. He said, though there will always be new and different problems and difficulties, the fact is that China pharmaceutical industry and pharmaceutical market are still in a booming stage.

In the past twenty years, different statistics have revealed the same message: the annual growth of China pharmaceutical market ranged from approximately 13% to 18%, with no sign of slowing down in the foreseeable future. From 1950s to 1980s, the pharmaceutical market in developed countries all have kept a double-digit growth, and China is believed to be in a similar phase now, so the rate should be higher than the growth of gross domestic product. Such a huge and booming domestic market will provide an important foundation and support to the development of China pharmaceutical industry.

Today, China has a population amounting to 1/5 of the whole world, while its pharmaceutical market only accounts for less than 4% of the world's total in value. This market has an enormous growth potential. We are optimistic to foresee that, if China economy can continue to have a stable and smooth development, the demand in this market will gradually catch up with the developed countries.

In April this year, China promulgated the Implementation Plan for the Priorities of the Health Care System Reform (the "Plan"). The State Council stated clearly that a total of RMB 850 billion will be earmarked for the Plan from 2009 to 2011 and the central government will allocate RMB 118 billion in health care expenditures in 2009. It is anticipated that the expansion of capacity to meet the domestic demand in the pharmaceutical market will accelerate, and capacity expansion in the essential medicine market in particular will further accelerate. Industrial participants believe that large-scale generic drug producers will be the first to benefit from this Plan.

The sound development of an industry comes under a high-quality, comprehensive and effective industrial management system. Since establishment of State Food and Drug Administration (SFDA) in 1999, China has made substantial progress in regulating the pharmaceutical industry and market. In areas ranging from R&D, clinical development, manufacturing, distribution and dispensing, we can see a gradual adoption of management concepts of the developed countries by Chinese Pharmaceutical companies, creating a favorable environment to straighten up the management and competition of the pharmaceutical industry, and preparing domestic enterprises for international markets.

Attracting massive foreign capital, absorbing international advanced technology, popularizing higher education, in addition to a large number of "returned" overseas Chinese professionals, all these quickly upgrade the pharmaceutical R&D capabilities of China in the last decade. Compared to developed countries, China has a higher performance to cost ratio in pharmaceutical R&D. In the past three years, we could clearly feel the trend that many multinational companies not only take China as a market, but also as an extension of their global R&D,

Links

Profile

Born in Indonesia, Dr. Lau Yau Bor, is an Australian Chinese entrepreneur and presently Chairman of the Board of Hong Kong Jiwa Group, a pharmaceutical corporation whose shares are listed on the main board of the Hong Kong Stock Exchange Limited (HKSE) since 2003.

In his early years, Dr. Lau designed and managed industrial projects and engaged in industrial engineering research at the University of Hong Kong. In 1978, he established Jiwa Group, and by the mid 80s, the Group gradually focused on distribution of pharmaceutical products in China from multinational pharmaceutical enterprises such as Roche and Glaxo, as well as many US and European pharmaceutical brands and became the pioneer among Hong Kong enterprises that tapped into China's pharmaceutical market. Besides helping to ease the drug shortage issue in China, the Group made significant contributions in improving the country's drug quality. Since the listing of Jiwa BioPharm in HKSE in 2003, Dr. Lau has been leading the Jiwa Group to meet the challenges of international regulatory requirements, and to expand to regulated markets and other developing countries.



or even part of their core operation.

In the next five to ten years, China and India will become the world's production center of active pharmaceutical ingredients. Meanwhile, from 2007 to 2014, a large number of "blockbuster" patents will expire, which will offer an attractive international market for China pharmaceutical industry, which is mainly comprised of generic players.

Dr. Lau added. "The pharmaceutical industry in China is now under a sound development environment, but there are still challenges. If industrial policies and industrial leaders cannot respond effectively to these changes, China pharmaceutical enterprises will face bottlenecks in future development."

Until recently, the previous efforts in reforming our medical system has failed to achieve the expected target. On one hand, patients still have difficulty to afford the relatively high drug prices; on the other hand, profits of pharmaceutical companies continue to shrink. "Artificially high" drug prices due to a complicated and fragmented distribution and dispensing system force the government to take measures to control prices. However, without a restructuring of the distribution and dispensing system such controls only result in profit shrinking for pharmaceutical producers, further reducing their resources necessary to expand, absorb first-class talents and devote to research and development.

After the implementation of first GMP certification program in early years of 2000, there are still nearly five thousand pharmaceutical manufacturers in China. This is in drastic contrast with developed countries such as US, which only has less than 200. Overcapacity in the industry will cause massive duplication of investment and competition among copy-cats, resulting in a serious waste of social resources.

Although the concept of intellectual property rights and their protection system continue to improve in our country, for now, the entire intellectual property protection efforts have not yet caught up with developed countries, which not only greatly restricted Chinese enterprises on investments in products development, but also affected multinational companies' confidence in relocating core research base in China. Without scientific and research development, China can only be a "world workshop", and never a leading country in pharmaceutical industry.

Pharmaceutical industry needs highly devoted and professional management. Registration and sales of pharmaceutical preparation in each country are now subject to very strict regulatory controls. That is the reason why the number of China's pharmaceutical preparation registration in foreign countries are still very limited, especially in developed countries. In contrast, the size of Indian pharmaceutical market is less than half of that in China, but they have a better performance in international

market, taking advantage of language and historical factors.

In the pharmaceutical industry, size does matter. Presently, the largest multinational pharmaceutical group in the world has an annual revenue of more than RMB 210 billion, while the largest China pharmaceutical company (excluding its distribution business) has an annual revenue of less than RMB 5 billion. The Chinese pharmaceutical industry is characterized by its fragmented and chaotic nature, making it incapable of effectively integrating and organizing resources to compete with multinational corporations.

The laws and regulations in China often fall into the problem of poor enforcement. When we talk with the State Food and Drug Administration (SFDA) officials, we can feel their clear concept, wide and far vision, as well as objective understanding of the industry and rational planning for the development. However understanding and implementation of the policies in local governments are quite often being twisted. Besides, local protectionism is common in the provincial or municipal level, which degrades domestic competition environment, and also increases distribution costs.

Suggestions to deal with current crises

To deal with these crises, Dr. Lau has offered several suggestions. First, depending on the "organic" combination of next phase of national medical & healthcare reform and the management of the pharmaceutical industry, the governments should follow not only the direction of WTO to treat local enterprises and foreign enterprises the same, but also provide support to boost those sectors with potential for development. Second, strengthen the building up of basic national competitive advantages. To pharmaceutical industry, this should focus in areas of cultivating pharmaceutical talents, improving drug utilization by medical establishment and enhancing the overall R&D and analytical capabilities of pharmaceutical manufacturing. Third, promote the effective links of high-tech and capital investment of the society. Pharmaceutical research and development and venture capital are inseparable. Only an effective use of financing platform can really speed up the industrial integration and change the currently scattered, and chaotic conditions in today pharmaceutical industry in China. It is encouraging to see the Shenzhen Stock Exchange GEM to start trading, but still our venture capital market is underdeveloped. Fourth, the government should strengthen the enforcement of laws and regulations, while accelerating the improvement of patent protection regulations, encouraging export of high value-added drugs and allowing the professional returnees from overseas to fully contribute their talents to the benefits of the Chinese biopharmaceutical industry. ☺

