

**Company:** AusBiotech  
**Publication:** Australian Life Scientist  
**Date:** Sept/Oct 2011  
**Page:** 36



**IT'S THE DRAGON IN THE ROOM.** Not only has China enjoyed startling economic growth and technological modernisation over the past two decades, but precisely when it's gaining strength, the United States and Europe are both wading through a quagmire of sovereign and private debt. The result is a double whammy driving China to the fore not only as a key high tech manufacturing centre, but as a potential market that could one day eclipse the US and Europe.

Australia is poised to capitalise on this seismic shift in the global economic centre of gravity – and do so in more ways than just satiating the dragon's immense appetite for coal and raw materials. Life sciences and health, not just buildings and infrastructure, are clear

priorities for the Chinese government, which has invested over US\$100 billion healthcare in recent years.

Where Australian biotechs formerly set their sights on the US or Europe for venture capital dollars or to form strategic partnerships, now China is increasingly coming into view. Private investment by Chinese VCs has exploded in recent years, with investment exceeding \$1 billion in 2010, which is up three-fold from 2009, according to ChinaBio, a US- and China-based research and investment firm.

While China's healthcare market is still relatively small by international standards (but growing rapidly), its expertise in contract manufacturing and research make it an attractive destination for partnerships with

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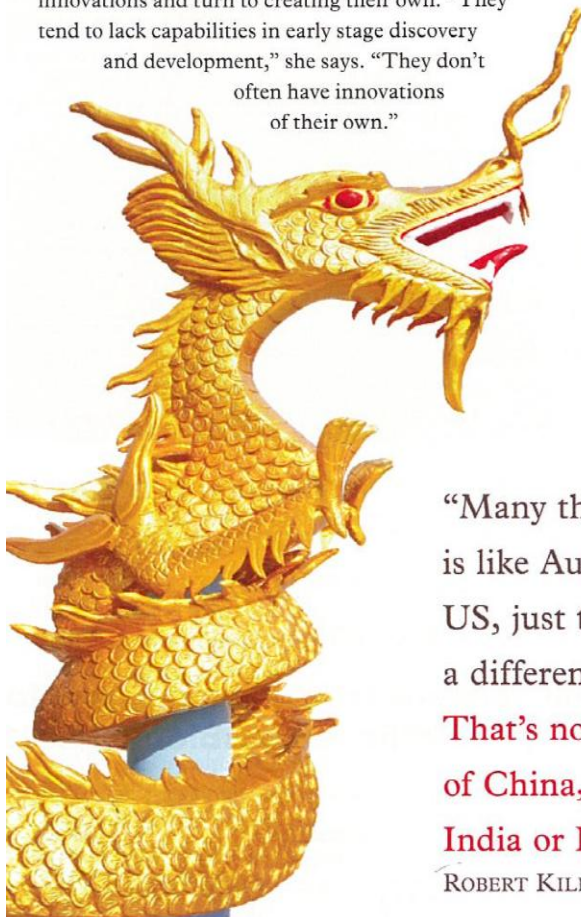
Australian biotechs looking to advance their innovations through early stage trials through to manufacturing.

But there's a right way and a wrong way to do business in China. And, sadly, many Australian companies have come unstuck in their initial attempts to do dealings with Chinese partners, largely due to cultural differences. However, it's in navigating and bridging these differences that will open up tremendous opportunities for Australian companies over the coming decade while the Dragon begins to stretch its giant shiny economic legs.

### DRAGON'S LUCK

Australian and Chinese companies are in many ways a natural fit, says Janette Dixon, VP of Business Development at Australian pharmaceutical company QRxPharma. Chinese life science companies have focused much of their efforts on manufacturing, primarily in producing generics, and have reinvested their not inconsiderable profits back into the sector. This means that Chinese companies have developed very strong formulation and downstream capabilities, and have the expertise and infrastructure to develop pharmaceuticals and biologics at lower cost to comparable outfits overseas.

However, says Dixon, many Chinese companies are looking to expand on manufacturing other people's innovations and turn to creating their own. "They tend to lack capabilities in early stage discovery and development," she says. "They don't often have innovations of their own."



"Many think China is like Australia or the US, just that they talk a different language.

**That's not true of China, nor of India or Brazil."**

ROBERT KILPATRICK

Many Chinese outfits are looking to "integrate backwards," Dixon says. And this raises a terrific opportunity for Australian biotechs, which are typically structured the other way around, with no shortage of innovation but lacking in the infrastructure and capital to conduct product development and manufacturing in-house.

There is also plenty of money around to fund partnerships to develop new products. As VCs in the US and Europe have pulled their necks in, China's VCs are becoming more bold and more inquisitive about the opportunities in biotechnology and health. Not only do they see potential for developing products to service the still considerable US and European markets, but they recognise that in a decade or so, China might well have the largest market for pharmaceuticals and healthcare in the world.

According to Professor Robert Elliott from Living Cell Technologies (LCT), Chinese outfits are also often more open minded about partnerships than many US companies. "Getting a toehold in America can be difficult," he says. "If you're not home grown, often they don't want to know. They can't believe that genuine innovation can come from 'insignificant' biotechs in the southern hemisphere. By comparison, China is very open minded."

Robert Kilpatrick, Chief Executive Officer of Technology Vision Group, a U.S.-based life science partnering company, who is chairing a session on Sino-Australian partnerships at the upcoming AusBiotech Conference in September, also sees tremendous opportunities in engaging with Chinese contract research organisations (CROs).

"The whole contract research industry in China is expanding rapidly. WuXi PharmaTech is a good example," he says, citing the successful Shanghai-based CRO, which recently posted net revenues for Q2 2011 of over \$100 million, a 25 per cent bump year-on-year.

The opportunities for antipodean biotechs are many depending on where they wish to focus their efforts, whether that's securing funding from a VC, all the way through to partnering with a Chinese biotech to help develop and manufacture new products. The key is knowing how to get the relationship started.

### DINING THE DRAGON

In China, a deal is about more than a signed piece of paper. A deal is a relationship; it's a 'partnership' in the literal sense of the word. This means that any Australian company wishing to engage on a meaningful level with a Chinese outfit will need to be intimately familiar with the idiosyncrasies and nuances of Chinese business culture and how relationships are forged, lest they fall into the culture trap, says Kilpatrick.

"In my experience, Western companies dramatically underestimate the cultural differences outside

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the Western World,” he says. “Many think China is like Australia or the US, just that they talk a different language. That’s not true of China, nor of India or Brazil.”

Kilpatrick suggests a brief survey of recent Chinese history will show that the cultural underpinnings, and the experiences had by many of its business leaders through their lifetimes, will be radically different to those of their Western counterparts. As a result, there are more possibilities for missteps than just a poorly-translated conversation.

“It’s important to work closely with experts who understand the culture, the political system and the economic system, and the role that government agencies play, both directly and indirectly,” says Kilpatrick.

In this regard, it can help to have someone in your own outfit who can act as both a language and a culture translator, ideally someone who is a native Mandarin speaker and who has lived in China. It was having two such individuals working for LCT that aided its first venture into China, says Bob Elliott. These two travelled to China to conduct meetings with prospective partners, and it was their comfort with the language and familiarity with the culture that helped them forge business relationships that eventually turned into a deal.

“It was all very much facilitated by having a Mandarin speaker,” says Elliott. “It was absolutely essential to have a fluent Chinese-English speaker on the team who could tell us the niceties of speaking with our Chinese counterparts in a corporate setting, such as the mode of address, the correct salutations and such. There’s an emphasis in China on doing things properly according to strict protocols. We were very fortunate to have these individuals on board. Without them I don’t think the contact would have worked. It would have languished.”

Dixon’s experience with QRxPharma was similar, with a Chinese-born member of staff who was central to the negotiation process. Not that it’s mandatory to have someone in-house, but Dixon does recommend at least hiring some high quality independent intermediaries to conduct translation and facilitate interaction.

Another aspect of business culture in China is that things often move at a slower pace than they do in Western business tradition. After all, it takes time to build a relationship and forge trust, says Kilpatrick. “If you can’t establish trust, you can’t get anywhere. You can have the best business plan in the world, but if they don’t like you, you’re finished.”

Elliott agrees that things must progress at their own pace without attempts to push things faster than your Chinese partners are willing to move. “Any rush can be perceived with some alarm,” he says. “So take things at the pace they want, which is a fairly slow exploratory pace. There can be lots of bouncing around, but we nevertheless progressed to where they were prepared to buy some equity in the company. That’s where things sit at the moment and we’re going to meet with them again next month. That’s very important: you must wait for their invitation, and that means they really mean business.”

Another aspect of business in China is the all-important non-business side. “Dinners and social

interactions are very important,” says Dixon. “A fair amount hinges on those kinds of personal interactions.”

The upshot, says Kilpatrick, is Australian biotechs need to take their time and build relationships in China, getting to know the key people and the lay of the land before diving in and attempting to cut a deal. After all, doing business in China hinges on having strong ties to a Chinese partner; it’s almost impossible to go it alone.

### THE DRAGON’S TEETH

Besides navigating the niceties of Chinese business culture, there are other pitfalls into which the unwary biotech can tumble. In many ways, China resembles the goldrush times in Australia or ‘wild west’ in the US, says Kilpatrick. This is a product of a nation enjoying a spectacular burst of wealth creation in a very short time, having a highly disruptive effect on the economy, creating an environment ripe for opportunists. This is not just true of China, stresses Kilpatrick, but other emerging economies such as India and Brazil as well.

As such, it’s essential to know who you’re dealing with, he says. “It’s very important for you to do your diligence on the individuals you’re meeting to see they are who they say they are and can do what they say they can do. Check their bona fides, even do a police check to make sure they don’t have a criminal record.”

There can be very different dynamics dealing with state-run and privately-run organisations as well, with pros and cons on either side. QRxPharma had extensive talks with one state-owned company that went on and on but didn’t go anywhere. “We were just spinning our wheels,” says Dixon. But shifting attention to a different privately-owned company saw things progress more quickly, resulting in a deal being forged.

Intellectual property has long been a concern when dealing with China, although the consensus is that things are improving, largely as a result of Chinese companies beginning to get involved in their own innovations, thus wanting to protect their own IP.

However, like operating in any country, it pays to protect your IP, says Kilpatrick. “I’d make sure I worked with one of the leading law firms working in China. It’s always worth assuming your IP isn’t safe unless it’s protected, but that’s not just true of China, but many other places as well.”

The opportunities for highly lucrative and productive partnerships in China, whether that be through seeking investment or conducting research or gearing up manufacturing, are clearly tremendous. And Australia is keenly placed to capitalise on China’s stellar growth.

Furthermore, give China another decade or so and it could become the world’s single largest market for health products. If a company is able to establish a foothold early and build a strong presence in China, it could be ideally placed to serve that burgeoning market as it develops.

Dealing in China is not without its challenges, but patience, diligence and a healthy respect for building lasting relationships and partnerships with Chinese colleagues can yield real dividends. As the dragon grows, better to be by its side than in its shadow. [ALS](#)