China Otsuka Pharmaceutical

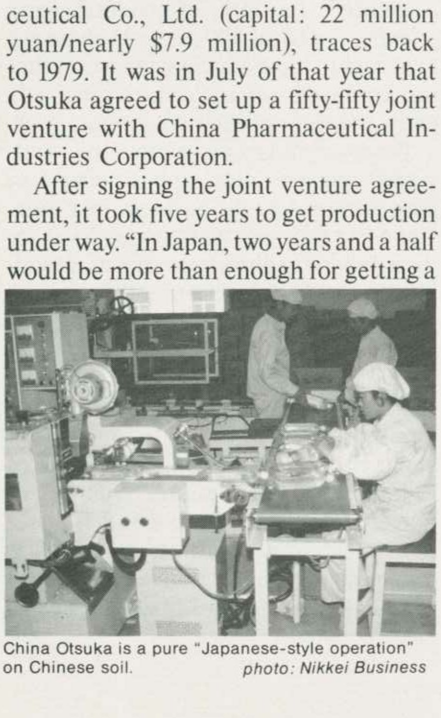
By Ikuo Hirata

On the outskirts of Tianjin, about 30 minutes by car from the city center, there stands a sprawling, modern factory gleaming white against a field of eye-softening greenery. Inside the 11,000-square-meter plant, young workers in white overalls keep their eyes fixed on humming machinery. Unlike in most factories, the workers here don't seem to be doing much manual work. Production has been automated, from manufacturing to packaging, and the job of the employees is to tend the machines and check the products: Ringer's drops and other intravenous solutions.

This factory, so different from other plants in China, is the brainchild of Japan's Otsuka Pharmaceutical Co., Ltd., which has stubbornly insisted on transplanting its entire production process from Japan to the continent. Predictably, it was no easy job, this business of creating a pure "Japanese-style operation" on Chinese soil.

The birth of China Otsuka Pharmaceutical Co., Ltd. (capital: 22 million yuan/nearly \$7.9 million), traces back to 1979. It was in July of that year that Otsuka agreed to set up a fifty-fifty joint venture with China Pharmaceutical Industries Corporation.

After signing the joint venture agreement, it took five years to get production under way. "In Japan, two years and a half would be more than enough for getting a factory of that size into operation, from the moment the decision was made to build it," says one Otsuka official.



China Otsuka is a pure "Japanese-style operation" on Chinese soil. *photo: Nikkei Business*

In China, however, things seem to move much slower. For instance, it took Otsuka two years to clear the contract with the Chinese government, register with Chinese tax authorities, and open an account with a Chinese bank.

It was not until November 1981 that Otsuka finally managed to work out a contract for the construction work. And here again there was a major snag. The contract was undertaken by the Tianjin Municipal Construction Committee, but in China there seemed no notion of "total cost contracting," a system common in Japan involving contracting for a particular project within a certain price range. Reportedly it took Otsuka officials all their persuasive power before they could get the Chinese authorities to accept this contractual formula. And it was another two years and a half before the plant was completed and trial production begun.

Differences in culture and commercial practices continue to haunt Otsuka. As one Otsuka official puts it, the China experience has been an "encounter with the unknown." Some Otsuka officials say they were surprised when they were told that the company had to give single, unmarried workers up to 30 days a year in paid annual leave and 45 days a year for those with families.

The labor union at China Otsuka receives substantial welfare funds from the company—another labor practice different from Japan. As a joint venture, the local employees already get paid between 20 and 50% more than the average worker in China, but on top of that, the company is obligated to contribute a sum almost equivalent to the worker's entire salary to the union. Most of these welfare funds come under such categories as housing allowances, heating and medical expenses.

Yet despite all these differences, operations at China Otsuka seem to be going smoothly. Output for various intravenous solutions, like saline solutions and glucose, is now set at 6 million 500-milliliter bottles a year. Last January, Otsuka obtained an import license from the Japanese government, and the company plans to ship 2.4 million bottles, or 40% of the annual output, to Japan this year. The foreign exchange earnings from such sales are designated for purchasing raw materials and machinery from Japan—a condition set by the Chinese government for approving the venture.

For domestic sales, the price of China Otsuka solutions currently averages 1.65 yuan (about 70 cents) a bottle, a level somewhat higher than the price fetched by other domestic manufacturers. The Chinese government is said to have approved the pricing, which is close to Otsuka's request, in recognition of the high quality of its products. Currently, sales at China Otsuka are estimated to top 10 million yuan (\$3.6 million) a year. Dividend payments are expected soon.

With a population topping one billion, it is estimated that demand for intravenous solutions in China comes to around 200 million 500-milliliter bottles a year. For a company like Otsuka, the potential of the Chinese market is immense.

Yet, company officials do not seem entirely optimistic about future prospects. Says one senior Otsuka official resignedly: "By the time our profit margin reaches a significant level, I suppose the Chinese government will move in and ask us to lower our prices. After all, this is a socialist country, and you are not well regarded here if you make too much profit."

Profit apart, one thing seems unlikely to change: the level of exports to Japan. The fact is, Otsuka finds it difficult not only to procure enough raw materials in China for its solutions but even to get polypropylene for packaging. The company has no choice but to import raw materials from Japan, and exports back to Japan are indispensable in order to earn the necessary foreign exchange.

Tianjin, one of China's 14 open coastal cities, is enthusiastic about attracting Japanese investment. Yet there is still a glaring gap in customs and labor practices between the two countries. If Japanese investors insist on taking along with them the Japanese style of management and production control, conflicts with their Chinese partners are bound to flare. Yet Otsuka Pharmaceutical, for one, has managed to overcome these obstacles in its own Tianjin joint venture. Its experience provides a valuable lesson for any who want to crack the Chinese market. ●