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Boston Life Sciences Firms Look to China for Growth

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As health care spending in China explodes, and the cost of developing drugs there remains low, local life sciences instruments and services companies are expanding their investment in the country.

As the downturn drags on, constraining capital for smaller biotech companies and hospitals domestically, local firms are seizing opportunity in China, which is set to become the third largest drug market by 2011, according to research by Norwalk, Conn.-based consultancy IMS Health.

Meanwhile, the Chinese government's commitment to research and development, fueled by a stimulus bill worth $856 billion and a health reform initiative worth $125 billion, is boosting the interest of foreign companies.

Thermo Fisher Scientific, based in Waltham, announced last week that it would launch a second demo lab in China by the end of 2010. Thermo has a first facility in Shanghai, a city that boasts major outposts of seven of the largest global pharmaceutical companies.

This time the maker of mass spectrometers and other instruments will locate in Beijing, close to universities and scientific institutes.

"The Chinese government is pouring millions into food safety and air quality monitoring programs, and we are benefiting from that," said Marc Casper, president and CEO of Thermo Fisher. Thermo booked 4 percent of its revenue in China in 2009, but Casper believes the size of the Chinese business will double in the next five years. To this end, the company recently decided to move the headquarters, and four top executives, of its environmental instruments division to China. Thermo hired 225 workers across its Chinese and Indian businesses last year, and expects similar job growth in 2010.

As sales of capital equipment to hospitals and other traditional customers remains slowed by the recession, Casper said there are entirely new business avenues to explore in China.

"As China looks for new energy sources, more nuclear power plants are coming online, and they are using our instruments to measure radiation of workers leaving the plants," he said. The goal is to protect the health of the workers, but also to prevent nuclear material from being removed.

Waltham-based PerkinElmer says that 20 percent of its revenue comes from the Asia Pacific region, and 5 percent from China. The company has 1,200 employees across nine facilities representing different parts of PerkinElmer's wide-ranging business, which includes capital equipment and consumable goods.

"Promising growth areas for us are in diagnostics and genetic screening, and we've met that with our largest investments," Daniel Marshak, PerkinElmer's president, Greater China, wrote in an e-mail from Shanghai.

Marshak said the downturn has meant PerkinElmer, like Thermo, has seen greater opportunities in the local and government markets than from the export industry.

But it's been a different story for Parexel International Corp., a Boston-based contract research organization. The company has increased head count in China to 1,600, up from 1,000 at the end of 2008, due to a rise in demand for outsourced clinical trials by global pharmaceutical companies.

"Patient recruitment is the leading cause of delays in clinical trials. It is much quicker to attract patients in China, because access to top-notch care is limited there. It's also easier to find patients that aren't currently on any therapy," Mark Goldberg, Parexel's Chief Operating Officer, said.

And then there's the cost. A recent report by Exolus International Advisory consulting group, with offices in Florida, Shanghai and Geneva, found the costs of a clinical trial in China are 50 percent lower than a trial conducted in the West.

Even for companies that haven't yet felt the China boom, it's a market of immense strategic importance. Charles River Laboratories opened its first facility in China a year ago. The Wilmington-based contract research organization, and provider of lab animals, is performing FDA-level toxicology studies for big pharmaceutical companies. So far, uptake hasn't been what CEO Jim Foster had hoped.

"We thought the facility would fill up rapidly, and we'd have to race to site a second lab," Foster said. Instead, he found that China wasn't immune to pharma research and development cutbacks. "Spending on development of compounds has been less than what they told us ... We can't test compounds that don't exist," Foster said.

China's importance to growth during the downturn is exemplified by the fact that Charles River plans expansion there, following the closure of its Shrewsbury facility last month.

"That facility is huge. It was built to support local biotechs, and funding has been tight. We have to get ahead of the Chinese market because when it takes off, it's going to increase dramatically," Foster said.