Research on the Path of Internationalization Development of Chinese Herbal Medicine Industry: A Literature Review

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Abstract

The Chinese herbal medicine industry covered by the concept of traditional Chinese medicine has made great progress in China. How to go abroad and play its unique medical role on the world stage with the help of the east wind of the "the Belt and Road" is the core of this paper. Up to now, most of the theoretical research on the internationalization of Chinese enterprises and traditional Chinese medicine enterprises is to comment on the adaptability and theoretical transformation of the internationalization theory of foreign scholars to the internationalization of enterprises. The relevant research mainly focuses on the two dimensions of internationalization entry mode and business form. By combing many management and internationalization theories, this paper hopes to extend the scheme combination in line with the international development of Chinese herbal medicine industry on the basis of existing theories, which has a certain reference significance for the international development of Chinese herbal medicine industry.

Keywords

Traditional Chinese Medicine Decoction Pieces; Internationalization; Development Path.

1. Introduction

With the rejuvenation of the traditional culture of the Chinese nation, especially in recent years, traditional Chinese medicine has become an outstanding "preventive and curing agent" in the treatment of novel coronavirus and other fields. The traditional Chinese medicine industry has also begun to become a dazzling "Star" on the world stage, and has attracted more and more attention from people around the world, including western developed countries. In China, as one of the most important components of traditional medicine, traditional Chinese medicine has long been popular. How can Chinese herbal medicine enterprises go abroad to serve more people in the world, Take the "the Belt and Road" "The great development strategy and the construction of a community of shared future and interests with countries along the line are important issues facing the development and expansion of the traditional Chinese medicine industry. The traditional Chinese medicine industry is highly competitive in China's domestic market. As the key to the efficacy of traditional Chinese medicine, with the popularity of traditional Chinese medicine culture in the world, it also brings opportunities and choices to the international development of the industry. This paper makes a comprehensive review of the strategic theory of enterprise internationalization. On the basis of this, we identify the internationalization theories and analysis tools that are suitable for the characteristics of the Chinese herbal medicine industry, and use these theoretical tools to identify the current situation of the internationalization strategy of the Chinese herbal medicine industry, and
explain the strategic path selection and strategic suggestions of the internationalization of enterprises in this industry.

2. Review of Theory and Practice at Home and Abroad

2.1. The Relevant International Theoretical Research Abroad is Mostly based on Macro Strategy

The research on enterprise internationalization originates from the external expansion of large enterprises in developed countries in the 1960s, and has gradually developed foreign theories on the internationalization strategy of enterprise management [1], which can be divided into two dimensions: cross-border products are the first dimension that enterprises must experience in the process of internationalization growth, and the choice of international market is a certain stage in the internationalization strategy of enterprises; The choice of international market entry mode is the second dimension. Choosing the appropriate entry mode to enter the appropriate international market is also a necessary way for enterprises to grow internationally. There is little research on specific traditional Chinese medicine industry abroad.

The product life cycle model (PLC) was first proposed by Raymond Vernon (1966), which emphasizes enterprise innovation, uncertainty in the early stage of product production and market development, cost theory of economies of scale, oligopoly competition and its replication. Its product life cycle theory is divided into four stages. With the process of product cycle (i.e. UIM model), Nordic scholars based on the empirical research of some enterprises in Sweden by Johanson & Carlson (1975) found that internationalization is a gradual process (continuous, gradual, continuous learning and growth), and enterprise management should follow this theoretical process of internationalization; The resource-based theory, Penrose (1959), was later developed by Wernerfelt (1984) and put forward the viewpoint of resource location barrier. Barney's theory of "resource base" holds that enterprises with key basic resources will be able to bring lasting competitive advantages to enterprises. The core view is that the competitive advantage of enterprises is their special heterogeneous resources, that is, core resources, which vary from enterprise to enterprise. The eclectic theory of international production was proposed by the British scholar John H. Dunning (1977) and developed the investment development cycle theory. This theory believes that the mode of an enterprise engaging in international investment is determined by three basic factors of the enterprise: ownership advantage, location advantage and internalization advantage. If the enterprise only has the ownership advantage, it can choose technology licensing. If an enterprise has both internalization and ownership advantages, it will choose to export [2]. If enterprises have three basic advantages at the same time, they will choose international direct investment. Stephen, a British scholar Stephen Young and others believe that the internationalization strategy of enterprises is reflected in all aspects of enterprises’ transnational operations: product export, direct investment, technology licensing, management contracts, turnkey projects, franchising, etc. With the increasingly obvious trend of global economy, the acceleration of the process of internationalization is the objective situation faced by enterprises. The internationalization of the flow of production factors, by scholar Johnson D. Richard believes that enterprises are responding to the internationalization of the market, not just to the market of a particular country. The reason for the internationalization strategy of enterprises is that the gradual increase in the liquidity of production factors leads enterprises to actively invest their products in the international market in order to transfer market risks. The reaction of this behavior itself is not directed at the market of a particular country. Born global, Oviatt and McDougall (1994) defined the born international enterprise as "an enterprise organization that seeks and utilizes resources and sales markets in many countries at the beginning of its establishment to obtain competitive advantage". Later, Knight and Cavusgil (2004) defined the born international
enterprise as a small technology-oriented enterprise that has been produced and operated in the international market at the beginning of its establishment. Other scholars quantitatively define natural nationalized enterprises from the perspective of internationalization time and scale. For example, Knight (2004) believes that enterprises with more than 25% of their income from the international market within three years of their establishment are natural internationalized enterprises. The specific merits and demerits of the above international classic theories will be explained in detail and will not be repeated.

2.2. There are Few Theoretical Studies on the Internationalization of Domestic Original Enterprises

In view of the research on the internationalization of traditional Chinese medicine enterprises, some domestic scholars in China examine the internationalization operation process of the traditional Chinese medicine industry from the height of national strategy, pay attention to the current situation of industrial development, industrial environment and resources, and analyze and summarize the theoretical scheme of the internationalization strategic operation of traditional Chinese medicine enterprises in combination with the characteristics of small and medium-sized enterprises in China. Or draw lessons from the international cases of well-known traditional Chinese medicine enterprises to give inspiration and insights. The overall theory is an extension of the Western internationalization theory, which is not very original.

The "cobweb model evaluation method" [3] proposed by Lu Tong (2000) uses six indicators to quantify the degree of internationalization of enterprises at five levels respectively. Li Boxi (2001) divided the main bodies of the internationalization strategic business process of enterprises into levels. Traditional Chinese medicine subdivided the industrial internationalization strategy into strategic direction, strategic objectives and strategic stages. From the perspective of national strategy, it built a mechanism for various market players to play a role with the participation of the government [4]. Lan Hailin (2014) proposed to "be the first in China, and then the first in the world". It is fully recognized that the main obstacle restricting the improvement of enterprises' international competitiveness is the domestic decentralized market, and the internationalization strategy should be fully prepared before going abroad [5]. Li Li, Mo Changwei, Lan Hailin (2015) proved by empirical research that the level of enterprises' transformation power is negatively related to the amount of political resources they have [6]. Li Wei’an (2012) pointed out that the development of traditional Chinese medicine enterprises no longer applies to the traditional "vertical" governance model, but should move to the "flat" governance model [7]. In 2003, the World Health Organization (who) adopted the epoch-making traditional medicine strategy 2003-2005, which marks the first time that traditional medicine has been incorporated into the national health care system in the world, and the medical value of traditional medicine has been more widely recognized and valued. Cui Jingjing (2009) combined with the development status of China's traditional Chinese medicine industry, gave suggestions on the international strategic management of traditional Chinese medicine enterprises from the government and enterprises [8]. Wang Guangping and Zhang Jingzhi (2015) analyzed that the largest export share of the traditional Chinese medicine industry is the extract plant monomer, and believed that it is very necessary for Chinese patent medicine to enter the world medical and health system market [9]. Zhang Dong (2009) believes that traditional Chinese medicine enterprises represented by Chinese herbal pieces must strengthen the protection of intellectual property rights in the process of their international strategic operation [10]. Jia Qian (2007) and others believe that international standards cannot be connected with us, and the characteristics of traditional Chinese medicine will disappear because of hard connection, so the culture of traditional Chinese medicine will disappear. When the development of traditional Chinese medicine represented by traditional Chinese medicine has made great progress in China, China's leading
standards of traditional Chinese medicine can be established internationally [11]. Chen Yawei (2002) takes the time-honored brand of traditional Chinese medicine “Beijing Tongrentang” as the empirical object, deeply analyzes its internationalization process and summarizes experience [12]. Developing countries with distinctive national characteristics can have overwhelming advantages in providing products with national characteristics at some times, with a high success rate of investment; With the advantages of local procurement and special products, if raw materials can be purchased directly in the host country of investment, the cost of labor and advertising will be relatively low compared with that of developed countries [13]. Forced to internationalize, for many small and medium-sized enterprises, with the improvement of their innovation and technology capabilities, enterprises are more able to reduce their dependence on the business ecosystem and have more incentive to internationalize [14].

3. Current Situation and Problems of the International Development of Traditional Chinese Medicine Decoction Pieces Industry

3.1. The Overall Development of the Industry is Strong, But the Industrial Concentration is Low

According to the data, the market size of Chinese Herbal Pieces increased from 184.34 billion yuan to 264.67 billion yuan in 2017-2020. It is estimated that the market scale of Chinese herbal pieces will reach 344.15 billion yuan in 2022. According to the statistical information on the website of the State Drug Administration, as of August 2020, there were 3125 manufacturers of traditional Chinese medicine, but the market share of the leading enterprises in the industry was only 2% to 3%, and the industrial concentration was low.

3.2. The Export of Low-Tech Decoction Pieces Accounts for a High Proportion and the Added Value is Low

In the export of Chinese traditional medicine, the highest proportion is plant extract, which is a pharmaceutical intermediate with low added value obtained from the rough processing of traditional Chinese medicine or decoction pieces of traditional Chinese medicine. Its biggest beneficiary is the pharmaceutical merchants who reprocess the extract into finished drugs. China’s export of plant extracts accounted for the largest proportion of the total export value of traditional Chinese medicine products. The export value increased from US $815 million to US $2.163 billion from 2010 to 2015, and the proportion increased from 41.9% to 57.38%, showing an upward trend year by year.

3.3. Lack of Internationalization Awareness of Enterprise Leaders

The prerequisite of enterprise internationalization is the internationalization of enterprise leaders. At present, there is a general lack of high-quality leaders in the transnational operation of Chinese herbal medicine enterprises. This is because most of the leaders of Chinese herbal medicine enterprises start from small-scale workshops, have a strong sense of small farmers, and have a serious idea of peace and prosperity. This is also the main constraint that restricts Chinese herbal medicine enterprises from expanding the scale of transnational operation and improving the level of transnational operation.

3.4. Weak Protection of Intellectual Property Rights and Weak International Registration and Certification of Products

Traditional Chinese medicine has spread to more than 160 countries and regions in the world, with more than 300000 people engaged in traditional Chinese medicine medical services worldwide. In 2009, the export of traditional Chinese medicine reached 1.46 billion US dollars.
But until today, there is no Chinese traditional medicine product registered as a drug in European and American countries, and it cannot be sold in pharmacies and hospitals.

3.5. **Weak Awareness of Corporate Ethical Responsibility**

Violation of enterprise ethics is generally the result of excessive pursuit of profit maximization. The two indicators of pesticides and heavy metals of Chinese traditional medicine are the biggest obstacles in the export process. Pollution has reduced the curative effect of traditional Chinese medicine and affected the development of traditional Chinese medicine. The State Food and Drug Administration pointed out that the source of traditional Chinese medicine is incorrect, the operation of planting and processing is not standardized, such as the abuse of growth regulators in the planting process, insufficient growth period, improper processing methods, etc. can cause the content of index components to change, resulting in unqualified determination results.

4. **The Path and Strategy of Internationalization of Chinese Herbal Pieces**

4.1. **Improve the Technical Content of Traditional Chinese Medicine Decoction Pieces and the Overseas Registration Ability of Products**

Pay attention to the secondary development of traditional Chinese medicine. High technology content, difficult to be imitated and lose competitive advantage after listing; In addition, focusing on the research and development of ancient traditional Chinese medicine products will help enterprises form their own intellectual property advantages and go abroad more easily. For traditional Chinese medicine enterprises with their own "born globals" advantages, they can integrate into the global market faster. Specifically, the quality control of the source should be carried out first, and the international standards of traditional Chinese medicine should be established and promoted.

4.2. **Integrate Enterprise Resources and Reserve the Ability to "Go Global"**

To develop internationally, Chinese herbal medicine enterprises need to cultivate and reserve professional management talents with cross backgrounds and strong comprehensive ability [15]. In addition to enhancing the awareness of internationalization of the person in charge of the enterprise and making a good reserve of international talents, the enterprise should consciously connect external resources while accumulating resources, including the introduction of venture capital, the introduction of special talents, service outsourcing, mergers and acquisitions of related enterprises, etc. In addition, we should pay attention to the quality of herbal pieces and have scientific production standards, so that we can truly compete internationally and remain invincible in the world.

4.3. **Strengthen Intellectual Property Protection**

In the way of successfully implementing the business internationalization strategy of traditional Chinese medicine decoction pieces enterprises, one of the first tasks is to attach importance to the quality of traditional Chinese medicine decoction pieces and have scientific production standards, so that they can truly compete internationally and remain invincible all over the world. Enterprises should improve their awareness of patent protection, especially leaders should attach great importance to patent protection, and cultivate patent agents who are proficient in patent system and process management, Coordinate the application and registration of foreign patents. Specifically, R & D focuses on the extraction of effective components or parts, and changes the current situation of low technical content and relatively simple preparation process of traditional Chinese medicine R & D achievements. At the same time, enterprises, together with colleges and universities and scientific research institutions, strengthen cooperation, create a technological innovation service platform for traditional
Chinese medicine decoction pieces, use modern research methods to extract, separate and identify effective components, and finally clarify the action mechanism of traditional Chinese medicine decoction pieces, which is easier to obtain international recognition and apply for patent protection [16].

4.4. **Attach Importance to the Social Responsibility and Ethics Construction of Enterprises**

With the comprehensive promotion of China’s "the Belt and Road" initiative, enterprises can survive and develop in the fierce international competition only by actively adapting and applying international rules. Good corporate social ethics is the guarantee for the rapid development and continuous growth of enterprises [17]. Pay attention to and implement every link of enterprise behavior from the top, so as to avoid the extinction of enterprises due to violation of enterprise ethics. How to make decisions in business can be a "internal and external repair", do not violate the bottom line of corporate ethics, give back to the society, nurture the environment, and become a sustainable and benign development enterprise with social responsibility [18].

4.5. **Attach Importance to the Construction and Dissemination of Traditional Chinese Medicine Enterprise Culture**

When a Chinese medicine enterprise develops to a certain scale, it should pay attention to the development of corporate culture. Even if the history is not long enough, it can also draw essence from Chinese or regional culture and gradually form a corporate culture suitable for stage development, rather than being a “Aphasia” of foreign cultural communication [19]. The sustainable development and full progress of an enterprise depend on the support of a good corporate culture.

5. **Summary**

As a representative emerging market country, the internationalization steps of enterprises in China do not fully follow the existing internationalization process theory, which takes the internationalization of enterprises in developed countries as the research object, but tend to adopt more radical expansion methods, such as acquiring competitive advantages through mergers and acquisitions of enterprises with advantageous resources in developed countries. According to the latest statistical data of China industry information network in 2022, most of the enterprises of traditional Chinese medicine decoction pieces are small and medium-sized enterprises with low industrial concentration. Moreover, the enterprise leaders' awareness of internationalization is not strong, and the attribute of "born internationalization" is weak. According to the internationalization cycle theory, with the gradual growth of enterprises, the influence of traditional Chinese medicine culture in the world, and under the guidance of the government or investment policies in other parts of the world, traditional Chinese medicine enterprises should also actively go abroad to realize the transnational operation of production, sales, and even research and development. A small number of Chinese herbal medicine enterprises with "natural internationalization” gene and advantages have realized the internationalization of enterprise management by leveraging capital, acquisition or M & A operations. Chinese herbal medicine enterprises are mostly small and medium-sized enterprises. Whether they take the initiative or passively choose internationalization due to competition, embracing globalization and practicing the great idea of "community of destiny and community of interests” is inevitable for international development, including Chinese herbal medicine enterprises.
References