

## **NOTE**

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# FOREIGN PHARMACEUTICAL FIRMS' FDI ENTRY STRATEGIES INTO CHINA

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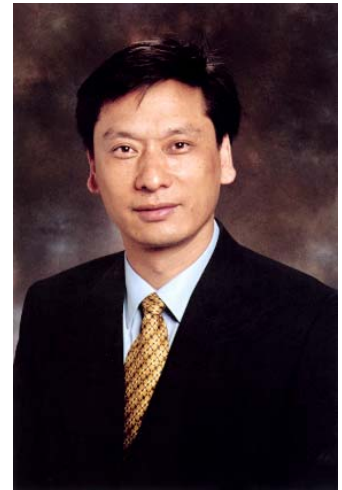
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## STATEMENT

This thesis contains no material which has been accepted at any other university for the award of a degree, and to the best of my knowledge and belief the thesis contains no material previously published or written by another person, except when reference is made in the text of the thesis.



A blue rectangular box containing a gold-colored cursive signature that reads "Jiang Fuming".

Melbourne Australia

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## LIST OF ABBREVIATIONS

\$	US Dollar
%	Percentage
App	Appendix
ANOVA	One-way Analysis of Variance
CSA	China Specific Advantage
CCPIE	The China Centre for Pharmaceutical International Exchange
DMI	Domestic Market Imperfection
Early-Entrants	Firms entered into China before 1992
Easter-Firms	Investing firms from eastern country/region
e.g.	For Example
Equal JV	Firms with equal share of ownership with joint venture partners in joint venture
etc	et cetera
FDI	Foreign Direct Investment
FIE	Foreign invested enterprise
FIPC	Foreign Invested Pharmaceutical Company
FPF	Foreign Pharmaceutical Firms or Foreign Parent Firm
FPFIPC	Foreign Pharmaceutical Firm Invested Pharmaceutical Company
FSA	Firm Specific Advantage
GCPRC	The General Consulate of the People's Republic of China in Melbourne
GM	General Manager
Id	Index of Dissimilarity
i.e.	That is
IPR	Intellectual Property Right
JV	Joint Venture
JV-Firms	Firms that chose joint venture entry mode
Late-Entrants	Firms that started investment in 1992 and onwards
Majority JV	Firms with greater than 50 percent and less than 100 percent share of ownership
MER	Middle East Region of China
Minority JV	Firms with less 50 percent share of ownership in joint venture

## LIST OF ABBREVIATIONS (CONTINUED)

MNC	Multinational Corporation
NER	North East Region of China
No, N	Number
p	p-value indicates the level of statistics significance
PUMC	Peking Union Medical College
rho	Spearman's rank correlation coefficient
RMB	Chinese Yuan (Dollar)
Sd or SD	Standard Deviation
SER	South East Region of China
SEZ	Special Economic Zone
SLR	Simple Logistic Regression
SV	Sole Venture
SV-Firms	Firms chose sole venture entry mode
TAFE	Technical and Further Education
TCM	Traditional Chinese Medicine
TCP	Traditional Chinese Pharmaceutical
US	United States
USA	United States of America
US\$	US Dollar
Western-Firms	Investing firms from western country/region
WP	Western Medicine

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## ABSTRACT

Foreign direct investment (FDI) in China is popular these days and this also applies to the pharmaceutical manufacturing industry. China seems to be a promising market for pharmaceuticals with over 1.2 billion potential consumers. This huge number of people together with the outstanding economic performance attracted multinational pharmaceutical firms that were looking for a new market for their products. By the end of 1998, China had established over 1,500 pharmaceutical enterprises with foreign investment and 117 of which were invested by foreign pharmaceutical firms. Foreign pharmaceutical firms invested their capital and technology in what is likely to be developed as the world's largest pharmaceutical market in the future with the expectation they will earn an excellent return in the longer term.

When a firm decides to establish an overseas operation, it has to decide whether to pursue the venture alone or with a joint venture partner (Bell, 1996). For most manufacturers that want to invest abroad, the first-best entry strategy remains the sole venture (SV), and joint venture (JV) would be a second-best invest entry strategy (Root, 1994), because JV is inferior to SV which allows investing firms to maximise the returns on ownership-specific advantages (Caves, 1982) and to have full control over the business operations. Foreign pharmaceutical firms who invested in China during the period from 1980 to 1998 basically chose either a SV or JV entry mode, and over 84 percent of the foreign pharmaceutical firms chose a JV entry mode rather than a SV, even though foreign investors have been allowed to set up 100 percent solely foreign owned sole venture operations in China since the passage of "Law of the People's Republic of China on Foreign Capital Enterprises" at the Fourth Session of the Sixth National People's Congress on 12 April 1986. This research was designed to investigate why the large majority of pharmaceutical firms preferred the second-best entry mode for entering into the Chinese market.

This research has incorporated in Root (1994), Mockler and Dologite's (1997) conventional foreign market entry mode framework, and the relevance of Kumar and Subramaniam's (1997) contingency entry mode framework is acknowledged. Fieldwork

was mainly conducted in China by personal interviews as well as mail questionnaire surveys over a period of three months in 1999 and 44 companies participated in total.

Using multiple indicators by means of logistic regression analysis to examine the effects of groups of factors on entry mode decision choice between SV and JV options. Seven groups of factors (independent variables) were examined: China environmental factors, China market factors, China production factors, parent firm's home country/region factors, parent firm's product factors, parent firm's resource commitment factors, and parent firm's decision task related factors. This research has found that the probability for establishing joint ventures with Chinese partner (s) is significantly and positively related to the importance of China environmental factors and market factors. Parent firm's decision task related factors had a positive impact on firms' decision to choose a SV entry mode. Bivariate analyses have also discovered a number of individual variables that had significant impacts on firms' entry mode choice decisions.

The research did not show sufficient evidence to support that China production factors, parent firm's home country/region factors, parent firm's product factors, and parent firm's resource commitment factors had significant influences on foreign pharmaceutical firms' entry mode decisions, although the results showed expected directions of the relationships between the entry mode choice and independent variables.

This research has contributed to the entry mode theory literature in the way of developing, as the result of the research in this thesis, an eclectic framework for better understanding of theories in choosing an entry mode between a sole venture and a joint venture in the context of foreign direct investment into the Chinese market, particularly it has discovered significant variables that affected the foreign pharmaceutical firms' FDI entry mode decisions into the Chinese pharmaceutical manufacturing industry during the period of 1980~1998. The framework can be used as a base by researchers to develop further the theories of foreign market entry strategies and to test its relevance in other industries or countries.

This research has also extended its examinations to some other important issues in relations to foreign direct investment in China. They are the difference between early and late entrants, and between eastern and western firms on FDI entry mode decisions, foreign pharmaceutical firms' FDI decision formulation, FDI implementation, FDI performance evaluation, joint venture partner and operation location selections in China were also analysed and discussed in this thesis. Further research with larger sample size into the interrelationships among strategic FDI decision formulation, entry mode choice, strategy implementation and evaluation would be worthwhile to help understand the entire process of strategic FDI planning and implementation.