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Abstract

China's rapid economic growth over the past several decades is now mirrored by similar rapid growth in research and development (R&D). This growth has been underpinned by economic reforms as well as by international openness to foreign trade and investments. China's "open door" policy – adopted in 1978 – has been an integral part of its economic reform, which culminated in its accession to the World Trade Organization in 2001.

The role of location today differs vastly from generation ago, although it still is fundamental to competition. During the recent decades, thinking about the influence of location on competition has been based on relatively simple views how companies compete. However, today's actual competition is far different; competition is more dynamic and rests on innovation and the search for strategic differences. Several researchers have pointed out that the competitiveness of firms is becoming increasingly dependent on their ability to establish a presence at an increasing number of locations to access new knowledge and capabilities. In an increasing number of cases, firms will invest in R&D abroad not so much to exploit their existing competitive advantages, but to gain new advantages or complementary assets which help to sustain or promote their global competitive competencies.

Recent research has shown that a few developing countries, such as China and India, are becoming increasingly attractive for foreign R&D facilities. For example, a few recent global surveys of several MNE executives have revealed that China has become the number one choice for offshore R&D locations. Another research has found that some R&D conducted in China is going beyond tactical and adaptive concerns, and is genuinely strategic and creative in nature. R&D efforts of this sort are not only involved in short-term development for the local market, but they are also engaged in long-term research for the global market and the parent companies' competitiveness in the future. Studies have also revealed that foreign R&D activities in developing countries tend to be highly concentrated in selected cities and/or regions; for instance in China, the majority of foreign funded R&D centers are concentrated in Beijing and Shanghai.

China's pharmaceutical market is forecasted to become the world's 5th largest by 2010, and even the largest by 2050. The government is not only encouraging the domestic companies, but also international pharmaceutical companies to expand their business from manufacturing to R&D. Yet, despite greater market access following China's entry into the WTO, multinational investors continue to face a range of obstacles, many of which stem from the legacy of central planning of the industry.

Key words	FDI, internationalization, R&D, China, pharmaceutical industry, bioscience, clusters, location
Further information	

