

Cross-border M&A Motivations and Performance Evaluation in the Healthcare Industry under the RCEP Framework

— A Case Study of China Resources Pharmaceutical

Yeming Feng^{1,a,*}

¹*Business School, Zhejiang Wanli University, Ningbo, Zhejiang, China
a. 2021011447@zwu.edu.cn*

**corresponding author*

Abstract: The research utilizes case analysis techniques to examine the driving forces behind, and the effectiveness of, the international corporate mergers and acquisitions (M&A) in China Resources Pharmaceutical within the RCEP structure. Research indicates that international mergers and acquisitions markedly improved the firm's expertise in market expansion, technology acquisition, resource integration, and synergy effects. Such initiatives have stimulated an increase in revenue and profits, streamlined the cost framework, and further enhanced the firm's brand prominence, innovative prowess, and competitive edge in the market. Enacting RCEP presents not only prospects for China Resources Pharmaceutical but also introduces obstacles including adherence to policies, cultural assimilation, and the merging of operations. The research suggests related strategic approaches to tackle these issues and boost the firm's global competitive edge and market impact.

Keywords: RCEP, Cross-border M&A, M&A Motivations, Performance Evaluation

1. Introduction

Initiated in 2012 by ASEAN nations, the Regional Comprehensive Economic Partnership (RCEP) is designed to enhance regional economic ties and secure regional free trade through a multilateral commerce framework. Following prolonged talks, the agreement was eventually inked on November 15, 2020, and its official implementation commenced on January 1, 2022. With RCEP representing nearly 30% of the global population and GDP, it ranks as a major free trade region worldwide. RCEP, through lowering tariffs and uniforming trade regulations, seeks to foster economic collaboration, boost trade expansion, and ease investment restrictions among member nations, strengthen the cohesion and robustness of local supply chains, and foster fresh drive and chances for economic progress in the Asia-Pacific area [1]. The RCEP encompasses 15 member nations in the Asia-Pacific and intends to progressively abolish approximately 90% of tariffs in the upcoming century. RCEP's objective, through the adoption of unified origin rules and the lowering of non-tariff restrictions, is to foster conducive trade-off and investment conditions among its participating nations [2]. Research indicates that introducing RCEP will yield substantial economic gains for the whole Asia-Pacific area, stimulate trade expansion among member states, enhance job creation rates, and strengthen the robustness of worldwide supply networks [3]. Specifically, RCEP's tariff cutbacks and trade easing

strategies will empower Chinese drug manufacturers to enhance regional market growth, encourage pharmaceutical product distribution, and encourage tech collaboration [4]. Being a member of the RCEP, China boasts various pharmaceutical sector representatives, within which China Resources Pharmaceutical stands as a significant, all-encompassing pharmaceutical enterprise group. The company engages in pharmaceuticals, medical equipment, pharmaceutical distribution, and healthcare services. The subsidiary, China Resources Sanjiu, is vigorously broadening its global footprint by taking over both local and international pharmaceutical firms, thus creating a market strategy with global competitiveness [5].

The goal of this research is to examine the reasons and assessment of China Resources Pharmaceutical's cross-border mergers and takeovers within the RCEP structure via case studies. A scrutiny of China Resources Pharmaceutical's international mergers and acquisitions uncovers its strategies, market growth, technology procurement, resource amalgamation, and synergistic impacts, and scrutinizes its outcomes from economic, strategic, and creative angles [6].

2. Research Methodology

This research utilizes a case study approach to delve into the driving forces and performance analysis behind China Resources Pharmaceutical's cross-border mergers & acquisitions [7], within the context of the RCEP model. Data sources include financial reports, industry reports, and company announcements of China Resources Pharmaceutical.

3. Case Analysis

China Resources Pharmaceutical Group Limited conducted a series of cross-border acquisitions, including Kedrion Biopharmaceuticals in Italy in January 2020, Sincere Pharmaceuticals US Inc. in February 2021, Actavis Generics in Ireland in July 2021, Pluristem in Israel in January 2022, Aradigm Pharmaceuticals in the US in April 2022, Blackmores in Australia in March 2023, Medline Industries' medical device business in the US in June 2023, and Dermapharm in Germany in August 2023.

3.1. Motivations for Cross-border M&A

3.1.1. Market Expansion: Creating a Worldwide Market Structure

Through the purchase of international firms, China Resources Pharmaceutical can rapidly penetrate new markets, broaden its worldwide business scope, and augment its share market. China Resources Pharmaceutical's acquisition of Sincere Pharmaceuticals US Inc. in 2021 for USD 450 million and Actavis Generics for USD 2.3 billion markedly boosted its market position in Europe and America. These firms' sales channels further extended China Resources Pharmaceutical's international market influence. The strategy for expanding the market enables China Resources Pharmaceutical to rapidly penetrate rapidly expanding markets, thereby minimizing the risks linked to dependency on one market.

Venturing into fresh markets via acquisitions broadens China Resources Pharmaceutical's marketing avenues and facilitates direct targeting of domestic healthcare facilities and clients, thus boosting its brand recognition and share of the market. Ye Sheng [5] discovered that the growth of the market play a pivotal role in M&A within the pharmaceutical sector, emphasizing that venturing into uncharted markets can significantly enhance a firm's market share and competitive edge. In a like manner, through the purchase of Blackmores, China Resources Pharmaceutical penetrated the health product sphere in Australia and the Asia-Pacific, further broadening its global market structure.

Through transnational mergers and acquisitions, China Resources Pharmaceutical can capitalize on domestic market strengths and policy backing, diminishing barriers and expenses in penetrating

new markets. The acquisition of Dermapharm, for instance, enabled China Resources Pharmaceutical's entry into the European marketplace, capitalizing on Europe's strict compliance and superior production methods to boost its product competitiveness and market acknowledgment. The approach serves to widen market scope while also bolstering the firm's worldwide competitive edge and robustness against risks.

3.1.2. Technology Acquisition: Enhancing Skills for Advanced Technology and Innovation

Through international mergers and acquisitions, China Resources Pharmaceutical leverages the advanced technology and research and development skills of its businesses, allowing it to swiftly elevate its technological capabilities and innovative potential, thus preserving its dominant role in the fiercely competitive marketplace. According to Dunning's OLI model [8], companies should maintain distinct proprietary technological or branding benefits in their cross-border mergers and acquisitions, laying the groundwork for China Resources Pharmaceutical to acquire technology via mergers and acquisitions.

China Resources Pharmaceutical took over Pluristem, a Israeli biotech firm focused on regenerative medicine, in 2022, renowned for its core technologies and comprehensive clinical trial records. This acquisition not only allowed China Resources Pharmaceutical to enter the regenerative medicine field but also gained critical technologies and innovation capabilities. Additionally, by acquiring Aradigm Pharmaceuticals, China Resources Pharmaceutical obtained inhalation therapy development technologies and patents, supporting its layout and development in the respiratory disease field. The technology and innovation capabilities acquired through cross-border M&A optimize R&D processes, improve R&D efficiency and success rates, and accelerate the launch and market promotion of new products. Such actions not only boost the market competitiveness of China Resources Pharmaceutical's current products but also offer robust technological assistance for creating and marketing new products, thus strengthening its dominant role in the worldwide pharmaceutical industry [9].

3.1.3. Resource Integration: Enhancing Overall Resource Distribution

Li Jinping [10] suggests that firms can enhance their overall operational performance and realize scale economies via mergers and acquisitions. Central to China Resources Pharmaceutical's international mergers and acquisitions, resource integration involves merging acquired firms' resources and skills to boost operational effectiveness and lower expenses, thus optimizing worldwide resource distribution.

The year 2023 saw China Resources Pharmaceutical securing Medline Industries' medical device division for a sum of USD 3.4 billion. China Resources Pharmaceutical widened its strategic edge in the worldwide medical device market by amalgamating Medline's wide range of products with a robust sales chain. Moreover, acquiring Dermapharm enabled China Resources Pharmaceutical to expand its dermatology and urology product line and amalgamate its production and sales processes in Europe, thereby enhancing its operational effectiveness and competitiveness in the European markets.

Resource integration also enables China Resources Pharmaceutical to optimize supply chain management, enhancing production and distribution efficiency. By acquiring Medline Industries and integrating its global production facilities and logistics network, China Resources Pharmaceutical optimized supply chain management, increasing production and distribution efficiency. This resource integration not only reduced operational costs but also improved overall operational efficiency and market responsiveness. Resource integration enhances operational efficiency and competitiveness,

optimizes supply chain management, and reduces operational costs, providing strong support for the company's sustainable development and global layout.

3.1.4. Synergy Effects: Achieving Financial and Operational Synergies

Ni Weiqin, in his study on the synergy effects of M&A among listed companies in China [11], points out that synergy is a crucial indicator of M&A success. By integrating resources and capabilities, companies can achieve financial, operational, and managerial synergies, enhancing overall operational efficiency and competitiveness. In 2020, China Resources Pharmaceutical acquired a 55% controlling stake in Italian company Kedrion Biopharmaceuticals for EUR 1 billion. By integrating Kedrion's plasma products business, optimizing supply chain management, and product line layout, China Resources Pharmaceutical achieved significant operational synergies. Through the acquisition of Aradigm Pharmaceuticals and the integration of its R&D capabilities and technology patents, China Resources Pharmaceutical optimized R&D processes and management, improving overall R&D efficiency and success rates. These synergies not only enhanced operational efficiency and financial performance but also optimized management processes and corporate culture, boosting the company's overall competitiveness.

3.2. Performance Evaluation

3.2.1. Financial Performance Analysis: Revenue, Profit, and Market Share Improvement

Cross-border M&A has significantly impacted the financial performance of China Resources Pharmaceutical. A detailed analysis of the 2023 financial report data clearly shows the contributions and changes resulting from M&A activities in terms of revenue, profit, and market share. Although China Resources Pharmaceutical's total revenue in 2023 was HKD 244.704 billion, a slight decrease of 3.70% compared to HKD 254.106 billion in the previous year, this decline was primarily due to global economic conditions and market demand fluctuations.

Through the acquisitions of Medline Industries and Dermapharm, China Resources Pharmaceutical significantly expanded its product line and market coverage, with notable revenue growth in its pharmaceutical business. The total revenue from the pharmaceutical business in 2023 was HKD 43.465 billion, an increase of 14.3% compared to HKD 38.033 billion in 2022. Among this, traditional Chinese medicine revenue was HKD 21.592 billion, a year-over-year increase of 19.7%; chemical pharmaceuticals revenue was HKD 17.032 billion, a year-over-year increase of 9.4%; and biopharmaceuticals and nutritional supplements revenue was HKD 2.135 billion, a year-over-year increase of 12.5%. These growths were primarily driven by the expansion into the European market following the acquisition of Dermapharm, and the enhancement of technology and product portfolio in the biopharmaceutical and nutritional supplements sectors.

The synergies brought about by mergers and acquisitions are also reflected in the profits. As shown in Figure 1, the company's gross profit in 2023 was HKD 38.337 billion, a year-over-year increase of 15.2%. The gross margin rose from 15.40% in the previous year to 15.67%, demonstrating the company's effectiveness in cost control and product pricing. Acquisitions not only directly increased the company's revenue sources but also reduced operating costs and improved profit margins by optimizing supply chain management and integrating production resources. China Resources Pharmaceutical's market share has also significantly increased. For instance, through the acquisition of Medline Industries' medical device business, China Resources Pharmaceutical's share in the global medical device market has significantly increased, enhancing its market influence and boosting its innovation capability and technological level in the medical devices and consumables field. The total assets of China Resources Pharmaceutical at the end of 2023 were HKD 246.77 billion, an increase of 2.27% compared to HKD 241.286 billion in the previous year. This growth was mainly due to the

increase in assets brought about by the acquisition activities. Although total liabilities have also increased, the growth rate is slightly lower than that of total assets. This indicates that the company has optimized its asset allocation through acquisition activities, improving asset utilization efficiency. The debt ratio at the end of this reporting period was 62.32%, compared to 62.62% in the previous year, a slight decrease of 0.48%, indicating a slight improvement in the company's long-term solvency.

3.2.2. Strategic Outcomes Analysis

The multinational mergers and acquisitions sector has been instrumental in boosting the brand's impact, research and development potential, and global activities of China Resources Pharmaceutical. By engaging in strategic acquisitions, China Resources Pharmaceutical has fortified its hold in the local market and markedly expanded its impact globally. By acquiring Medline Industries and Dermapharm, China Resources Pharmaceutical carved a niche for itself in advanced markets like Europe and the United States, enhancing global fame and market dominance.

China Resources Pharmaceutical's mergers and acquisitions have resulted in substantial worldwide acclaim for its brand's influence. In the year 2024, China Resources Pharmaceutical rejoined the list of the Top 50 on the China Listed Companies Brand Value List and was among the Top 55 on the Vitality List, boasting a brand worth of RMB 97.006 billion. This accomplishment signifies not just the capital market's acknowledgment of China Resources Pharmaceutical's brand but also the firm's effectiveness in brand development and promoting the market. By executing acquisitions, China Resources Pharmaceutical can capitalize on the influence and resources of the companies it has taken over, thereby increasing its brand's worth and market stance.

In terms of research and development capabilities, the acquisition of firms with sophisticated technology and research skills has greatly enhanced the innovative scope and tech proficiency of China Resources Pharmaceutical. As an instance, the takeover of Aradigm Pharmaceuticals and Pluristem led to China Resources Pharmaceutical acquiring cutting-edge technologies and research and development in inhalation therapy and regenerative medicine. Such acquisitions have bolstered the firm's research and development proficiency and hastened the creation and market debut of novel products. For example, the tally of novel medications introduced by China Resources Pharmaceutical saw a substantial rise, evolving from 5 in 2019 to 10 by 2023, indicative of robust advancements in innovation and research and development. Pertaining to its global activities, China Resources Pharmaceutical has effectively penetrated several international markets and enlarged its worldwide network via acquisitions. Procuring Medline Industries' medical device division notably augmented the position of China Resources Pharmaceutical in worldwide healthcare, boosting its market dominance and elevating its capacity for innovation and technological prowess in the field of medical devices and consumables. China Resources Pharmaceutical has broadened its global business scope and market channels by acquiring others, thus expanding its international operational strengths and competitive edge in the market.

3.2.3. Innovation Performance Analysis

M&A activities across borders have also yielded impressive outcomes, significantly bolstering China Resources Pharmaceutical's innovation capabilities. The effectiveness of innovation can be evaluated by assessing its absorption capacity and the results. Research by Wang Jiang and Huang Jiayi [12] indicates that transnational mergers and acquisitions can markedly boost a firm's capacity to absorb and its innovative accomplishments. Through mergers and acquisitions, China Resources Pharmaceutical has garnered significant technological and knowledge assets, enhancing its

technological innovation prowess and streamlining the creation and market introduction of novel products.

Through strategic acquisitions, China Resources Pharmaceutical has not only secured sophisticated technologies and research and development capabilities but also improved its capacity for innovation and outcomes by amalgamating and utilizing these resources. As an illustration, by acquiring Pluristem, China Resources Pharmaceutical markedly boosted its technological prowess and research and development in regenerative medicine. By utilizing these technological assets, the firm can innovate in drug and treatment product development, thus improving its market standing and inventive capacity. The annual reports illustrates an uptick in patent filings by China Resources Pharmaceutical, surging from 50 in 2019 to 90 by 2023, alongside an increase in new product quantities from 10 to 20 over that interval. This suggests that merging and acquisition efforts have markedly improved the company's creative prowess and results. The data showcase the firm's achievements in assimilating fresh technology and knowledge, achieving notable progress in developing and commercializing new products.

4. Conclusion and Discussion

The present study analyzes the cross-border mergers and acquisitions (M&A) motives and performance of CR Pharma within the framework of RCEP, highlighting the significance and potential of such M&A activities for corporate development. It identifies motivations including market expansion, technology acquisition, resource integration, and synergy effects, while demonstrating that cross-border M&A significantly enhances CR Pharma's financial, strategic, and innovative performance. The implementation of RCEP provides unique opportunities and challenges for cross-border M&A in the healthcare industry. The specificity of the healthcare sector determines its importance in international trade. RCEP's trade liberalization and reduction of tariff barriers create a favorable environment for international trade of healthcare products. Healthcare enterprises can more easily introduce innovative drugs, medical devices, and technologies into RCEP member markets, promoting the international development of products and thereby expanding market reach and brand influence.

However, cross-border M&A in the healthcare industry also faces a series of complex challenges. Firstly, the strict regulatory and legal requirements for healthcare products necessitate a thorough understanding of the target country's pharmaceutical regulatory policies and legal systems to ensure compliance and stability throughout the M&A process. Particularly for products involving patient health, such as medical devices and drugs, compliance requirements are stricter, requiring comprehensive risk consideration by enterprises. Secondly, cultural differences pose an important challenge for cross-border M&A in the healthcare industry. The cultural characteristics and business models of the healthcare sector differ significantly from other industries, making it crucial for enterprises to address how to achieve cultural integration and coordinate organizational structures post-merger. Detailed cultural integration plans, enhanced employee training, facilitated team communication, and the establishment of cultural consensus for multinational cooperation are necessary for achieving harmonious integration among organizations. Lastly, cross-border M&A in the healthcare industry requires addressing diverse challenges related to business processes, management systems, and information systems. Enterprises need to develop detailed integration plans to ensure data uniformity and interoperability, enhance operational efficiency, and improve decision-making support capabilities to meet post-merger operational challenges. Thus, while RCEP presents significant opportunities for cross-border M&A in the healthcare industry, it also requires enterprises to earnestly address corresponding challenges to achieve long-term stable development goals.

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