# China Foreign Direct Investment: Greenfield, Mergers & Acquisition, Or Joint-Venture

JT Norris, Jr., University of the Incarnate Word, USA

**ABSTRACT**

*Foreign investment in China is once again beginning to grow as the economy sees signs of recovery. Companies looking to establish a presence in mainland China, have three options to evaluate and choose between 1) entering into a joint-venture, 2) acquiring an existing company, or3) developing an organization via Green Field development. This paper delves deeper into these three options, outlining the benefits and pitfalls of each approach. The purpose is to provide the reader with a general overview of investment vehicles available in China and to guide the business professional in a course of action, including the social impact of these options.*

**Keywords:** China; Greenfield; Joint-Venture; acquisition; direct investment

## INTRODUCTION

The number of motives to enter into foreign direct investment can include access to new markets or resources, such as the acquisition of a strategic asset or technology. In short, an opportunity is identified outside of the home country. The decision, then, is two-fold:

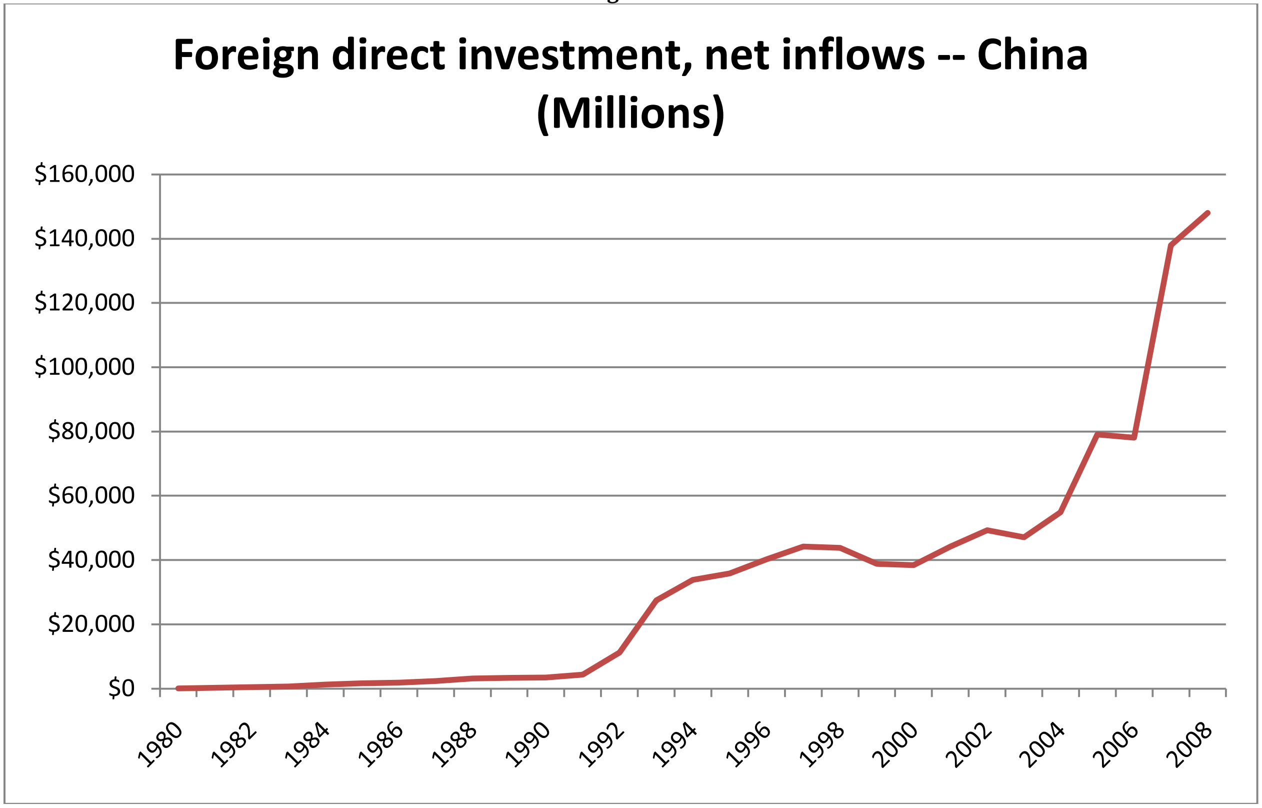
1. Choice among the Relevant Alternatives: To gain access to foreign markets, a firm can use FDI, exports or patent licenses. To profit from the low cost of foreign labor, companies can use FDI or outsourcing.
2. Location Choice: Once the decision to embark upon FDI is made, the selection of the host country is then required (Franco, Rentocchini, & Marzetti, 2010).

With promising signs being announced each month, there is optimism that the global recession is beginning to recover. Providing that these indicators continue to improve, organizations are once again looking toward China to expand their businesses, both as a market for products and services and as a region that is rich in resources and inexpensive labor. Once the decision is made to move into China, the research must then turn to the type of investment to make. Should the company's first forays into this massive marketplace be in partnership with another established and experienced entity? Does the best available option rest in the long-term lease of undeveloped land and the building of a state-of-the-art facility? Lastly, could the research and analysis lead the firm to simply purchase out-right an existing compound and begin production immediately?

Within each of these three paths are various benefits to be gained, as well as numerous dangers and threats to be reckoned with. In order of risk, the Joint-Venture logically should be the least level of exposure; but, a lack of due diligence could leave the company liable for a multitude of misdoings on the part of the Chinese partner that may perhaps spread beyond the borders of the Peoples' Republic and affect the business back home.

Any new expansion should be well researched and analyzed. This is especially true of a contemplated expansion into a culture as different as that of China. With its often conflicting regulations and a judicial system that is just beginning to develop, it is only the careful and prudent management team that will be able to successfully exploit the economic value that is available within the PRC. Foreign direct investment in China has reached $148 billion in 2008, a meteoric rise over the past 20 years (Figure 1). Organizations that have not yet established a presence in mainland China should all be undertaking serious research into making such an investment now that the global economy is on the mend.

**Figure 1**




Source: World Bank, World Development Indicators

## CHINA'S BUSINESS OUTLOOK

In a survey by AT Kearney, a consulting firm headquartered in Chicago, IL, found that 32% of senior-executives of the largest global conglomerates were more optimistic on China than they were in 2009, higher than that of the US (China economy: Hands-on Guidance, 2010). Economic growth in 2009 spurred by the governments two-year $588 billion stimulus package, was an enviable 8.7%, exceeding the target set by Beijing of 8%.

The first two decades of China's embrace of economic reforms experienced a massive influx of large-scale investments and joint ventures (Straszheim, 2008). This initial rush has evolved into a phase of consolidations and strategic linkages. The primary areas of foreign investor grievances are in intellectual property protection, and business concerns have changed course away from irregularities in government practices to more mainstream issues such as the increase cost of labor and competition from other firms (Anonymous, 2010).

China's runaway real estate market is beginning to be reined in, with measures announced in May 2010 that allow banks to discontinue issuing mortgages to home buyers that already own two or more properties and increasing the minimum down payment on a second home to 50%. All of this is in response to the overall average real estate price in China increasing by 9.1 percent in 2009. Shanghai experienced a 42.4 percent rise in housing prices. Any potential bursting of property prices will result in mass defaults and declining sales, which could affect the ability of local governments to repay loans (Yu, 2010).

One of the many side effects (Yu, 2010) of the China stimulus plan is the increased liquidity of domestic investors. Two short years ago, there was a shortage of capital within China that created reliance upon foreign investors to provide equity for development projects. With the stimulus package, foreign investors now have to offer special expertise in order to find attractive projects (Fleming, 2010). For "high and new technology enterprises" the government has implemented a series of tax law changes to stimulate growth. For qualified companies, the tax rate has been reduced from 25% to only 15%. Those same qualifying entities that develop in one of China's special economic zones located in the Pudong New Area of Shanghai will receive a two-year tax holiday and a third year at a 12.5% tax rate. Additionally, they will be able to deduct 150% of qualified R&D expenses for an as yet undisclosed period of time (Fuller, 2009).

China's buffering of the global financial crisis was only partially the result of stimulus and tax law changes. Their macroeconomic policy attributed greatly to the 8.7% growth experienced in 2009. Monetary policy steps taken by the People's Bank of China (the central bank) in early September 2008 shifted from controlling inflation to increasing growth. The reserve ratios were lowered four times dramatically expanding the money supply (as shown in Table 1). This, combined with the expansionary fiscal policy of the four billion RMB (Table 2), effectively raised the GDP growth rate (Mingqi, 2010, p. 126).

While these efforts have maintained growth, exports have continued to drop since November 2009. This is exasperating the unemployment issue, historically; China creates one million jobs for every percent of growth. Each year, 8-9 million graduates join the urban work force, so any dip below the current 8 percent growth rate will result in unacceptable levels of unemployment (Mingqi, p. 133).

China's prospects for the next few years remain strong; their economy is still in the development stage and the demand for industrialization is high. They are developing their country in a ladder-like structure, beginning with the east as the greatest level of development, followed by the developing of the central region, and now the west under new development. As industries become unsuitable for the mature east, they can shift to the central and western areas of the country, thus prolonging the competitiveness of manufacturing industries (Mingqi, p. 140).

**TABLE 1**
**ADJUSTMENT OF RESERVE RATIOS BY PEOPLE'S BANK OF CHINA SINCE JANUARY 2008**

| Date of adjustment | Reserve requirement before adjustment % | Reserve requirement after adjustment % | Difference (Percentage points) |
|---|---|---|---|
| January 25, 2008 | 14.5 | 15 | 0.5 |
| March 18, 2008 | 15 | 15.5 | 0.5 |
| April 25, 2008 | 15.5 | 16 | 0.5 |
| May 20, 2008 | 16 | 16.5 | 0.5 |
| June 7, 2008 | 16.5 | 17.5 | 1 |
| September 25, 2008 | Big institutions 17.5 | 17.5 | 0 |
| | S/M institutions 17.5 | 16.5 | -1 |
| October 15, 2008 | Big institutions 17.5 | 17 | -0.5 |
| | S/M institutions 16.5 | 16 | -0.5 |
| December 5, 2008 | Big institutions 17 | 16 | -1 |
| | S/M institutions 16 | 14 | -2 |
| December 25, 2008 | Big institutions 16 | 15.5 | -0.5 |
| | S/M institutions 14 | 13.5 | -0.5 |
| January 12, 2010 | Big institutions 15.5 | 16 | 0.5 |
| | S/M institutions 13.5 | 13.5 | 0.0 |

Source: People's Bank of China, www.pbc.gov.cn.

**TABLE 2**
**COMPONENTS OF THE RMB 4 TRILLION CENTRAL GOVERNMENT BUDGET**

| Area for fiscal spending | Amount allocated (billion RMB) | Ratio out of the total RMB 4 trillion budget (%) |
|---|---|---|
| Housing allowance and improvement for poverty-stricken families | 400 | 10.00 |
| Rural infrastructure improvement | 370 | 9.25 |
| Railway, highway, airport, irrigation, power, and other infrastructure constructions | 1,500 | 37.50 |
| Medical care, education, cultural, *etc.* | 150 | 3.75 |
| Energy conservation, emission reduction, and eco-engineering | 210 | 5.25 |
| Technology innovation and structural adjustment | 370 | 9.25 |
| Reconstruction for disaster areas | 1,000 | 25.00 |

Source: China National Development and Reform Commission: http://www.sdpc.gov.cn/.

Another researcher that is bullish on China is Jim O'Neill, head of global economic research for Goldman Sachs International. He points to Chinese retail sales that are experiencing 15-18 percent annual growth, which is equal to $300 billion per year. In the past nine years, China's overall GDP has ballooned by $3 trillion - twice the GDP of France or the UK. In the eight years to come, the Chinese will create another Japan (Can china become the world's engine for growth?, 2010, p. 13).

Allen Sinai, the chief global economist and strategist for Decision Economics, points to three areas that China can drive global growth:

1. "Trade flows - enhanced and increased for all countries who are major exporters to China, particularly Japan and South Korea - the second and fifteenth largest economies in the world. Increased Chinese economic growth means increased exports for these countries, then increased exports for most all other Asian economies.
2. Commodities prices and commodity-export countries - Rising commodities prices, particularly industrial, agriculture, and crude oil, increase the nominal exports of commodity-producing export economies; in many instances, developing countries.
3. Financial markets - Increased economic growth and earnings spell higher stock prices; in turn, a stimulus to private sector spending, more or less depending on the country (Can China become the world's engine for growth?, 2010, p. 31).

Additionally, China is shoring up support for the renminbi in furthering its acceptance as an international currency. Since the introduction of the euro in 1999, three currencies" - the US dollar, euro and the yen - have dominated the international monetary system. For the Chinese renminbi to ascend to that list, three factors need to be in place:

1. Medium of exchange – The currency must be widely used for international trade transactions.
2. Unit of account – There needs to be extensive use in denominating international financial transactions. Of global foreign exchange turnover, 43.2% is by the US dollar, followed by 18.5% by the euro and 8.3% by the yen. The renminbi currently is used for only 0.24%.

3. Store of value – A strong demand by worldwide central banks as a key component of their official foreign exchange reserves. In 2008, this was shared by the US dollar at 64%; yen at 3% and the euro at 27% (Wu, Rongfang, & Di, 2010).

Holding China back in this quest is a relatively unbalanced economy, underdeveloped capital markets, the currency's lack of convertibility, and monetary stability (Wu, Rongfang, & Di, 2010, p. 177).

However, not all analysts paint a positive outlook for China. During the first eight months of 2009, China's financial institutions lent $1.2 trillion in new loans, up 164 percent over the same period in 2008. Their credit-to-GDP has risen to 140 percent, equal to Japan in 1991 and the US in 2008, right before their market meltdowns. All of these loans led Liu Mingkang, China's top banking regulator, to release a written statement: "This year, all kinds of risks have arisen in the banking sector, along with the rapid credit expansion" (Delfeld, 2009, p. 31).

The US-China Business Council (USCBC) is fielding concerns from its membership on issues, such as Google's talks of leaving China, to the continuing undervaluing of the renminbi, and recent policies enacted on procurement and domestic innovation. This has resulted in long-time China observers to declare that this is "the worst business climate ever." (Frisbie, 2010, p. 9)

In summary, despite some naysayers, China should be able to maintain its role as the globe's fastest-expanding major economy (Floyd, 2009). This will entail the central policy makers slowly shifting away from spurring growth to preventing inflation and addressing asset bubbles (Back, 2010).

**GREENFIELD**

Entering China's complex landscape with a "Greenfield" investment is the path with the greatest risks and rewards. Many of the largest global corporations have created an entry into China through the leasing of land, (currently no foreigner can own land in China) formally used as farm land, and then constructed state-of-the-art manufacturing facilities. The manufacturing efficiencies that come with a newly designed and constructed facility are the primary drivers for such an investment option. Annually 2 to 3 million farmers are displaced through land acquisition by local governments that then lease the land for industrial use (Liu, Tao, Yuan, & Cao, 2008, p. 314).

Local governments have historically leased prepared 'site-clearing' style land for 30 years at nominal prices. In a developed province on the Yangtze River Delta – Zhejiang, the average leasing price was less than 1.3 million Yuan per hectare over the life of the lease or less than $2,700 per acre per year (Liu, Tao, Yuan, & Cao, 2008, p. 317). This land is normally within a development zone with basic infrastructure, including water, electricity and roads. By 2008, there were 2,862 county-level development zones located in China.

To understand the scale of these land developments, examine the details of Guangdong Province, located on China's southeastern coast near Hong Kong. Guangdong ranks third in total population within China's 31 provinces, autonomous regions, and special municipalities. However, this single province ranks first in gross domestic products, exports and utilized foreign capital investment. Table 3 lists some of the important economic indicators (Lin, 2009, p. 432).

These figures indicate that Guangdong is a regional economy with a vast exposure to the effects of global market forces. Due in part to their southern location, Guangdong is the province connected to Beijing's socialist economy, as well as the most highly connected to the outside capitalist world. The majority of immigrants to Hong Kong and to the United States have, for over 150 years, been from Guangdong. This accessibility has allowed the Cantonese greater knowledge of modern managerial skills, information concerning global markets, advanced technological know-how, and external capital markets (Lin, 2009, p. 436).

Increases in land use within Guangdong have risen 19 percent from 1996 to 2004, the last year data is available. This conversion has, in recent years, been followed by peasant resentment and protest. These demonstrations have occasionally led to full riots. This practice of regional development has primarily benefited the powerful, while depriving the poor and powerless the basic means of earning a living (Lin, 2009, p. 442).

Table 3. Guangdong Province in the Chinese national economy, 2005

| Unit | | Guangdong Province | China | Guangdong Province as a percentage of China |
|---|---|---|---|---|
| Total population | Millions of people | 91.94 | 1,307.56 | 7.03% |
| Urban population | Millions of people | 55.73 | 562.12 | 9.91% |
| Migrant population (year 2000) | Millions of people | 25.30 | 144.39 | 17.52% |
| Land area | Hectares, millions | 17.98 | 960.00 | 1.87% |
| Gross domestic product | Yuan, billions | 2,236.65 | 18 232.10 | 12.27% |
| Total imports | US$, billions | 189.83 | 659.95 | 28.76% |
| Total exports | US$, billions | 238.17 | 761.95 | 31.26% |
| Utilized foreign capital | US$, billions | 15.17 | 63.81 | 23.78% |
| Utilized foreign direct investment | US$, billions | 12.36 | 60.33 | 20.50% |

Sources: GUANGDONG STATISTICAL BUREAU (2006), pp. 70-71; POPULATION CENSUS OFFICE,STATE COUNCIL (2002), p. 14.

The author's own in-laws are facing the forceful annexation of their entire village for the planned construction of a regional rail station to complement the newly opened Guangdong International Airport. The expected compensation is rumored to be an urban apartment equal in size to the square meter footprint of the ancestral home. This dwelling currently consists of three floors of living space with five bedrooms and one bath. The resultant apartment will most likely be a one bedroom, one bath as the existing formula will not take into account any of the upper floors. The extended family of four daughters - three married, two with a single male offspring - will be unable to gather at the parents' home for important Chinese festivals once relocation is accomplished.

## MERGERS AND ACQUISITIONS

According to some researchers, Mergers and Acquisitions (M&A) have "become by far the single biggest means of integrating the world's economies" (Zou & Simpson, 2008, p. 491); they accounted for over 80 percent of the foreign direct investment (FDI) flows in 1999. By 2005, that number had exceeded US$716 billion, an increase of almost 88 percent from the previous year. M&A activity in China has gone from US$8 million in 1990 to a record US$11.7 billion by 2006 (Zou & Simpson, 2008, p. 492).

Foreign acquisition activity for the past two decades lagged a distant third behind Greenfield and joint-venture investments. This is beginning to change with M&A increasingly becoming a significant percentage of all FDI inflows in China. Table 4 outlines this dramatic change over the 16-year period from 1990 to 2005.

Over this same period, China has taken various steps to liberalize cross-border M&A, which include:

- Relaxation of foreign ownership restrictions
- Increased regulatory transparency
- Adoption of standard and transparent merger notification procedures
- Improvement of corporate governance
- Opening of capital markets to foreign investor participation (Lin, 2009, p. 494)

Post-China's acceptance into the WTO, service industries, such as the telecommunication and financial service sectors have now been open since 2007 to foreign investment. Alcatel was one of the first players in this new marketplace with their merger of Shanghai Bell. Advanced technologies are another area that is experiencing increased interest with 400 of the largest 500 multinational companies establishing R&D centers in China (Zou & Simpson, 2008, p. 495).

Table 4. Proportion of foreign acquisitions out of FDI in China

| Year | Cross-border M&As in China (US$ million) | FDI inflows in China (US$ million) | Percentage (%) |
|---|---|---|---|
| 1990 | 8.0 | 3,487.0 | 0.23% |
| 1991 | 124.8 | 4,366.0 | 2.86% |
| 1992 | 221.1 | 11,008.0 | 2.01% |
| 1993 | 561.2 | 27,515.0 | 2.04% |
| 1994 | 714.9 | 33,767.0 | 2.12% |
| 1995 | 402.8 | 37,521.0 | 1.07% |
| 1996 | 1,905.5 | 41,726.0 | 4.57% |
| 1997 | 1,855.6 | 45,257.0 | 4.10% |
| 1998 | 797.8 | 45,463.0 | 1.75% |
| 1999 | 2,395.0 | 40,319.0 | 5.94% |
| 2000 | 2,247.0 | 40,715.0 | 5.52% |
| 2001 | 2,324.6 | 46,878.0 | 4.96% |
| 2002 | 2,072.4 | 52,743.0 | 3.93% |
| 2003 | 3,820.1 | 53,505.0 | 7.14% |
| 2004 | 6,768.4 | 60,630.0 | 11.16% |
| 2005 | 8,253.0 | 60,300.0 * | 13.69% |

Note: *Data on FDI inflows in 2005 did not include FDI in financial services, based on the Ministry of Commence report. The data in 2005, as in previous years, is on a gross basis (recording only credit transactions) for the non-financial sector.
Source: UNCTAD (2006)
(Zou & Simpson, 2008, p. 493)

The areas of variables to be examined in determining an attractive M&A candidate are:

- Market Size – A significant share of the local market allows foreign firms an avenue to seek and exploit resources. Foreign forms often lack legitimacy or access to local resources, by acquiring a local firm they can reduce operating uncertainty. This option additionally removes the need to establish new distribution and supply chain networks.
- Market Growth – Often the higher foreign acquisitions are within industries with low average annual growth brought on by a deficiency in effective management capabilities within the domestic firms.
- Industrial Profitability – Profit-seeking companies express higher interest in prospective firms that are highly profitable. Mergers are a mechanism that assists industries to grow and restructure; therefore, less productive managers will find it attractive to sell their entities to those that are more productive.
- Industry Competition – Firms can purchase market share through acquisitions in overseas markets. By acquiring an appropriate target, foreign companies can gain existing brands, products, supply and sales abilities owned by the domestic firms.
- Technological Intensity – International acquisitions occur more frequently in R&D intensive industries. Foreign firms can enter an emerging market and utilize their R&D superiority to establish monopoly power. Through the transference of innovative information and capabilities, foreign partners can establish market position and gain synergies.
- Deregulation – Since China's ascension into the WTO, a series of industry sectors have been opened up to foreign investors. This has presented a number of opportunities to improve industry competencies and efficiency in industries previously monopolized by state-owned enterprises (Zou & Simpson, 2008).

**JOINT VENTURES**

Even today there are a number of industry sectors that require a Chinese partner. Other reasons for selecting a JV include many of the same motivators that drive M&A activity:

1. A Chinese partner's existing facilities and workforce – are they a match for your products?
2. Regional market capabilities – a JV partner can guide firms in developing sales and market penetration. This expertise can be utilized for a period of time and then gradually the local partner can be bought out.
3. Existing brand awareness – you can avoid having to build a market on your own by piggy-backing on a respected Chinese brand name.

The issues confronting any due diligence team are varied within the Chinese marketplace. Even suppliers that you have conducted business with for years require a more detailed examination. One possible reason is that an entity with foreign ownership will attracts a higher level of official scrutiny. Once a foreign investor is in the mix, a wealth of legal, administrative or operational violations that a solely-owned Chinese firm may have been able to survive with, will most likely be not be tolerated by the local authorities (Devonshire-Ellis & Hoffman, 2010). The areas of legal due diligence to be reviewed include:

- Business Licensing – Does the target company have all of the necessary operational licenses in place and are they transferable to the joint venture? All business licenses in China require renewal. If your potential business partner has one that will expire in 12 months and you are entering into a 20-year joint venture, you must assess the risk factors within this renewal process. Is the license issued to the same name as the individual that you are dealing with, and if not, why?
- Corporate Structure – Are all of the assets, resources and facilities that you are pursuing in fact within the single Chinese business? If not, bring into the JV all of the necessary companies to insure that you have control of the entire process.
- Land Use Rights – Within China there are two types of land use rights – Granted and Allocated. Granted rights is the same as owning the land, allowing you the right to use it. Ensure that your partner has these rights through independent confirmation at the local land bureau. Common in rural areas are land held by a "village collective" – under these circumstances the head of the collective must approve the transfer of rights. Allocated rights do not demand a premium at sale.
- Pollution – Any land that has been utilized for industrial purposes needs to have core samples taken and tested outside mainland China. There are labs in Hong Kong that can process these. The majority of industrial land in China is polluted and local governments are starting to assess pollution damage to the current owners of the land.
- Access and Utility Rights – Does the property have access rights to major roads? Are the electricity and water meters used exclusively by the JV? If not, the partnership can be overcharged for utilities.
- IP – Any IP that you have been using in a supplier relationship needs to be retained under your ownership. Suppliers have, in the past, registered your own brand in China and then refused to return it at the end of the relationship.
- Valuations – Appraisals can be questionable in China. Firms such as American Appraisal, or most of the major real estate firms operating in China, have valuation departments and utilize internationally accepted standards in performing the work.
- Background Checks – Know who it is you are doing business with. There can be political and legal ramifications to entering into an agreement with unsavory partners. There are low-key investigation agencies in China that can compile a dossier on identities, backgrounds and any prior legal problems. Public record offices that are a source of information here in the US do not exist in China (Devonshire-Ellis & Hoffman, 2010).

Financial due diligence must be carried out through field investigations. There are no publicly available record systems that allow examination of reported accounts. Tax avoidance in China is commonplace as the tax bureau is inefficient at collection. Foreign investors are subjected to far greater scrutiny than domestic Chinese companies; therefore, great care needs to be exercised before entering into a JV. The areas of financial due diligence to be reviewed include:

- Accounts – Most Chinese maintain two sets of books, primarily for the purposes of tax avoidance. Gaining access to the full set of accounts will be met with reluctance; however they must be obtained in order to ascertain risk and management standards.
- Overheads – Are overheads stated correctly? Is there any related party transaction that may inflate these allocations? Are all staff liabilities properly accrued?
- Related party transactions – Cross check the cost of critical materials and services against market norms to insure that a related party has not been inserted into the purchase chain.
- Staff liabilities – All HR payments must be verified. It is common practice in China to not pay the mandatory walfare.
- Receivables – Look for related third-party transactions. Are there inventory transfers without supporting invoices used to avoid the payment of VAT?
- Company bank accounts – There may be company funds residing in private accounts for tax avoidance purposes. Search for sales/stock discrepancies to track down any off-balance sheet accounts.
- Sales – Verify that the prices charged are sustainable, that transactions have not been inflated, and look for any related party transactions. Run a few random checks with customers to verify purchases.
- Audit – What is the extent of the double bookkeeping? What potential liability exists, including fines, if the tax bureau uncovers the underreporting? (Devonshire-Ellis & Hoffman, 2010)

The establishment of a successful JV in China is a blending of culture, law, financing and common sense. Most of the criticisms toward joint ventures are directed at the perceived unlevel playing field and a largely irrational distrust towards the Chinese. However, there are many JVs throughout China that provide profit for both the local and the foreign investor.

## DISSOLUTION OF FDI AND REMOVAL OF INVESTED CAPITAL

What avenues are available to an investor that decides to extract their money from China? China's foreign investment regime has enacted a number of restrictions and limitations on foreign investors' rights to reduce investment capital. The State Administration of Foreign Exchange (SAFE) must approve any removal of foreign investment capital (Lock & Karen, 2009).

Under China's Company Law, the steps required to reduce registered capital are:

- preparation of a balance sheet and a checklist of all assets
- notification of all creditors and publication of an announcement in a newspaper

The reduction of capital may not be less than the minimum registered capital required by law. Joint-ventures are different. A foreign partner can withdraw capital only if:

- all fixed assets of the CJV are transferred free of charge to the Chinese partner at the expiration of the term of the CJV
- the CJV undertakes to pay debts in priority to early withdrawals of capital
- the foreign partner seeking early recovery of its investment undertakes to assume joint and several liabilities for the debts owed by the CJV within the scope of the early withdrawal of capital
- the foreign partner seeking early recovery has fully paid its capital to the CJV
- the CJV will continue to have sound operational and financial standing following the early withdrawal of capital (Lock & Karen, 2009).

Lastly, the dissolution of a solvent foreign investment enterprise (FIE) requires:

- its term of operation has expired
- an event of dissolution is specified in its articles of association and that event occurs
- the shareholders resolve to dissolve the FIE
- dissolution is necessary as a result of a merger or division of the FIE

- its business license is revoked or it is ordered to close down according to law
- it is unable to continue operations due to serious losses, including serious losses arising from a force majeure event , such as a natural disaster or war
- any other event has occurred that triggers dissolution under the FIE's joint venture contract or articles of association
- Shareholders representing at least 10% of the voting rights of all shareholders petition the court for dissolution on account of serious management and operational difficulties that cannot be resolved and will cause serious losses.

## CONCLUSIONS

In the 50 years that the Chinese Communist Party has controlled China, there have been periods of intense turmoil experienced during the Cultural Revolution to unprecedented growth experienced since the Reform Era. In those five decades China has had five constitutions, including revisions incorporated in 1988, 1993 and 1999. All of these extensive political, social and economic changes can be daunting to potential foreign investors (Droege, Lane, & Spiller, 2009).

China has clearly embraced a market economy, but there still exists various ambiguities that contrast with this evolution. One area is property ownership. A key aspect of a market economy is increased levels of privatized property ownership. While use rights can now be legally leased and transferred, for all intensive purposes, land remains under state control in China (Droege, Lane, & Spiller, 2009, p. 5).

China has undertaken impressive strides to enact laws and regulations that encourage responsible business conduct. There are new policies and laws in environmental protection. Labor laws, such as the recently enacted Labor Contract Law, have been passed. There are now anti-monopoly laws and China's first property right law. All of this is fueling FDI inflows (China's investment policy, 2009).

## AUTHOR INFORMATION

**JT Norris, Jr.**, was educated at Virginia Tech and has held positions that began with Peat, Marwick, Mitchell & Co., which led to 25 years within the aerospace industry as a Assistant Controller, Controller, Director of Finance and Chief Financial Officer. A sabbatical from Corporate America sent him to China for three years teaching for the University of the Incarnate Word at their campus located in Guangzhou. He now teaches full-time on their main campus in San Antonio, Texas.

## REFERENCES

1. Back, A. (2010, May 7). Economists see china growth peaking. *Wall Street Journal (Online),* Retrieved from http://proquest.umi.com.library.capella.edu/pqdweb?did=2029184221&Fmt=7&clientId=62763&RQT=309&VName=PQD
2. Can china become the world's engine for growth? (2010). *The International Economy, 24*(1), 8. Retrieved from http://proquest.umi.com.library.capella.edu/pqdweb?did=1996763721&Fmt=7&clientId=62763&RQT=309&VName=PQD
3. China economy: Hands-on guidance. (2010). *EIU ViewsWire,* Retrieved from http://proquest.umi.com.library.capella.edu/pqdweb?did=2029703521&Fmt=7&clientId=62763&RQT=309&VName=PQD
4. China's investment policy. (2009). *OECD Observer,* (272), 33-33. Retrieved from http://ezproxy.library.capella.edu/login?url=http://search.ebscohost.com/login.aspx?direct=true&db=bth&AN=43220189&site=ehost-live&scope=site
5. Delfeld, C. (2009). The coming china crisis. *International Economy, 23*(4), 30-53. Retrieved from http://ezproxy.library.capella.edu/login?url=http://search.ebscohost.com/login.aspx?direct=true&db=bth&AN=47597903&site=ehost-live&scope=site

6. Devonshire-Ellis, C., & Hoffman, R. (2010). *China joint ventures as strategic investment.* Retrieved 5/22/2010, 2010, from http://www.china-briefing.com/news/2009/11/24/china-joint-ventures-moving-contractual-liablilities-out-of-china.html
7. Droege, S., Lane, M., & Spiller, S. (2009). Strategic choice and institutional ambiguity: A history of entrepreneurial emergence in rural china. *The International Business & Economics Research Journal, 8*(10), 1. Retrieved from http://proquest.umi.com.library.capella.edu/pqdweb?did=1910058861&Fmt=7&clientId=62763&RQT=309&VName=PQD
8. Fleming, S. (2010). Chris brooke: Post-recession china poses new challenges for investors. *National Real Estate Investor, 52*(4), 9. Retrieved from http://proquest.umi.com.library.capella.edu/pqdweb?did=2029534091&Fmt=7&clientId=62763&RQT=309&VName=PQD
9. Floyd, S. (2009). Target the china market to ride out the recession. *China Business Review, 36*(4), 48-51. Retrieved from http://ezproxy.library.capella.edu/login?url=http://search.ebscohost.com/login.aspx?direct=true&db=bth&AN=42407077&site=ehost-live&scope=site
10. Franco, C., Rentocchini, F., & Marzetti, G. V. (2010). Why do firms invest abroad? an analysis of the motives underlying foreign direct investments. *IUP Journal of International Business Law, 9*(1), 42-65. Retrieved from http://ezproxy.library.capella.edu/login?url=http://search.ebscohost.com/login.aspx?direct=true&db=bth&AN=48276475&site=ehost-live&scope=site
11. Frisbie, J. (2010). Is the business community souring on china? *China Business Review, 37*(2), 9-9. Retrieved from http://ezproxy.library.capella.edu/login?url=http://search.ebscohost.com/login.aspx?direct=true&db=bth&AN=48666414&site=ehost-live&scope=site
12. Fuller, B. (2009). All eyes on china. *Engineering & Technology (17509637), 4*(13), 69-71. doi:10.1049/et.2009.1317
13. Lin, G. C. S. (2009). Scaling-up regional development in globalizing china: Local capital accumulation, land-centred politics, and reproduction of space. *Regional Studies, 43*(3), 429-447. doi:10.1080/00343400802662625
14. Liu, M., Tao, R., Yuan, F., & Cao, G. (2008). Instrumental land use investment-driven growth in china. *Journal of the Asia Pacific Economy, 13*(3), 313-331. doi:10.1080/13547860802131300
15. Lock, G., & Karen, I. (2009). Getting your cash back. *International Financial Law Review, 28*(3), 20-20. Retrieved from http://ezproxy.library.capella.edu/login?url=http://search.ebscohost.com/login.aspx?direct=true&db=bth&AN=37382369&site=ehost-live&scope=site
16. Mingqi, X. (2010). The role of macroeconomic policy in china's high economic growth amidst the global financial crisis. *Seoul Journal of Economics, 23*(1), 123. Retrieved from http://proquest.umi.com.library.capella.edu/pqdweb?did=2013055481&Fmt=7&clientId=62763&RQT=309&VName=PQD
17. Straszheim, D. H. (2008). China rising. *World Policy Journal, 25*(3), 157-170. Retrieved from http://ezproxy.library.capella.edu/login?url=http://search.ebscohost.com/login.aspx?direct=true&db=bth&AN=35025179&site=ehost-live&scope=site
18. Wu, F., Rongfang, P., & Di, W. (2010). The chinese renminbi (yuan). *World Economics, 11*(1), 147-179. Retrieved from http://ezproxy.library.capella.edu/login?url=http://search.ebscohost.com/login.aspx?direct=true&db=bth&AN=49050052&site=ehost-live&scope=site
19. Yu, R. (2010, Apr 27). Bank of china reports 41% rise in first-quarter net profit. *Wall Street Journal (Online),* Retrieved from http://proquest.umi.com.library.capella.edu/pqdweb?did=2020187521&Fmt=7&clientId=62763&RQT=309&VName=PQD
20. Zou, H., & Simpson, P. (2008). Cross-border mergers and acquisitions in china: An industry panel study, 1991-2005. *Asia Pacific Business Review, 14*(4), 491-512. doi:10.1080/13602380701437460

**NOTES**