

Cheng, Qian (2012) The institutional perspective on outward foreign direct investment from China: the relationship between the government and firms. PhD thesis, University of Nottingham.

Access from the University of Nottingham repository:

<http://eprints.nottingham.ac.uk/13965/1/582001.pdf>

Copyright and reuse:

The Nottingham ePrints service makes this work by researchers of the University of Nottingham available open access under the following conditions.

- Copyright and all moral rights to the version of the paper presented here belong to the individual author(s) and/or other copyright owners.
- To the extent reasonable and practicable the material made available in Nottingham ePrints has been checked for eligibility before being made available.
- Copies of full items can be used for personal research or study, educational, or not-for-profit purposes without prior permission or charge provided that the authors, title and full bibliographic details are credited, a hyperlink and/or URL is given for the original metadata page and the content is not changed in any way.
- Quotations or similar reproductions must be sufficiently acknowledged.

Please see our full end user licence at:

http://eprints.nottingham.ac.uk/end_user_agreement.pdf

A note on versions:

The version presented here may differ from the published version or from the version of record. If you wish to cite this item you are advised to consult the publisher's version. Please see the repository url above for details on accessing the published version and note that access may require a subscription.

For more information, please contact eprints@nottingham.ac.uk

**The Institutional Perspective on
Outward Foreign Direct Investment
from China: the Relationship
between the Government and Firms**

QIAN CHENG, BA. MSc.

**Thesis submitted to the University of Nottingham
for the degree of Doctor of Philosophy**

July 2012

Abstract

China's outward foreign direct investment (OFDI) has increased considerably in the last few decades. The development of China's OFDI has distinct features, in particular the fact that the major investors undertaking large-scale deals are state-owned enterprises. However, they have few competitive advantages compared with their international counterparts. As mainstream theories have difficulty in providing a reasonable explanation of China's OFDI, this thesis analyses the Chinese government's home country measures (HCMs) and their effects on OFDI, contributing to the understanding of the institutional analysis in international business.

Based on the analyses of 26 key policies and regulations, the Chinese government's role as a supervisor to examine and approve OFDI activities is addressed, as well its role as a promoter to support the Chinese enterprises' investment in the international economy. Regarding the administration, regulations for examining and approving the OFDI projects have been relaxed, which supports the improvement of OFDI. However, the outcomes of post-investment monitoring and extraterritorial controls are under question. The Chinese government supports OFDI largely by means of special funds and preferential loans issued by the institutions and banks. Additionally, China's OFDI information system primarily functions to provide data and information for policy formulation and complement the financial support.

Employing data of 50 largest Chinese business groups ranked by overseas assets, their overseas subsidiaries and cross-border mergers and acquisitions, it is understood that their motivation for undertaking OFDI is to address their competitive disadvantages rather than to exploit their competitive advantages. The case studies of Chinalco's investment in Rio Tinto and Geely's acquisition of Volvo provide insights into the relationship between the Chinese government and investors. Rather than fully compromising the government's national planning, the Chinese enterprises take their corporate interests as priority during the OFDI progress. Accordingly, it can be concluded that the convergence between the nation and the enterprises' interests rather than the institutional factor alone has contributed to China's OFDI.

Acknowledgement

I would like to thank my supervisors Professor Shujie Yao and Dr Dylan Sutherland for their guidance and encouragement supporting this research. They have made valuable suggestions and countless comments and reviews to this thesis. I appreciate the financial support provided by the School of Contemporary Chinese Studies and the International Office of the University of Nottingham. I am also grateful to my family for their love, support and understanding.

Table of Contents

Abstract	I
Acknowledgement.....	II
List of Tables.....	VI
List of Figures	VII
Abbreviations	VIII
Chapter 1 Introduction	1
1.1 Introduction.....	3
1.2 Flow of chapters and brief results.....	9
Chapter 2 Literature review.....	11
2.1 Mainstream perspectives	12
2.1.1 Product life cycle and small-scale technology	13
2.1.2 Technological change.....	14
2.1.3 Latecomers perspectives.....	16
2.2 The institutional perspectives relevant to OFDI.....	17
2.2.1 Within the context of developed countries.....	17
2.2.2 The HCMs of developing countries	20
2.2.3 OFDI as an escape.....	23
2.3 Research on China's OFDI.....	24
2.3.1 Motivations of Chinese MNEs	26
2.3.2 Network or linkage perspective.....	31
2.3.3 Overseas subsidiaries and cross-border M&As.....	33
2.4 China's government intervention	38
2.4.1 Key stages of Chinese OFDI policy development	38
2.4.2 Positive effects	40
2.4.3 Institutional constrains	41
2.5 Conclusion.....	46
Chapter 3 Background: China's OFDI, government and enterprises ..	50
3.1 China's outward investment and official data	50
3.2 Institutional actors	58
3.2.1 State Council	61
3.2.2 National Development and Reform Commission (NDRC).....	61
3.2.3 Ministry of Commerce (MOFCOM).....	62
3.2.4 People's Bank of China (PBC).....	64
3.2.5 State Administration of Foreign Exchange (SAFE).....	64
3.2.6 Ministry of Finance (MOF).....	65
3.2.7 China Securities Regulatory Commission (CSRC).....	65
3.2.8 State Asset Supervision and Administration Commission (SASAC)	66
3.3 Chinese TNCs and their achievements	68
3.3.1 Central enterprises.....	69
3.3.2 Achievements	74
3.4 Conclusion	78
Chapter 4 Methodology and Approach.....	80

4.1	Methods and data used.....	80
4.1.1	Descriptive analyses.....	80
4.1.2	Case studies.....	81
4.1.3	Econometric models.....	84
4.2	Official documents.....	87
4.3	Case studies.....	93
4.4	Conclusion.....	100
Chapter 5	The Chinese government: as a supervisor of OFDI.....	103
5.1	Examination and approval reform.....	104
5.1.1	The most important: two national-level measures.....	104
5.1.2	Foreign exchange administration reform.....	112
5.1.3	Measures on cross-border mergers and acquisitions.....	117
5.1.4	Measures on establishing overseas subsidiaries.....	118
5.2	Post-investment monitoring.....	121
5.3	Extraterritorial controls.....	123
5.3.1	Overseas state-owned assets.....	123
5.3.2	Overseas listing and round-tripping investment.....	130
5.4	Conclusion.....	138
Chapter 6	The Chinese government: as a promoter of OFDI.....	140
6.1	Financial incentives.....	141
6.1.1	Financial subsidies.....	141
6.1.2	Sovereign Wealth Funds.....	143
6.1.3	Banking support.....	146
6.1.4	Risk prevention mechanism.....	159
6.2	Industrial promotion policies.....	161
6.3	Information service.....	165
6.3.1	Guidance.....	165
6.3.2	Online services.....	168
6.3.3	Statistics.....	171
6.4	Conclusion.....	176
Chapter 7	Evidence from business groups: China's largest companies by foreign assets.....	178
7.1	Corporate structure.....	179
7.1.1	The mother companies.....	179
7.1.2	Listed companies.....	180
7.2	Natural resources seeking.....	183
7.2.1	Petrochemical industry.....	183
7.2.2	Iron and steel industry.....	185
7.2.3	Nonferrous metal industry.....	187
7.2.4	Coal, power and electricity.....	188
7.3	Market seeking.....	190
7.4	Strategic assets seeking.....	191
7.4.1	Equipment manufacture.....	191
7.4.2	Telecommunication manufacture.....	195
7.5	Round-tripping investment.....	195
7.6	Discussion.....	200
7.7	Conclusion.....	203

Chapter 8	Chinalco and Geely: two examples for in-depth analysis...	206
8.1	The metals mining industry: Chinalco-Rio Tinto case	207
8.1.1	The financial crisis and China's metals mining industry	207
8.1.2	Chinalco's investment in Rio Tinto.....	213
8.1.3	Discussion	218
8.2	The automotive industry: Geely-Volvo case	222
8.2.1	The energy crisis and the downturn of global auto giants.....	222
8.2.2	China's auto industry.....	224
8.2.3	Geely's acquisition of Volvo cars	228
8.2.4	Discussion	235
8.3	Conclusion	239
Chapter 9	Conclusion, Policy Implications and Further Research	
Directions	242	
9.1	Summary of findings	242
9.2	Policy Implications	251
9.3	Further Research Directions	252
Reference	254	
Appendix	284	
	Appendix 1: listed companies and their subsidiaries (excluding investment holding companies)	284
	Appendix 2: cross-border M&As by top 50 business groups	292

List of Tables

Table 3.1: Top destinations of China's OFDI (USD billions)	54
Table 3.2: typical samples of changes.....	71
Table 3.3: the achievements of central enterprises 2003-2007	76
Table 3.4: numbers of Chinese enterprises listed in the Fortune Global 500 ..	77
Table 4.1: regulations on government supervision	90
Table 4.2: regulations on financial support	91
Table 4.3: regulations on information services	92
Table 4.4: The 50 largest Chinese TNCs ranked by foreign assets 2009.....	95
Table 5.1: cross-border M&As deals and their approving departments (USD million).....	108
Table 5.2: SAFE's step-by-step liberalisation.....	115
Table 5.3: Measures on establishing overseas subsidiaries.....	119
Table 5.4: regulations related to overseas listing	131
Table 6.1: CIC's overseas investment (financial investment excluded)	145
Table 6.2: key shareholders and their shares of policy banks and state-owned banks.....	147
Table 6.3: loans disbursement of China Eximbank 2003-2009 (Units: RMB billion; unless otherwise stated)	152
Table 6.4: resource industries with OFDI-related support.....	164
Table 6.5: an example selected from Catalogue I 2004	167
Table 6.6: regulation for OFDI statistics.....	173
Table 6.7: information required by each form	174
Table 7.1: Comparison of the new and old tax laws	199
Table 8.1: mining mega-mergers 1995-2006	212
Table 8.2: global mining giants listed by UNCTAD's top 100 TNCs 2008 (\$ million).....	214
Table 8.3: Chinalco, Rio Tinto and BHP Billiton's struggle for control	215
Table 8.4: global auto production and China's percentage 1999-2009 (million)	223
Table 8.5: global auto giants listed by UNCTAD's top 100 TNCs 2008 (\$ million).....	230
Table 8.6: comparison between Geely and Volvo	232
Table 8.7: Timeline of Geely getting control of Volvo.....	234

List of Figures

Figure 2.1: the strategic intent perspective to explain China's M&As	35
Figure 2.2: an institutional model for strategic assets seeking via M&A	36
Figure 2.3: a strategy tripod model of internationalization.....	37
Figure 3.1: The annual outflows of Chinese FDI and the proportion of China in the world's OFDI 1990-2009 (USD billions; %).....	52
Figure 3.2: the value and percentage of investment flows to different industries 2009 (USD billion; %)	55
Figure 3.3: evolution of Chinese regulation departments of OFDI.....	59
Figure 5.1: the time needed for the approval process.....	109
Figure 5.2: the numbers and raised capitals of Chinese enterprises' overseas IPOs 1993-2008.....	133
Figure 6.1: China's financial framework related to OFDI	147
Figure 8.1: global production of crude steel and China's percentage (million tons and %).....	207
Figure 8.2: China's iron ore imports and dependency ratio 1999-2009 (million tons and %).....	209
Figure 8.3: auto production by China, the US and Japan 1999-2009 (million)	223
Figure 8.4: Market share of China's top 10 automakers (value: 10,000 units)	225

Abbreviations

1. Names and Abbreviations of the Chinese government departments

CSRC	China Securities Regulatory Commission
MOF	Ministry of Finance
MOFCOM	Ministry of Commerce
NDRC	National Development and Reform Commission
PBC	People's Bank of China
SAFE	State Administration of Foreign Exchange
SASAC	State Asset Supervision and Administration Commission

2. General Abbreviations

ABC	Agricultural Bank of China
BoC	Bank of China
BRICs	Brazil, Russia, India and China
BVI	British Virgin Islands
CBRC	China Banking Regulatory Commission
CCB	China Construction Bank
CDB	China Development Bank
CI	Cayman Islands
CPC	the Communist Party of China
EU	European Union
FDI	Foreign Direct Investment
FIRB	Federal Investment Review Board
GDP	Gross Domestic Product
HCMs	Home Country Measures
HKSE	Hong Kong Stock Exchange
ICBC	Industrial and Commercial Bank of China
IDP	Investment Development Path
IPOs	Initial Public Offerings
LDCs	Less Developed Countries
LIE	Late Industrialising Economies
M&As	Mergers and Acquisitions
MOFTEC	Ministry of Foreign Trade and Cooperation
MNEs	Multinational Enterprises
NYSE	New York Stock Exchange
OFDI	Outward Foreign Direct Investment
OLI	Ownership, Location, and Internalisation
SGX	Singapore Exchange
SMEs	Small-Medium Enterprises
SOEs	State-Owned Enterprises
SPV	Special Purpose Venture
TNCs	Transnational Corporations
UNCTAD	United Nations Conference on Trade and Development

Chapter 1 Introduction

China has made outstanding economic progress since the economic reforms in 1978. Various economic reforms have been carried out, many acquiring their own Chinese characteristics. The in-depth understanding of the impact of China's different reforms, particularly the industrial policies used, remains an important issue. This study looks at the fast development of China's outward foreign direct investment (OFDI) and the emergence of multinational enterprises (MNEs), in particular after 2003, which witnessed the beginning of a new era with distinct economic features. China is a particularly interesting and special case to study OFDI. This is because state-owned enterprises (SOEs) are main investors and the Chinese government plays an important role in the implementation of the 'going out' policy. A number of so-called home country measures (HCMs) have been implemented.

The United Nations Conference on Trade and Development (UNCTAD) reports 'Home Country Measures' (UNCTAD, 2001), which categorise HCMs for developed countries for the first time, excluding HCMs issued by developing low income countries. HCMs are divided by governments in advanced economies into six groups, which include policy positions to encourage FDI to developing countries, information provision and technical assistance, technology transfer, financial and fiscal incentives, investment insurance, and market access regulations, as well as extraterritorial controls (UNCTAD, 2001). Policy positions to encourage OFDI have to benefit the home country as well as host developing countries. They are always linked to

other substantive policies. Financial support may be used with development assistance to developing countries, including grants, loans or equity participation. Fiscal incentives include such things as providing general tax reductions, tax exemptions, deferrals or credits for taxation of overseas earnings. Publishing and disseminating information on the investment climate and potential opportunities can help overcome market imperfections. On the other hand, extraterritorial controls are recognised as disincentives to OFDI rather than incentives. To apply national laws or regulations to overseas TNC operations may cause conflicts of political jurisdiction between home and host countries. (UNCTAD, 2001)

Many scholars argue that these measures have exerted considerable influence on the Chinese OFDI and led to the formation of MNEs. However, very little is known about these measures or their effects. To date only a few studies have provided a broad view of China's OFDI-related policies and regulations (Luo *et al.*, 2010, Ren *et al.*, 2010, Voss *et al.*, 2008). None of these studies, however, has been supported by extensive empirical evidence. With regard to studies targeting at OFDI as a whole or Chinese MNEs, they also in general lack specific details of these important institutional factors even though their importance is constantly emphasised (for example, Buckley *et al.*, 2007, Cui and Jiang, 2010, Deng, P., 2010).

The purpose of this research is to analyse, in more detail, the effects of China's HCMs on OFDI. This is achieved through an investigation of how the policies and regulations have developed and how they have been implemented. It

investigates at the extent to which Chinese enterprises, especially SOEs and in particular large business groups, are influenced.

This chapter sets out the main research objectives and provides an overview of the key findings in anticipation of further chapters. In particular, it draws from translations from a range of important Chinese official government publications and documents which in general have not been extensively commented upon. These documents are obtained from websites such as www.people.com.cn which reports important national level conference, for example, the National Congress, with key points translated into English.

1.1 Introduction

To promote overseas expansion and to utilise its huge amounts of foreign reserves better, among other things, the Chinese government has initiated and made great efforts to implement the ‘going out’ policy. As early as 1979, for example, the ‘Fifteen measures regarding economic reforms’, issued by China’s State Council (the highest decision making body), put forward the idea ‘to go abroad to do business’ (Li and Xu, 2008). This was one of the first times that the Chinese government mentioned outward investment in its state policy and therefore stands as a landmark. At that time, China was not confident in enterprises’ capability to undertake overseas expansion, which resulted in a number of HCMs to restrict, examine and approve OFDI projects and to constrain access to foreign exchange. SAFE’s ‘Measures on Foreign Exchange

Administration for Overseas Investment’, for example, was one such way in which restrictions were imposed.

During the initial period of OFDI development, China’s institutional system regarding OFDI concentrated on the administrative inspection and foreign exchange supervision. According to Jiang Zemin’s report at the 16th National People’s Congress of the Communist Party of China (CPC), during the 13-year period 1984-1997, only 1,008 Chinese enterprises had invested a total of USD1.396 billion abroad (Jiang, 2002).

At the 15th National Congress of the CPC in 1997, Jiang Zemin proposed to ‘strive to improve the level of opening up’, and to ‘encourage overseas investment that can develop China’s comparative advantages and for the better use of domestic and foreign markets and resources’ (Jiang, 1997). During this period, the Chinese government encouraged SOEs with competitive strengths to invest in setting-up factories overseas, mainly in Africa, the Middle Asia, the Middle East, the Central Europe and South America (Li and Xu, 2008).

Afterwards, the Chinese government promulgated a number of measures to promote overseas processing trade, for example, ‘the opinion on the encouragement of enterprises to engage in overseas processing and assembly businesses’ by the Ministry of Foreign Trade and Economic Co-operation in 1999.

Since 2001 China has been a member of the World Trade Organisation (WTO). In this year, the ‘going out’ strategy was officially written into ‘the Outline of

the Tenth Five-Year Plan for National Economic and Social Development', delivered at the Fourth Session of the Ninth National People's Congress. This was, therefore, an important milestone and one of the turning points in the Chinese outward investment. The five-year plan stated that the implementation of the 'going out' strategy encouraged outward investment, which enabled development of China's comparative advantages and expansion of the scope, approach and method of international economic and technological cooperation (CPC, 2001). In addition, the government supported enterprises taking advantage of foreign intellectual resources and establishing research institutions and design centres in foreign countries (CPC, 2001). Thus even in 2001 some of the key elements of China's going out strategy were being put in place. In particular, the role of foreign markets as targets for the acquisition of new technologies and 'intellectual resources', as well as the need for 'finance', emerged. Indeed, a considerable share of the burgeoning literature on Chinese OFDI today concerns such themes. The government, moreover, recognised the need to develop adequate mechanisms properly to facilitate OFDI.

Furthermore, at the 16th National Congress of the CPC in 2002, Jiang Zemin re-emphasised that China's international economic and technological cooperation and competition should be undertaken on a broader scale, in more spheres and on a higher level, make the best use of both international and domestic markets, optimise the allocation of resources, expand the space for development and accelerate reform and development by opening up (Jiang, 2002). Furthermore, *enterprises with comparative advantages* and with *various forms of ownership should be encouraged and supported* in OFDI activities, in

order to increase the export of goods and labour and to shape a number of strong multinational enterprises and brand names (Jiang, 2002).

Since 2002, the central government has foreseen that China's OFDI would expand into more countries, regions and industries. In addition to the emphasis on resources, which may include labour, natural and intellectual resources, Beijing also expected Chinese firms, including SOEs and private ones, to level up their strengths in both 'international and domestic markets' through outward investment. According to the tenth five-year plan, moreover, during the period 2001-2005, the Chinese government was to concentrate on promoting enterprises to acquire foreign advanced technology through OFDI. To this end the establishment of HCMs to support OFDI was first proposed.

It was expected that China would launch policies and regulations to develop the supportive service system in the following years. This raises the following questions: What are these supportive measures? What do they concern, on finance, foreign exchange, taxation, or information services? Are they useful in promoting OFDI? Are they extensively adopted by enterprises? These questions will be addressed in Chapter 6, which discusses the Chinese government as a supporter of China's OFDI.

Subsequently, the 'going out' strategy was repeatedly mentioned and emphasised by the Chinese government at the national congresses. 'CPC Central Committee's decision on a number of issues on improving the socialist market economic system' underlined 'empowering enterprises with more

autonomy of overseas operations and improving the monitoring mechanism of foreign invested enterprises' (CPC, 2003). As well as encouragement, the government also pays attention to supervision. What are the monitoring measures? What are their particular concerns? Do enterprises really obtain more autonomy, which means the liberalisation of HCMs?

At the Tenth National People's Congress, 'the Outline of the 11th Five-Year Plan for National Economic and Social Development' elaborated on the focus of 2006-2010. Regarding the 'going out' strategy, the Chinese government would nurture and develop China's multinational corporations through cross-border mergers and acquisitions, stock participation, listing, mergers and reorganisations (NPC, 2006). The Chinese government additionally highlighted the expansion of overseas resources in accordance with the principles of enjoying equality and mutual benefits and complementing one other with advantages. It was also expected that the support and guarantee systems for outward investment, the strength of co-ordination, risk management and supervision of overseas state-owned assets would be improved.

As indicated in the 11th five-year plan, China has been establishing a regime of monitoring and supporting OFDI. In addition, the preferred entry mode choices of China's OFDI in 2006-2010 were cross-border mergers and acquisitions (M&As) and overseas listings. Due to energy security considerations, China also needed to highlight overseas resource development. More questions will be addressed. What are the HCMs at this stage? What is the divergence from previous policies? Are they restricted or relaxed? If relaxed, then to what

extent? These questions will be answered in Chapter 5, based on the analysis of China's administrative measures.

Regarding the Chinese enterprises, do they adopt cross-border M&As as the primary entry mode choice? Do they invest massively in developing overseas resources? Furthermore, what is the motivation of Chinese MNEs undertaking OFDI? Are they completely politically driven, following the government's guidance without concerns on making profits or losses? Or, do they consider outward investment as a business activity? Chapter 7 will address the motivations of the Chinese investors. Furthermore, Chapter 8 will provide more details on two selected examples for further understanding the relationship between enterprises and the government.

In summary, this research is based on a simple, practical question: how do China's home country measures of OFDI affect Chinese MNEs' overseas expansion? To investigate the key elements of this phenomenon, the objective of this research is to analyse, in detail, how China's OFDI related policies and regulations developed and are implemented and to what extent the Chinese enterprises, especially state-owned enterprises and business groups are influenced. While starting from a practical problem, this objective implies much about the relationship between government and business and the role actors have in shaping the understanding of HCMs and their effects on OFDI performance. A contribution to the understanding of the institutional analysis in international business is attempted by investigating the effects of these factors on OFDI behaviour and Chinese transnational corporations (TNCs).

1.2 Flow of chapters and brief results

This chapter provides an introduction to the research questions and key contributions, and is followed by Chapter 2 critically which reviews the existing literature on international business theories, especially the motivations of China's OFDI and the institutional effects. Chapter 3 presents a detailed review of the development of China's OFDI, the role of the Chinese government departments, and the progress made by Chinese TNCs following the 'going out' policy. Chapter 4 focuses on the methods, interpretation of official documents and multiple case studies, used in this thesis. The strengths and weaknesses of the methods (descriptive analysis, case study and econometric analysis) and data collected (at aggregate and firm -levels) by extant research are also discussed.

Chapter 5, 6 and 7 describe the empirical studies conducted, where key results are presented with relevant evidence. Chapters 5 and 6 assess the effects of the Chinese government as a supervisor and a promoter, respectively, based on the interpretation and discussion of 26 key home country measures. Regulations to examine and approve OFDI projects have been relaxed, and this supports the improvement of OFDI. However, the outcome of post-investment monitoring is under question, which requires further work. The Chinese government has also set restrictions to prohibit capital flight and to avoid redundant round-tripping investment through listing on overseas stock exchanges. These extraterritorial controls are useful to some extent, but problems still exist. For

example, Chinese TNCs have attempted to avoid inspection through offshore holding companies. In spite of supervision, the Chinese government has promoted OFDI by means of financial support and information services. It is evident that Chinese TNCs take advantage of special funds and preferential loans issued by the institutions and banks when investing abroad. In addition to assisting TNCs with information about host countries, China's OFDI information system primarily functions as a provider of data and information for policy formulation, complementing the financial support.

Chapter 7 finds evidence from Chinese TNCs' overseas activities, establishing offshore holding subsidiaries and undertaking cross-border M&As, to evaluate the institutional effects. Chapter 8 applies the in-depth analysis of Chinalco's investment in Rio Tinto and Geely's acquisition of Volvo. Chinese TNCs invest abroad to address their competitive disadvantages rather than to exploit their competitive advantages (Buckley, Cross *et al.*, 2008, Child and Rodrigues, 2005, Deng, 2004, 2007, Luo and Tung, 2007). In addition, rather than fully compromising to the government's national planning, Chinese enterprises regard their corporate interests as priority during the OFDI progress. Accordingly, it is assumed that the convergence between the nation and the enterprises' interests rather than the institutional factor alone have contributed to China's OFDI.

Chapter 9 concludes the whole thesis, with a discussion of the contributions of the present study to the existing literature and offers policy recommendations and suggestions for future research work.

Chapter 2 Literature review

The mainstream perspectives on international business provide the theoretical context to understand the rationale of OFDI, which assume that firms invest in foreign countries to exploit competitive advantages (Barney, 1991, Buckley and Casson, 1976, Dunning, 1981, 2001). Recent researches (for example, Cantwell and Tolentino, 1990, Lall, 1983, Wells, 1977, Wesson, 1999) suggest that OFDI from developing countries cannot be well explained by findings generated from the research on developed countries. Contributors have tended to expand other perspectives. Section 2.1 reviews extant literature on the internationalisation of firms in both developed and developing countries.

It is also significant to note that the mainstream theory strongly views foreign direct investment (FDI) through an economic lens, without considering the political or social factors of a developing country. Section 2.2 focuses on the discussion of the institutional theory, which considers both the positive and negative effects of the intervention of home country government on firms' internationalisation.

The internationalisation of Chinese TNCs is a good example to expand the international business theories due to China's unique features, such as the government involvement in the economic development, large Chinese firms being singled out as 'national champions', and TNCs receiving support and protection from the Chinese institutions (Child and Rodrigues, 2005). The following two sections focus on the literature on China's OFDI development.

Section 2.3 discusses the motivations of China's OFDI and other concerns derived from China's unique features, in particular their relationship with the government. Section 2.4 reviews the role of the Chinese government in the process of OFDI. It is vital to look at incentives and restrictions of the government intervention. Section 2.5 concludes and highlights the key insights gained from this review.

2.1 Mainstream perspectives

Mainstream perspectives on the strategy of MNEs are based on the concepts of internalisation (Buckley and Casson, 1976, Rugman, 1981, Williamson, 1975, 1979), transaction costs (Coase, 1937, Hennart, 1988) and monopoly advantage (Hymer, 1960). In brief, they state that the imperfection of global markets and the characteristics of intermediate products have motivated multinational companies to utilise internal transactions to substitute external market dealings. Up to now, the most widely received theoretical framework for MNEs is the eclectic or ownership, location, and internalisation (OLI) paradigm (Dunning, 1981, 1986). Dunning hypothesises that the inclination of countries to invest overseas is determined by the stage of economy development (proxied by GDP or GDP per capita) and the advantages of OLI. Considering the transaction costs, companies are inclined to be internalised if the administrative exchange costs are lower than the market ones. Derived from the OLI theory, Dunning and Narula (1996) propose the investment development path (IDP), which argues that a country or region's net outward direct investment position is systematically related to its level of economic development.

Extant findings are based on the research on large MNEs from developed countries and regions like the United State of America (USA), Europe and Japan. They are usually private-owned firms with advanced technologies and world brands. The internationalisation of these firms began decades ago, at least for most of the Fortune Global 500 companies, which was a different world in terms of the degree of integration and openness to the world in which MNEs from advanced or developing countries operate today. Accordingly, the motivations (why go abroad) and processes (how) of China's TNCs may differ from the mainstream perspectives.

Since these theories were applied to explain the MNEs' activities, scholars have debated whether they can be applied to FDI from developing countries. The majority of them agree that the mainstream theories work. The theories will function even better if it takes the characteristics of FDI from developing countries into account (Cantwell and Tolentino, 1990, Kojima, 1978, Lall, 1983, Lecraw, 1993, Wells, 1983).

2.1.1 Product life cycle and small-scale technology

Vernon (1966, 1974) explains the conditions when developed countries are ready for exports and direct production, technology transfer and direct investment in his international product life cycle theory. For Vernon, product innovation and technological advantages are crucial to a firm's development at home and then abroad. This model is included because it is useful in explaining

why MNEs from developing countries invest in other less developed countries (LDCs), for example, China's investment in Southeast Asia and Africa.

In the late 1970s and the 1980, the emergence of MNEs from developing countries received academic attention for the first time. Based on the product life cycle theory, Wells views the internationalisation of enterprises from developing countries as a stage in the product life cycle (Wells, 1977). He also utilises the small-scale technology theory to explain and analyse the source of developing countries' advantages on outward investment competition (Wells, 1983). The small-scale technology theory is attributed to previous theories in terms of ownership or firm-specific advantages. Therefore, it assumes that MNEs from late industrialising economies (LIE) should organise large-scale cross-border investment only after having obtained international experience and consolidated particular advantages. Nonetheless, China's inward and outward FDI almost began to grow in the same period, though at a different pace. China thus has limited experience of overseas operations before investing outside China.

2.1.2 Technological change

Lall (1983) suggests that MNEs from different developing countries may have considerably different ownership advantages. Moreover, his research shows that in many process industries, such as petroleum refining, paint production and textiles, technologies used in developed and developing nations are identical. Hence these firms can merely enjoy marginal technological

advantages. Lall also emphasises that ownership advantages are the outcome of a process of conscious accumulation of technological knowledge, which has important implications for future study. With regard to the theories on 'technology and technological change', Cantwell and Tolentino (1990) indicate that technological and innovative change is one of the determinants in international activities and is also related to the increase of their outward FDI. Therefore, the industry and location distribution of outward FDI from developing countries change gradually and can be predicted, which promotes industry alternation and upgrade in home countries.

Research on MNEs from LIE has received renewed academic attention since the 1990s. As summarised by Van Hoesel (1999), research interests are primarily observed in five aspects. First, the importance of OFDI from LIE as a whole has increased substantially, both in absolute and in relative terms. Second, many authorities in developing economies promote more liberal policy other than capital export restrictions decades ago. Third, Asia has increasing dominance as a home region in overseas investment. Fourth, OFDI from LIE is no longer market seeking by nature. Regarding some newly industrialising economies, they do not have L advantages as a result of rising wages and local currency appreciation. Then labour-intensive manufacturing industries are moved to cheaper locations which become exporters. Finally and most interestingly, the so-called 'upward investments', which indicate FDI flows from developing countries to developed countries, have attracted increasing consideration. Thereafter, ownership advantages do not seem to be relevant in developed host countries.

2.1.3 Latecomers perspectives

Some researchers, however, argue that an unconventional framework has to be introduced to firms from emerging economies, which are often regarded as latecomers with a relative disadvantage in ownership capabilities. For example, Wesson (1999) suggests that emerging economies have to catch up with developed countries in terms of technology and know-how and to develop a business environment supportive of international competitiveness. Dunning and Rugman (1985) point out that the conventional theory principally explains how MNEs locate their non-financial and proprietary assets. The question they are interested in is how to be successful in overseas investment. Moon and Roehl (2001), instead, focus on the key question ‘what is the fundamental motivation for a firm to go abroad?’. Their imbalance theory indicates that enterprises without ownership advantage are also able to succeed in the global market if they can learn and acquire new technology or management to improve their competitiveness.

The ‘Late development’ thesis has worked well when applied to OFDI from Japan (Dore, 1973) and subsequently Four Asian Tigers, namely, Taiwan, South Korea, Hong Kong, and Singapore (Child and Rodrigues, 2005). It also provides the theoretical foundation for my institutional study on China. Furthermore, FDI benefits to host countries regarding macroeconomic growth and social and environmental benefits, and the magnitude of the benefits depends on the efforts and context of host countries (for example, OECD, 2002). On the other hand, FDI also brings benefits to home countries. For

example, Hill (2005) summarises that the capital account of the home country's balance of payments benefits from the inward flow of foreign earnings. In addition, benefits arise from employment effects and valuable skills learned from foreign markets. This also helps explain why home country governments encourage OFDI by taking the role as a promoter and supporter.

2.2 The institutional perspectives relevant to OFDI

The home country's specific domestic institutional environment is basically omitted in the OFDI research (Voss *et al.*, 2009). The establishment of institutional theory has been emerging, particularly in recent years (Buckley, Clegg *et al.*, 2008, Buckley *et al.*, 2006, Meyer and Nguyen, 2005, North, 1990, Scott, 2002, Wright *et al.*, 2005). It has the potential to explain the influence of the home, host and supranational institutional environments on Chinese MNEs' OFDI choices.

2.2.1 Within the context of developed countries

The new trade theory emphasises the importance of appropriate government intervention in trade and economic development (Helpman and Krugman, 1985, Krugman, 1979). Due to imperfect competition and the existence of economies of scale, a country's economy may not be in the best condition. Under such circumstances, government intervention may shelter enterprises to enable them to mature in home country and then to develop in the international market. In conclusion, if a particular industry in a relatively inferior position

with no comparative advantage, appropriate policy interventions can improve the economic operation.

Porter's Diamond model (1990) offers a diamond framework that can help understand the comparative advantages of nations or regions in global competition. The role of government in the Diamond model is 'acting as a catalyst and challenge; it is to encourage - or even push - companies to raise their aspirations and move to higher levels of competitive performance...' (Porter, 1998). The government has to encourage companies to raise their performance, stimulate early demand for advanced products, focus on specialised factor creation, and stimulate local rivalry by limiting direct cooperation and enforcing antitrust regulations (Porter, 1998). In summary, it can be claimed that government policy cannot help companies become competitive. The success of a government is to provide a favourable external environment for fair competition.

Regarding government efficiency, if countries want to become or stay competitive, they have to follow four principles (Garelli, 2009). First, government interference in business activities has to be minimised, excluding creating competitive conditions for enterprises. Second, government has to provide predictable macroeconomic and social conditions to minimise the external risks. Third, government should be flexible in adjusting its economic policies to a changing global environment. Fourth, the state has to provide a public community which promotes fairness, equality, justice and the security of the population.

Comparatively little research, however, has considered the way in which home country measures (HCMs) are used to determine the level and direction of OFDI. According to UNCTAD's 2001 report (UNCTAD, 2001), promotional efforts often aim at correcting market imperfections that can disadvantage developing countries as TNCs consider prospective FDI sites. Developed countries can help provide information and facilitate contacts that match potential investors with FDI opportunities in host developing countries. Some national and regional programmes provide financial or fiscal incentives as well as investment insurance guarantees to help offset some of the risk associated with FDI, particularly in smaller developing countries where investors (particularly smaller ones) have less experience. HCMs may also prioritise assistance to promote FDI with particular technology transfer benefits or support FDI flows to the least developed countries, for example, through preferential market access.

Most of this assistance, however, remains at the discretion of the developed country and is commonly shaped to serve its own business interests along with general development objectives. This national benefit factor is particularly evident in the design of many financial and fiscal assistance programmes as well as market access HCMs (such as product certification or rules-of-origin regulations) that can discourage the FDI flows by diminishing market access prospects for FDI projects with export potential. Increased stability, predictability and transparency among these promotional efforts could serve the interests of both the host and home countries, as well as TNCs.

Even within the limited number of articles, most concern the impact of HCMs of developed countries on OFDI, such as how they promote foreign direct investment to developing countries. For example, Globerman and Shapiro (1999), Blomstrom and Kokko (2000), Goh *et al.* (2001), te Velde (2007), and te Velde and Message (2003) examine the HCMs effects of developed economies like Canada, Sweden, Singapore, United Kingdom (UK) and the European Union (EU). They agree that the HCMs are positively correlated to OFDI development.

2.2.2 The HCMs of developing countries

According to the UNCTAD 2001 report, 'Home Country Measures' are categorised by governments in developed countries, but not considering HCMs in developing countries (UNCTAD, 2001). As regards developing countries, the above report notes: 'the limited input ... into the design and execution of HCMs, as well as the often uncertain commitment to the duration of FDI promotional assistance, may diminish the beneficial impact promotional programmes can have on OFDI development' (UNCTAD, 2001). It then suggests that HCMs have no obvious influence on OFDI from developing countries. This is contradictory to findings by scholars such as Aggarwal and Agmon (1990), Lecraw (1993), Dunning *et al.* (1996), Bulatov (2001), Sim and Pandian (2002), Pradhan (2004), Sauvart (2005), and Ahmad and Kitchen (2008), which consider the institutional framework for OFDI in emerging economies in a number of studies, in particular Taiwan, Russia, Singapore,

India, South Korea, and Malaysia. For example, Aggarwal and Agmon (1990) model the business-government relations during the process of firm globalisation and believe that national governments in developing countries often play a critical role in determining the level and direction of OFDI. Furthermore, it is suggested that the high level of home government support may help MNEs overcome ownership and location disadvantages (Buckley *et al.*, 2007, Lecraw, 1993). The state government of South Korea has been extensively involved in its OFDI progress (Dunning *et al.*, 1996, Peng, 2007, Yang, Lim *et al.*, 2009). The overseas investment undertaken by South Korean chaebols in strategic industries was supported by strong state interventions such as government subsidies, tax incentives and other benefits. Sauvart (2005) analyses the motivations of OFDI and the policy development in Brazil, Russia, India and China (BRICs). He is impressed by the heavy government support provided by the Chinese government, compared to Brazil's no promoting policy, Russia's no supportive policy but capital controls, and India's initial liberalisation. Ahmad and Kitchen (2008) argue that one of the main reasons why Sime Darby Berhad, the Malaysian MNE, has been able to invest abroad is its possession of significant ownership and internal advantages created by the national government's favourable treatments.

In the history of international business theories, government interference has been generally recognised as a negative factor in promoting the OFDI. North defines 'institutions' as the 'rules of the game in a society' (North, 1990), and 'humanly devised constraints that structure human interaction' (1994), which are constituted by formal constraints (rules, laws, constitutions), informal

constraints (norms of behaviour, conventions, self-imposed codes of conduct), and their enforcement characteristics. Henisz (2004) summarises that there are different strands in the institutional theories within the international business, for example, the impact of institutional context on entry and exit strategies, and supply- and demand- side constraints for institutional changes. For example, Wan and Hoskisson (2003) investigate six western European countries and find that home country environment is an important factor in corporate diversification strategies. Some scholars apply and advance the institution-based view of strategy, and some integrate it with resource-based view when studying strategies and entry mode by emerging economies (Baker *et al.*, 2005, Meyer and Peng, 2005, Peng, 2003, Peng *et al.*, 2008, Wright *et al.*, 2005, Yeung, 2002). They agree that institutional development affects strategies, directly or indirectly.

Regarding MNEs' responses to the institutional environment, Oliver (1991) identifies five general strategic responses: acquiescence (taking no action), compromise (reducing the need to conform to institutional pressures), avoidance (hiding or escaping from the institutional field), defiance (ignoring, challenging, or attacking the underlying institutions), and manipulation (influencing or controlling institutional pressures and evaluations). In particular, avoidance responses such as escaping from the government intervention become more common, when the home country's economic efficiency and fitness with the institutional environment decrease.

2.2.3 OFDI as an escape

Based on the research on OFDI from developed countries, Witt and Lewin (2007) argue that a higher level of societal coordination may imply a relatively slower rate of institutional adjustment and higher rigidity and inflexibility. If institutions are not aligned with MNEs' business requirements, economic advantage may shrink or disappear, or even become an economic liability. FDI is more likely used to escape increased institutional misalignments at home country, legally or illegally, even at economic costs. The institutional escapism view suggests that due to the poor institutional environment at home countries and the discordant relationship between MNEs and governments, companies from emerging economies may invest abroad to avoid these constraints (for example, Boddewyn and Brewer, 1994, Rugman and Verbeke, 1998, Schoppa, 2006, Tallman, 1988), particularly restrictive legislation (Dunning, 1996), regulatory uncertainty (Le and Zak, 2006, Yamakawa *et al.*, 2008), and high tax rates (Caves, 2007, Gordon and Hines, 2002, Vernon, 1998). This perspective may have the potential to explain China's OFDI, especially by private enterprises, since home countries can force companies offshore through misaligned policies.

Studies discussed in Section 2.2 indicate that theories drawn from the analyses of developed countries can be applied to study firm internationalisation of emerging economies, even if the special institutional and cultural characteristics of each country should be taken into consideration. China, as a very classic prototype of developing countries, raises the attention of the need

for some extension of the extant theories. For example, Child and Rodrigues (2005) argue that the case of China has the potential to extend present theories concerning the latecomer perspective and catch-up strategies, institutional analysis with reference to the role of government, the relations between entrepreneurs and institutions, and the liability of foreignness.

2.3 Research on China's OFDI

As a general theory of FDI, internalisation and the eclectic paradigm provide the conceptual basis to analyse international business and MNEs. The unique characteristics of China's OFDI address a widely-discussed research question: whether alternative theories are required to explain China's overseas investment (Buckley *et al.*, 2007, Child and Rodrigues, 2005). For example, Liu *et al.* (2005) introduce Gaussian Mixture Models estimation methods and suggest that the results are consistent with refined IDP analysis, while other factors like institutions, location and network have an indirect impact on OFDI. Li, similarly, rejects the need to modify or enhance the OLI Model as there is no fundamental difference between early-movers from industrialised countries and newcomers (Li, P.P., 2007).

Child and Rodrigues (2005) argue that the OLI approach is primarily based on research on large advanced enterprises, which are presumed to enjoy considerable domestic strengths before they globalise. The predominant assumption in this influential perspective states that internationalisation is motivated by a firm's ambition to take advantage of its existing ownership

capabilities. This provides explanations for capital outflows from developed countries: to obtain natural resources, to look for cheaper labour force than in home country, and to overcome trade barriers restricting imports. When the mainstream theories are adopted to analyse China's OFDI, it is reasonable to consider China's distinct characteristics. It is well-known that China's big SOEs are dominant players in the process of internationalisation. Before they go global, to the utmost degree they enjoy domestic resources, such as monopoly prices, capital support from central and local government, and beneficial policies. The possible element which goes against the mainstream theories is that a firm which goes global may react to the government's encouragement, not following its primary ambition.

Furthermore, China's investment into developed countries and areas such as Hong Kong, United States, Canada and Australia is attracted by their booming foreign market, advanced technology and strategic resources (Cai, 1999, Deng, 2004, 2007, Liu, 1992, Luo and Tung, 2007, Wong and Chan, 2003, Wu, 2005, Wu and Chen, 2001). This is contrary to the perspective of ownership advantages, which emphasise on profit making through selling or leasing new products and technologies. In addition, as China lacks proprietary advantages, China is not beneficial from structural or transactional imperfection in the process of overseas investment. Evidently developed economies are dissimilar to China in terms of culture, language, laws, and regulations, which contravene L advantages. Therefore, the eclectic paradigm is not the appropriate model to explain China's OFDI.

2.3.1 Motivations of Chinese MNEs

Dunning and Lundan (2008) identify four types of overseas activities, namely, natural resource seeking, market seeking, efficiency seeking, and strategic asset or capability seeking, which have been widely discussed

- *Resource seeking*

There are three main types of resource seekers, aiming at (1) raw materials at a lower cost; (2) cheap and well-motivated unskilled or semi-skilled labour; (3) technological capability, management or marketing expertise and organisational skills (Dunning and Lundan, 2008). China's OFDI in the 1980s and early 1990s has been used to secure the supply of resources like minerals, petroleum, timber, fishery and agricultural products (Cai, 1999, Wu and Sia, 2002), which are scarce at home country but vital for China's manufacturing expansion and economic growth (Ye, 1992, Zhan, 1995), evidenced by, for example, CITIC's purchase of Portland Aluminium Smelter (Australia) in 1986 (aluminium) and Shougang's 1992 acquisition of Hierro Peru (iron ore). The energy security is the government's focus. Due to the decreasing supply from domestic market, China's reliance on foreign resources has grown. Encouraged by the 'going out' strategy, the national companies have invested abroad to acquire oil and gas, metals and other natural resources, such as the acquisition of Canada-based PetroKazakhstan by China National Petroleum Corporation (CNPC) in 2005 (petroleum), and CITIC's investment in New Zealand, USA and Canada (timber and forestry) (Buckley, Cross *et al.*, 2008). All of these

investors are state-owned or controlled enterprises. Their overseas businesses have been supported, directly, in the form of financial assistance, bilateral investment treaties and trade agreements from the host countries (Buckley, Cross *et al.*, 2008), and indirectly, through numerous state visits to resource-rich countries (Buckley, Clegg *et al.*, 2008). Regarding China's foreign aid investment programmes in developing countries especially in Africa, Latin America and East and Central Asia, Luo and Tung (2007) believe that they are undertaken to strengthen the political and diplomatic relationship between China and various host countries. On the other hand, Pan (2006) and Evans and Downs (2006) suggest that these infrastructure and construction programmes are expected to assist Chinese MNEs to be granted with market access or exploitation and extraction rights.

The second type of resource seeking is unlikely to be the case of China, as China has abundant low-cost labour resources. As regards the third type, Buckley *et al.* (2008) found little evidence for this motive, as the primary reason for OFDI in the industrialised countries is for natural resources. Some scholars portray FDI of this motivation into the category of strategic asset seeking. For instance, Rui and Yip define the strategic goals of a firm as 'entering new markets, expanding capabilities by learning and acquiring new knowledge, building bases of resources and experiences, realising a firm's strategic transformation' (Rui and Yip, 2008). To avoid repetition, this thesis confines 'resources' to the first type, natural resources. All technology and expertise seeking OFDI will be discussed as a part of strategic-asset-seeking investment.

- *Market seeking*

Market-seeking investors establish foreign facilities to provide goods and services outside home country. They aim at sustaining or strengthening existing markets, as well as exploring or promoting new markets (Dunning and Lundan, 2008), when the benefits of ‘internalisation’ outweigh the transaction costs, which is also portrayed as defensive and offensive (or aggressive, labelled by Dunning and Lundan (2008) investment (Buckley, Cross *et al.*, 2008). China’s low-cost, labour-intensive, low- and medium- technology-intensive products face the imposition of protectionist measures like export quotas and anti-dumping measures. In addition, Chinese MNEs, especially private manufacturers, confront the intense competition in the domestic market, which is almost saturated and have little space for business growth. OFDI is thus primarily undertaken to support exports from the home country, collect market information, or to circumvent trade barriers (Wall, 1999, Wu and Sia, 2002, Wu and Chen, 2001, Zhang, 2003). Most of these overseas market seekers are private companies, involving in both, for example, the overseas expansion of telecommunication companies such as Huawei and ZTE, and electronics companies like Haier, Konka Electronics, Skyworth and Changhong Electronics. The market seeking investment by Chinese private companies can be well explained by traditional firm internationalisation theories (Sutherland, 2010). However, previous literature has shown little evidence of this OFDI undertaken by SOEs.

- ***Efficiency seeking***

The reason why firms seek efficiency outside home country is ‘to rationalise the structure of established resource-based or market-seeking investment in such a way that the investing company can gain from the common governance of geographically dispersed activities’ (Dunning and Lundan, 2008). This occurs when firms take advantage of the differences of factor endowments between home and host country, such as capital, technology, information, labour and natural resources, as well as the economies of scale and their scope. To the utmost degree, it is unlikely that efficiency seeking is at present a major reason for China’s OFDI. Chinese MNEs’ seeking for advantages in industrialised countries is strategy-related rather than efficiency-related, while expansion in Southeast Asia is more likely relevant to market-related. However, it may have potential to explain the investment by Chinese MNEs in Southeast Asia due to the rising production costs at home country (Buckley, Clegg *et al.*, 2008).

- ***Strategic assets seeking***

While the question why China’s OFDI flows to developed countries remains unanswered, scholars attempt to address the question by positing the strategic-asset seeking perspective (Cai, 1999, Deng, 2004, 2007, Liu, 1992, Luo and Tung, 2007, Wong and Chan, 2003, Wu, 2005, Wu and Chen, 2001). The resource-based theory suggests that competitive advantages and performance are determined by a firm’s strategic assets (Barney, 1991). What are strategic

assets? Amit and Schoemaker (1993) define strategic assets as ‘the set of difficult to trade and imitate, scarce, appropriable and specialized resources and capabilities that bestow the firm’s competitive advantage’. These assets could be tangible and intangible, including market information to improve domestic export performance, knowledge of technology and manufacturing, global brands, research and development (R&D) capability, distribution networks, and capital markets and so forth (Alcácer and Chung, 2007, Boateng *et al.*, 2008, Buckley *et al.*, 2007, Buckley, Cross *et al.*, 2008, Deng, 2004, Deng, 2009, Taylor, 2002, Teece *et al.*, 1997). Chinese MNEs pursue strategic assets to promote their long-term strategic objectives, especially to strengthen their competitiveness globally or in a particular market (Dunning and Lundan, 2008). Lenovo’s takeover of IBM’s personal computer business can be regarded as a typical example.

Chinese companies, especially SOEs, use OFDI as a ‘springboard’ to catch up with their international competitors (Luo and Tung, 2007). Through international expansion multinationals from emerging markets attempt to compensate their competitive advantages, overcome their latecomer disadvantages such as domestic market and institutional constraints, the lack of innovative technologies, weak brand names, and incompetent business management (Buckley, Cross *et al.*, 2008, Deng, 2009, Li, P.P., 2007, Luo and Tung, 2007), retort their rivals’ expansion in China, and to exploit their competitive advantages and secure preferential treatment in other emerging countries (Cui and Jiang, 2010, Luo and Tung, 2007). Due to the lack of firm-specific ownership advantages, China’s investment outflows to industrialised

countries are advantage-seeking rather than asset-exploiting (Nolan, 2004, 2005, Sutherland, 2009). Some scholars, on the contrary, question whether strategic-assets-seeking is distinguishing in China. For example, Sutherland (2010) suggests that China's OFDI does not have any particular strategic-asset orientation and there is no apparent need for an alternative theory.

2.3.2 Network or linkage perspective

Casson (1997) defines networks as 'a set of high-trust relationships which either directly or indirectly link together everyone in a social group'.

Establishing networks can create competitive advantages for Chinese MNEs as a result of disseminating and exchanging information between home and host country, raising capital, lowering transaction costs, and acquiring further technology, capital, and business opportunities (Chen and Chen, 1998, Hitt *et al.*, 2002, Johanson and Vahlne, 2003, 2006, Rauch, 2001, Saxenian, 2002, Voss *et al.*, 2009, Yang, 2003, Zhou, 1996). Dunning and Lundan (2008) divide the network approach into five phases: (1) exports and foreign sourcing, (2) investment in marketing and distribution, (3) foreign production of intermediate goods and services, (4) deepening and widening of the value-added network, and (5) integrated multinational network. In the case of China, evidence of phase 1, 2 and 3 can be identified, for example, Chinese private companies working as suppliers or service providers in the global supply chain (Sutherland, 2010). Through global business and production network, Chinese MNEs, as latecomers in alliances, can obtain market knowledge and have their capabilities enhanced.

It is generally accepted that the social and cultural networks play a crucial role in linking overseas business with home country, for example, many Taiwanese electronics firms are linked with their counterparts in Malaysia and Thailand (Chen, 2003). Networks also enable firms to secure information and access knowledge (Gulati *et al.*, 2006, Lecraw, 1977). The Chinese TNCs may recognise cultural proximity as a means of reducing transaction costs and exploring new opportunities during OFDI development (Boisot and Child, 1996, Buckley *et al.*, 2007).

Mathews (2006) studied the fast internationalisation of latecomer firms from the Asia Pacific region, which has been achieved through organisational innovations and strategic innovations. He made use of the linkage-leverage-learning framework to examine the factors leading to the success of challenger firms. He claims that latecomers from developing countries seek or explore strategic assets via OFDI rather than exploit competitive advantages. Luo and Tung (2007) share a similar viewpoint that Chinese firms' primary objective is to leverage knowledge and resources abroad and then to catch up with their global competitors.

While the OLI model is more internal-focused, the linkage-leverage-learning model is more external-focused. Li (2007) integrates these two models into a new content-process framework, with concerns to external environment, internal firm, entrepreneur profile, and market performance. Nevertheless, Li only employed his model to experiment three Chinese enterprises, Haier,

Lenovo and TCL, which are hardly recognised as typical examples. It is doubtful whether his 'holistic, dynamic and dialectical' approach provides a better explanation for other types of Chinese MNEs.

2.3.3 Overseas subsidiaries and cross-border M&As

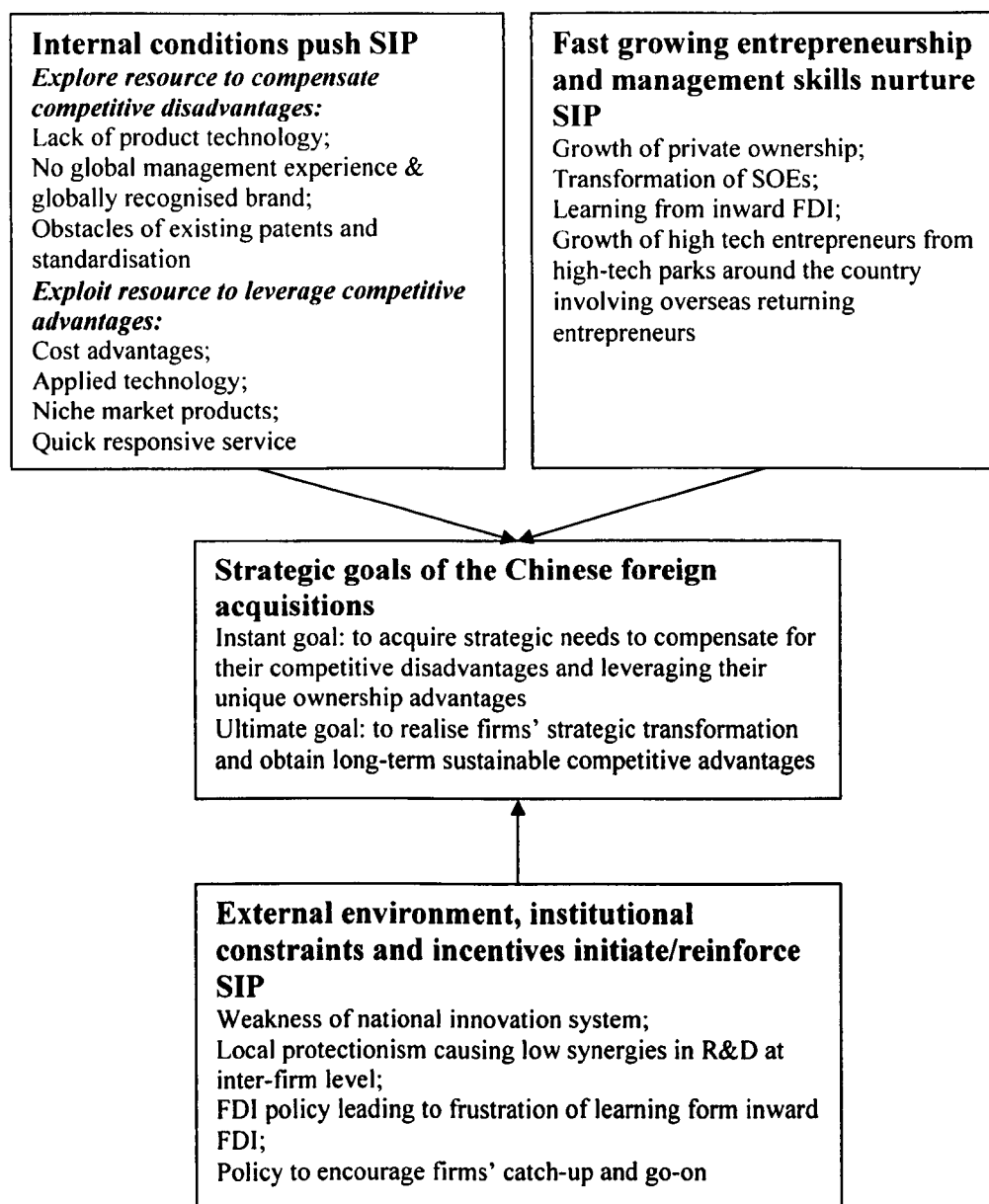
Concerning Chinese MNEs' overseas business activities, little research has been done on China's entry mode, Greenfield investment (overseas subsidiaries), joint ventures and cross-border M&As.

As a result of M&As, a firm can obtain and control resources of technology and human capital, promote organisational learning, and facilitate skills and competencies development (Chung and Alcacer, 2002, Vermeulen and Barkema, 2001). Among the relatively few studies on China's M&As, there are three main strands of research. One is to analyse the effects of M&As on a firm's performance, for which the econometric analysis is always applied (for example, Cai, 2007, Li, M., 2007, Li and Zhu, 2005, Liu and Zou, 2008, Yu and Liu, 2004). Another one is to scrutinise the determinants of China's M&As outcomes, for example, based on the absorptive capacity perspective (Deng, P., 2010). Yet these two strands are beyond the scope of our research.

The third strand, in particular, concentrates on Chinese MNEs' overseas acquisition of strategic assets. First termed by the study on the significant performance of post-war Japanese companies (Hamel *et al.*, 1989), a strategic intent perspective concerns a firm's ambitious strategic objectives in the global

competition, such as exploring foreign markets, acquiring new knowledge to boost capabilities, and strengthening resources and experiences. Rui and Yip (2008) portray the strategic intent perspective to analyse Chinese MNEs' cross-border M&As (figure 2.1). Chinese firms use foreign acquisitions to compensate for their competitive disadvantages, leverage their competitive advantages, overcome institutional constraints and augment institutional advantage, and even pursue long-term objectives, thus transforming themselves from domestic players to global leaders. Based on evidence from Nanjing Automobile's takeover MG Rover (UK), Rui and Yip (2008) consider institutional constraints and incentives including the nation's weak innovative system, local protectionism and policy to encourage firms' catch-up.

Figure 2.1: the strategic intent perspective to explain China's M&As



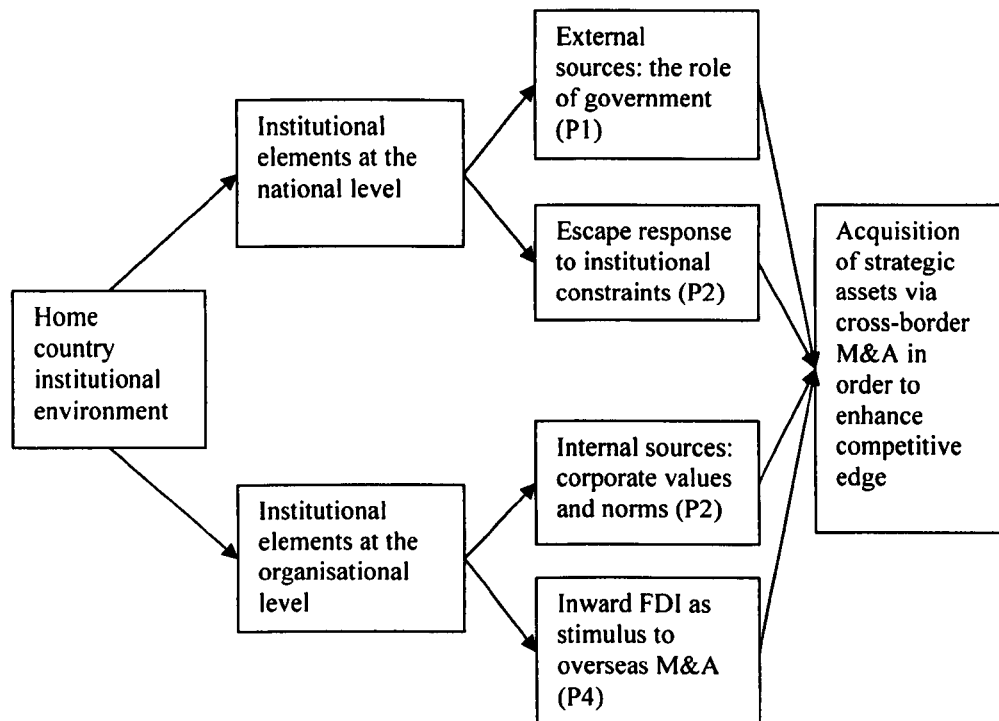
Source: Rui and Yip (2008)

Despite this, Zhang and Ebbers (2010) propose a framework taking macro-level, industry-level, firm-level and deal-specific factors into account and conclude that China's M&As are influenced by institutional ownership, economic relations between home and host country, industrial sensitivity and professional information. Derived from the principal-principal model of corporate governance (Dharwadkar *et al.*, 2000, Su *et al.*, 2008, Young *et al.*,

2008), Chen and Young (2010) and Gu and Reed (2010) found evidence to support the hypothesis that high levels of government ownership of an acquirer make the M&A deals less favourably, because of the divergence of motivations and interests between the Chinese government and minority shareholders.

Deng (2009) proposes an institutional model (figure 2.2) to study the resource-driven motivation of M&As, concerning country-level (the role of government and escape response to domestic institutional constraints) and firm-level (corporate values and norms and inward FDI as a stimulus to OFDI) institutional elements. He agrees that the overseas businesses of Chinese MNEs are to enhance critical competencies rather than to exploit existing assets.

Figure 2.2: an institutional model for strategic assets seeking via M&A

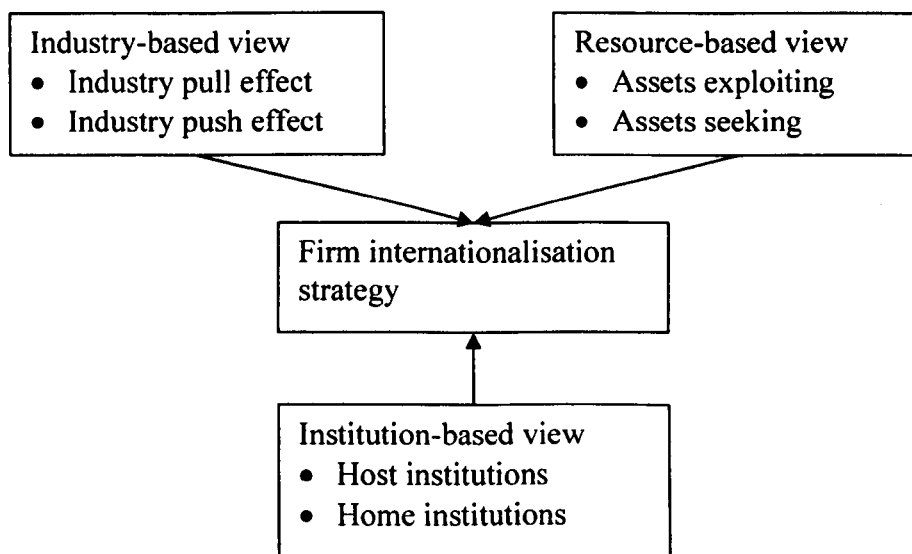


Source: Deng (2009)

Another approach of outward FDI is to establish overseas subsidiaries. As regards the decision by Chinese MNEs on entry mode to foreign countries, Cui

and Jiang (2009) suggest that the wholly-owned-subsiidiaries entry mode (figure 2.3) is always selected if an investor is large in size, enters a competition intensive industry, hunts for complementary assets and pursues a global strategic objective. They, however, have not considered any of the institutional factors. Joint ventures are preferred to penetrate cultural barriers and to offset regulative institutional barriers in a fast-growing foreign country. Afterwards, adapted from the strategy tripod model (Peng, 2008), Cui and Jiang (2010) consider that the decision making of internationalisation strategy involves three perspectives: resource-based, institution-based, and industry-based views. They agree that China’s OFDI is both assets exploiting and assets augmenting (Dunning, 2006, Peng, 2008, Peng *et al.*, 2008, Yang, Jiang *et al.*, 2009). During the internationalisation process, Chinese MNEs have to act in accordance with the regulations issued by the Chinese government. China’s OFDI, however, is more attracted by host country’s appealing policy rather than pushed by home country.

Figure 2.3: a strategy tripod model of internationalization



Source: Cui and Jiang (2010)

To the best of my knowledge, there is no comprehensive study with regard to Chinese MNEs' offshore holding companies, with the exception of the discussion of the typical cases of Haier opening a factory in the US and Huawei's establishment of overseas R&D centres (Deng, 2007), and Sutherland's investigation into offshore holding subsidiaries of China's private firms (Sutherland, 2010).

2.4 China's government intervention

2.4.1 Key stages of Chinese OFDI policy development

Based on some scholars' research on the evolution of China's OFDI (for example, Buckley, Cross *et al.*, 2008, Voss *et al.*, 2008, Wong and Chan, 2003, Woo and Zhang, 2005, Wu and Chen, 2001, Yang, Jiang *et al.*, 2009, Yang, Lim *et al.*, 2009, Zhang, 2003), China's OFDI progress is closely tied with the development of China's administrative and juridical system. For instance, Luo *et al.* (2010) categorise China's evolutionary changes into three phases. During the first stage of 'fresh flowers' or 'poisonous grass' (1984-1990), China's objective was to accumulate foreign exchange (Luo *et al.*, 2010). At that time, investment was limited and the application process was very strict. During the stage of 'finding the stepping stone' (1991-2000), the Chinese government worried about a number of problems happening after the investment, such as the losses of state-owned assets (Luo *et al.*, 2010), corruption and nepotism (Wong and Chan, 2003), and capital flight and the 'leakage' of foreign

exchange (Buckley, Cross *et al.*, 2008). As a result, the OFDI approval process was tightened, while the administration of foreign exchange was relaxed (Luo *et al.*, 2010). During the ‘Going abroad’ stage (2001-present), the Chinese government worked on a comprehensive policy system

During the early stage of China’s OFDI development, scholars always shared a negative view of the Chinese government’s control and restriction of OFDI, similar as many other developing countries (UNCTAD, 1996). The Chinese government involvement in encouraging and directing OFDI can be traced back to the 1990s through its promotion of specialised international trade corporations (Cai, 1999). Viewing China’s TNCs in the early 1990s, Zhang and Van Den Bulcke (1996) maintain that if enterprises could balance the influence of ‘the governmental bureaucratic system’ and ‘the development of a real entrepreneurial logic’ well, it is likely for them to be successful and competitive, as compared to those ‘which have based their international business strategy only on the privileged position which they received from the government’. This is a rather tentative study to consider the interplay between the interests of government and firms.

Regardless of the different criteria to define stages, it has been generally agreed that year 2001 marks the new era of China’s OFDI (Buckley, Cross *et al.*, 2008, Luo *et al.*, 2010, Voss *et al.*, 2008). Since the Chinese government formally initiated the ‘going out’ strategy, a series of regulations were issued to form a complete political and institutional framework to supervise and monitor

outward investment. Luo et al. (2010) also addressed that the government transformed its role from being a regulator to a guide and supporter.

Additionally, Luo *et al.* (2010) categorise China's policies into two groups, administrative and promotional and then reveal the features of China's HCMs in different phases. However, these scholars only have listed key points of a number of policies and regulations without a look into the details (Luo *et al.*, 2010, Ren *et al.*, 2010, Voss *et al.*, 2008). Their shortcomings are as follows, which will be compensated by our research. First, none of them embrace the extensive policies and regulations, especially after 2005, or with special concerns on Chinese MNEs' overseas activities like overseas listings, cross-border M&As or establishing offshore holding subsidiaries. Second, the extant studies merely connect the measures with the general trend of Chinese OFDI, instead of excavating the relationship between the Chinese government and MNEs or conducting case studies to analyse dominant investors.

2.4.2 Positive effects

China has entered a new era with the entry into the WTO in 2001. Many changes occur to China's political, economic, social, and cultural sectors. Based on comprehensive reading of China's policies and regulations related to OFDI and relevant comments by scholars (for example, Freemand, 2008, OECD, 2008, Voss *et al.*, 2008), it is found that most policies and regulations accessible now were promulgated in 2000s. Furthermore, most of HCMs which are effective now are issued after 2003. Therefore, this research regarded 2003

as a turning point in the process of China's OFDI development and focuses on the government's subsequent political and regulatory activities. After 2003, the significance of the relationship between the government and the business groups has been gradually noted. It is worth noting that the above-mentioned barriers holding back China's OFDI have been relaxed to some extent. The Chinese government has since then simplified the examination and approval procedures, and more incentive policies have been launched. It has been agreed by researchers that policy liberalisation has had a positive influence on stimulating Chinese OFDI. For instance, Voss *et al.* (2008) suggest that the considerable growth of the Chinese OFDI, particularly after 2002, is a consequence of the more liberal measures and government support. These regulations reflect the role of the state as the major shareholder in central enterprises. The regulations are very significant, especially in the context of emerging MNEs in China. Smaller firms, however, do not benefit from institutional advantages as large, well-connected Chinese SOEs (Voss *et al.*, 2009). Other institutional advantages such as diplomatic and financial assistances, as well as state-supported scientific and technical research are extensively accredited (Buckley *et al.*, 2006, Cai, 1999, Child and Rodrigues, 2005, Deng, 2004, Luo *et al.*, 2010, Rui and Yip, 2008).

2.4.3 Institutional constrains

In spite of the government effort to promote firm performance to some extent, it has also been argued the institutional constraints, such as protectionism, the weak judiciary and legal systems, and constant changes of the policies and

regulations. Wu (2005) has labelled an administratively decentralised China a 'vassal economy' dominated by local protectionism. Government intervention has sheltered enterprises to mature in the home country and then to develop in the international market (Deng, 2009, Morck *et al.*, 2008). Moreover, Morck *et al.* (2008) propose that the government officials may use OFDI as 'flagship' projects overseas to advance their careers as bureaucrats, not taking into account of the economic returns of these investments. This finding reflects the call by Naughton (2008) that central enterprises are 'national champions in the sense that they can be sent forth to battle for objectives the national government wants to achieve'. Furthermore, Boisot and Meyer (2008) introduce the notion of institutional arbitrage, which is in dispute with the mainstream perspectives, which reveals MNEs from developing countries seeking advantages abroad. They argue that Chinese firms do so to elude the competitive disadvantages at home country and pursue advantages enjoyed by foreign firms operating within China.

Some scholars apply the principal-agent theories (Laffont and Martimort, 2002) to discuss corporate governance and overseas operation of the Chinese state-owned multinational enterprises. For example, Gill and Reilly (2007) study Chinese companies operating in Africa and found that contradictions between the interests and aims of government principals and agents (companies and businesspersons). When undertaking overseas mergers and acquisitions, due to principal-agent problems, public companies may encourage and allow the acquisitions that are not consistent with long-run profit maximisation (Globerman and Shapiro, 2009). Chinese scholars, for example, Wang and

Wang (2008), Song *et al.*(2010) and Li and Shi (2004), argue that principal-agent problems include long principal-agent chains, ineffective incentive and constraint mechanism, internal control, and multi-roles of principals and agents. Furthermore, these problems in overseas corporate governance may result in the loss of overseas state-owned assets and bring constraints to OFDI development (will be discussed in Chapter 5).

Another shortcoming of China's institutional environment is the complicated and time-consuming examination and approval procedure. For example, Wong and Chan (2003) found that China's domestic regulatory barriers involve complex and prolonged approval procedures for start-up businesses, excessive control over foreign exchange and a lack of adequate government support. The incentive policies on overseas projects are often not easily accessible to the general public. Many enterprises do not know the existence of these documents, and if they do, they do not know where to get them. Another weakness is the unexpected changes of regulatory policies. It is then difficult for the Chinese firms to make appropriate business strategy for long-term overseas investments (Buckley, 2004, Luo and Peng, 1999, Peng and Luo, 2000, Shenkar, 1996). Although the Chinese government plays a continually dominant, rather than a diminishing role in big businesses (Nolan and Yeung, 2001b), its economic policies in the 1980s and 1990s failed and many large enterprises have not caught up with the world's leading business (Nolan, 2002). Different from the views of other scholars, Wang (2002) claims that it is reasonable for the government to be highly involved in OFDI activities, not only because the investors are primarily SOEs, but also to ensure that the OFDI would meet the

country's long-term development strategies. However, at that time, the government concentrated on preventing illegal capital outflows and the unnecessary loss of state-owned assets. The support from the Chinese government was less than adequate.

Accordingly, it is suggested that Chinese MNEs adopt OFDI to avoid the administrative constraints at home country, in particular local protectionism (Nolan, 2001b), deficient intellectual property rights (Boisot, 2004), and poor R&D system at the national, industrial, and firm levels (Buckley, Clegg *et al.*, 2008). All these concerns trigger Chinese MNEs to access the advantages outside home country. This is also well-known as the escapism view. The discussions on China's OFDI, especially from the private sector, have concentrated on capital flight (Cheung and Qian, 2010, Gunter, 1996, Harrold and Lall, 1993, Lardy, 1995, Sicular, 1998, Wu and Tang, 2000) and/or round tripping (Sutherland, 2010, Sutherland and Matthews, 2009, Xiao, 2004). There are also a number of Chinese scholars involving in this study, who attempt to work out the channels of capital flight and the value or ratio of China's round-tripping (for example, Ren, 2001, Song, 1999, Yang and Gunter, 2002, Yang and Liu, 2000, Zhuang, 2000), as capital flight was not recorded in official statistics (Wall, 1997).

Sutherland and Matthews (2009) argue that this portion of Chinese OFDI cannot be well explained by mainstream perspectives, which is, in reverse, always overlooked or ignored. Furthermore, no one can tell what is the next destination of China's OFDI flows to tax havens like British Virgin Islands

(BVI) or the Cayman Islands (CI), and whether they go back to home country ('round-tripping') or expand to other destinations ('onward-journeying') (Sutherland, 2010).

It is difficult to precisely quantify the extent of round-tripping. Some studies suggest that the round-tripping flows might account for 25% of the inflows to China in 1992 (Harrold and Lall, 1993), or much higher than 25% (Wu and Keong, 2002), or about half of investment from Hong Kong (Xiao, 2004).

Literature concerning the motivations of 'round-tripping' investment is limited. Xiao (2004) hypothesises two types of round tripping: rent-seeking, or investment for escaping regulation, which is believed to facilitate private companies to avoid institutional constraints; and value-seeking, or investment for value added services, which is more likely to occur in the financial business. In addition, Xiao (2004) summarises four incentives for China's round-tripping investment: tax advantages and fiscal incentives, property rights protection, expectations on exchange control and exchange rate, and competitiveness of Hong Kong, China and overseas financial services. As beneficial regulations are widely provided to encourage FDI flows into the newly industrialised economies, especially Mainland China, round-tripping activities are widely known in these countries and areas. Wong and Chan (2003) believe that around 20% of the total FDI flows to Mainland China are made up of round-tripping funding. The primary reason why Chinese enterprises continue to increase their investment into tax heavens is to gain access to preferential tax incentives normally reserved for foreign investors. This 'round tripping' will most likely continue until domestic investors receive similar treatment as foreigners.

These arguments, however, may not be plausible for Chinese SOEs, which enjoy the government's preferential treatment in obtaining bank loans and accessing the financial markets (Morck *et al.*, 2008). It is well-known that China's capital markets are dominated by banks, especially the four state-owned commercial banks: the Bank of China, Industrial and Commercial Bank of China, China Construction Bank, and Agricultural Bank of China, which jointly account for around three-quarters of all commercial loans and over 50% of the total banking assets at the end of 2005 (ABC, 2006, BOC, 2006, CBRC, 2006, CCB, 2006, ICBC, 2006). Capital market imperfections are caused by soft budget constraints, China's inefficient banking system, intra-company cross subsidising and tunnelling, and personal capital (Buckley *et al.*, 2007, Morck *et al.*, 2008, Voss *et al.*, 2009). Due to the banks' lack of competence in evaluating risks (Tsai, 2004) and the government's support with preferential treatment, most of the excessive bank loans finally go to the state sectors, although SOEs have lower returns to capital than private companies (Dollar and Wei, 2007). For example, 73% of the short-term bank loans between 2001 and 2004 were issued to Chinese SOEs, while the lending to private firms remained 0.3% of the total lending credit from 2000 to 2004 (Benderson, 2008). Shirai (2002) also reveals that banks are more inclined to grant loans to large, old, less profitable firms, and firms with a high level of state ownership.

2.5 Conclusion

Scholars have consistently argued whether the mainstream theories can explain the FDI from developing countries (for example, Cantwell and Tolentino, 1990, Lall, 1983, Wells, 1977, Wesson, 1999). Widely received theories mostly concentrate on enterprises from developed countries, such as the USA, Europe and Japan. They are usually world-famous firms with advanced technologies for many years. This is different from China's state-owned or state-controlled enterprises. The current international investment environment for developing countries is also different from that in a few decades ago, in terms of the degree of integration, openness, network and economic development. Furthermore, the heavy involvement of the Chinese government to shape, guide and support OFDI development makes China a typical example to expand international business theory in the light of cross-sectional analysis, taking the political, economic and social factors into consideration. Given the Chinese government's ambitious policies to encourage OFDI, and the rapid global expansion of Chinese companies, it seems important to have a progressive and in-depth investigation into the relationship between the Chinese government and business groups. It is essential to understand the objectives and activities of both the government and MNEs.

Specifically, it should be noted that the extant literature in the field of international business cannot fully account for the importance of China's political supervision. One possible reason is that a significant share of the research on Chinese OFDI is entirely in the light of extant international business theories, which are originated and derived from the study of western MNEs (Cai, 1999, Deng, 2004, Liu *et al.*, 2005, Wong and Chan, 2003, Wu,

2005, Wu and Chen, 2001). Although they take China's context into account, not much attention has been paid to the important factor, which is the Chinese government will never give up its control over SOEs. This is especially the case for those strategic industries and sectors that have significantly influenced China's economic performance and growth.

The conclusion drawn on the role of China's government and effects, however, is always mixed, positively and negatively. Some believe that government intervention may cause problems, such as corruption, over protection, and using OFDI as 'flagship' projects (for example, Morck *et al.*, 2008). In contrast, other scholars claim that, Chinese government has made great efforts to promote OFDI, although a lot of problems are still waiting to be solved. Luo *et al.* (2010) believe that the institutional barriers and governmental promotion should be deliberated as dual forces that co-exist and push Chinese MNEs to internationalise. Even if most scholars agree that the Chinese government plays an important role in the OFDI progress, very few of them, however, have looked into the details of policies and investigate the political determinant. This is not only for its potential to extend current theories but also for the policy lessons it may offer to other developing countries.

This research attempts to fill in the gaps in the literature concerning the institutional effects on OFDI. From the viewpoint of the government, based on the study of policies and regulations, this research addresses what the government has done and what their concerns are, and further to address the nation's interests. Moreover, firms' business activities indicate their responses

to the HCMs and reflect the corporate interests. This research will indicate whether a convergence or conflict exists between the State and firms' pursues, and to what extent the HCMs influence OFDI development.

Chapter 3 Background: China's OFDI, government and enterprises

Host countries, home countries and TNCs are involved in a triangular relationship in a foreign-direct-investment transaction (UNCTAD, 2001). In the triangular relationship in the OFDI activities, this research concentrates on the relationship between the home country government and Chinese TNCs. Before later considering in more detail China's HCMs and their effects, this chapter reviews the background information relevant to the research on HCMs effects. Section 3.1 briefly presents the development of China's OFDI and further discusses the problem with the Chinese official statistics. This also provides one reason for the data selected in this research. Section 3.2 introduces the governmental institutions like the Ministry of Commerce (MOFCOM) and the State Administration of Foreign Exchange (SAFE), and briefly outlines the evolution of their functions. This helps in understanding the role of different departments in regulating OFDI measures. After that, section 3.3 reviews the progress made by Chinese TNCs in recent years.

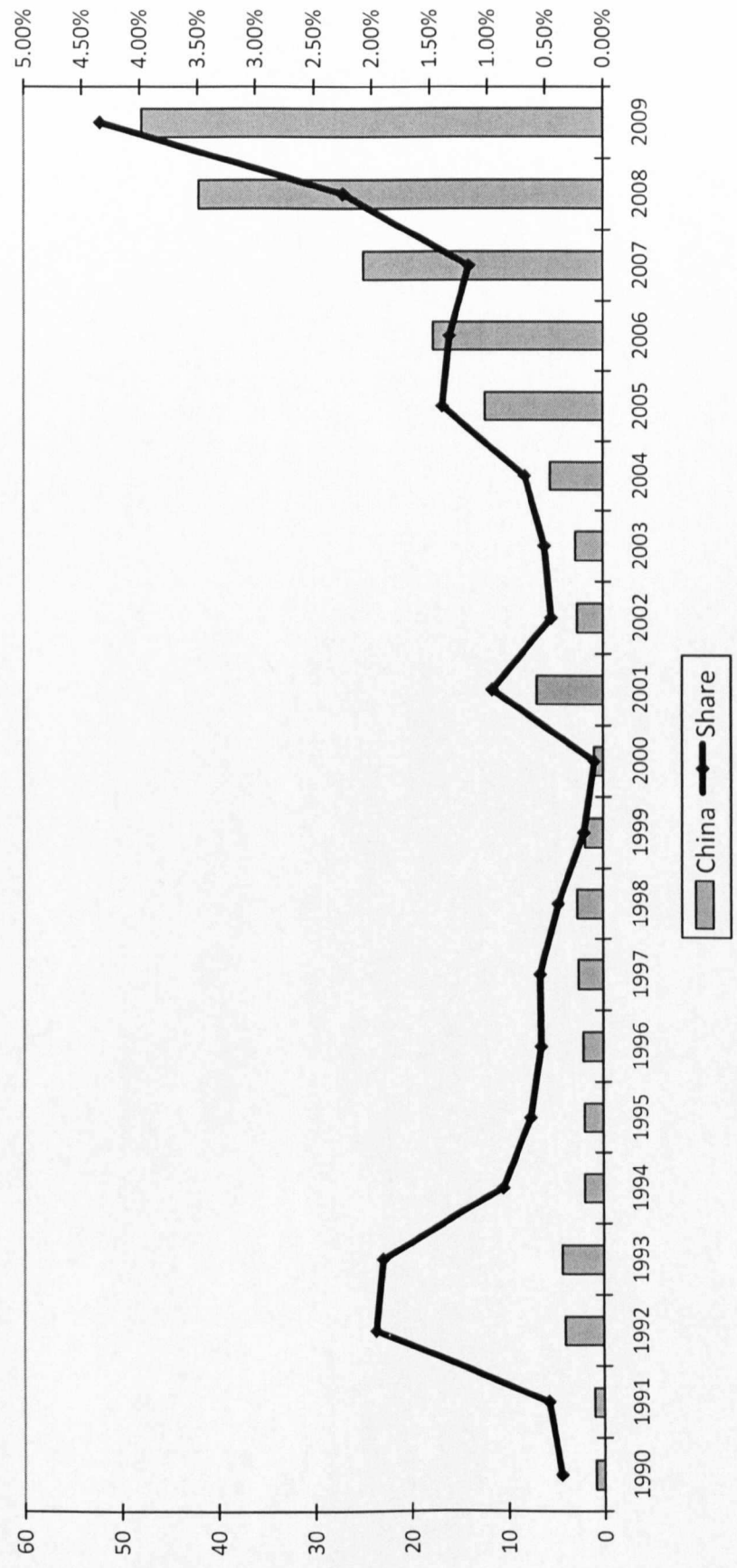
3.1 China's outward investment and official data

If taking account of financial investment, China's total outward investment amounted to USD 56.53 billion in 2009 (MOFCOM *et al.*, 2010). This research focuses on China's non-financial OFDI flows (OFDI hereinafter), which reached USD 47.8 billion in 2009, an increase of 14.2% compared to that in 2008 (MOFCOM *et al.*, 2010). The value of non-financial OFDI stock was

USD 199.76 billion at the end of 2009, which accounted for 81.3% of the total stock. Figure 3.1 illustrates the value of overseas investment increased in recent decades and China's proportion in the world's OFDI. According to figure 3.1, there are three stages in the development of Chinese OFDI. First, before 2003, China's OFDI fluctuated and maintained a very small percentage of the world's total investment, which for most years was below 1%. Second, during 2003-2007, both the value and the percentage of China's OFDI gradually increased. Third, since 2008, the global financial credit crunch seemed to have positive effects on China's OFDI development, which resulted in the proportion increasing from 0.45% in 1990 to 4.34% in 2009.

Although the annual value and percentage of China's FDI outflows grew rapidly, China's OFDI stock was still a small proportion of that of the whole world. Thanks to the global economic depression, the year 2009 witnessed the first time that the percentage of China's OFDI stock broke through 1% of the global outward investment stock (UNCTAD, 2010b).

Figure 3.1: The annual outflows of Chinese FDI and the proportion of China in the world's OFDI 1990-2009 (USD billions; %)



Source: World Investment Reports, UNCTAD; Statistical Bulletin of China's Outward Foreign Direct Investment, China Ministry of Commerce, various years.

China's OFDI has the following characteristics. First, Chinese TNCs target a larger coverage of markets open to foreign investment. China had invested into 177 countries and regions at the end of 2009, which were considerably more than 139 countries in 2003 (MOFCOM and NBS, 2004, MOFCOM *et al.*, 2010). Regarding the distribution of overseas companies, Asia is the top one continent with more than 6,800 Chinese enterprises. Specifically, 19.8% of total overseas enterprises integrated in Hong Kong (MOFCOM *et al.*, 2010). These overseas enterprises concentrate on the industries of manufacturing, wholesale and retailing and business services. Chinese enterprises prefer to set up wholly owned affiliates and branches abroad, which account for 95.1%, while only 4.9% are joint ventures (MOFCOM *et al.*, 2010).

Second, the most attractive targets of OFDI flows and stock were always Hong Kong, Cayman Islands (CI) and British Virgin Islands (BVI) from 2003 to 2009 (table 3.1). These regions, in particular the latter two, are important destinations (or are known as tax havens), as they have tax, accounting and legal systems that facilitate business formation, from which further onward investments may be made. The top three destinations of China's OFDI flows changed in 2008 and 2009. The point worth highlighting is that in 2009, the investment into Australia and Luxembourg both surpassed the flow into BVI. However, it is impossible that CI and BVI are the final destinations of OFDI. Investment to tax havens may flow back to mainland China (round tripping) or may proceed to other countries (onward journeying) (Sutherland, 2010), which needs further investigation.

Table 3.1: Top destinations of China's OFDI (USD billions)

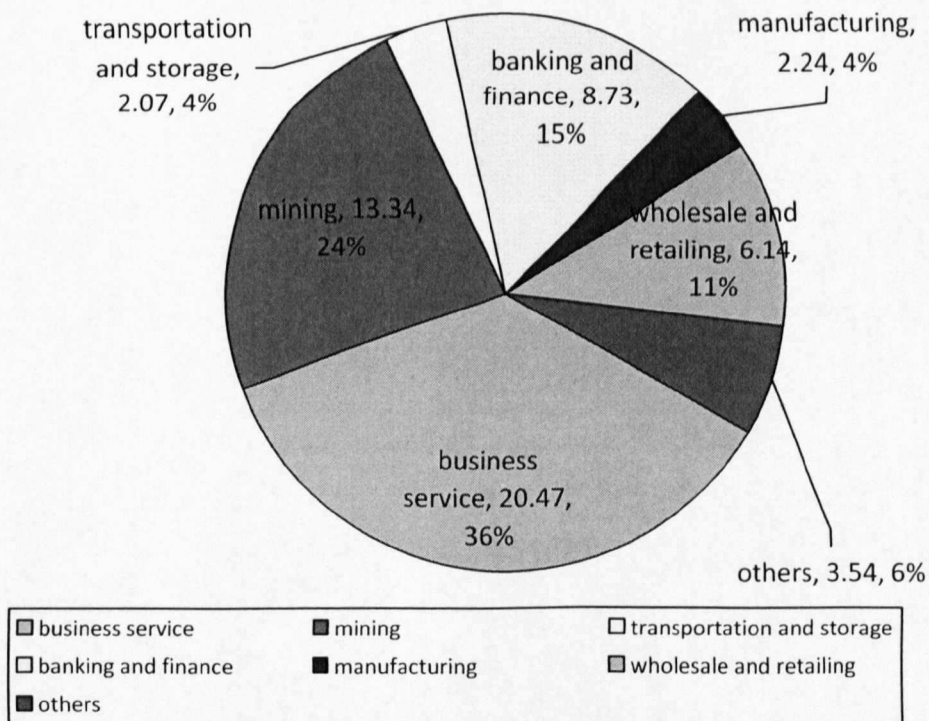
Country region	2003		2004		2005		2006		2007		2008		2009	
	Value	Share	Value	Share	Value	Share	Value	Share	Value	Share	Value	Share	Value	Share
Hong Kong	1.15	40.35%	2.63	47.80%	3.42	27.90%	6.93	39.31%	13.73	51.79%	38.64	69.11%	35.6	63%
CI	0.81	28.32%	1.29	23.38%	5.16	42.09%	7.83	44.41%	2.6	9.81%	1.5	2.7%	5.37	9.5%
BVI	0.21	7.37%	0.39	7.02%	1.23	10.03%	0.54	3.06%	1.88	7.09%	2.1	3.8%	1.61	2.9%
Total of three	2.17	76.04%	4.30	78.20%	9.81	80.02%	15.3	86.78%	18.21	68.69%	42.24	75.6%	42.85	75.4%

Note: The values of OFDI flows in 2007, 2008 and 2009 include financial investment.

Source: Statistical Bulletin of China's Outward Foreign Direct Investment, China Ministry of Commerce, 2003-2009.

Third, as indicated by figure 3.2, overseas investment distributes into a broad spectrum of sectors, such as business service, wholesale and retailing, mining, transportation and storage, and manufacturing. The mining industry ranks the first for overseas investment value in 2003, 2004, 2006 and 2007. Different from other years, in 2008, USD 6.51 billion flew to the wholesale and retailing industry, comprising 15.6% of the annual OFDI (MOFCOM *et al.*, 2009). In 2005 and 2009, the business service sector attracted the most investment, which approximately accounted for more than 30% of the total value (MOFCOM *et al.*, 2006, 2010). The data of outflows to the banking and finance sector only became available from 2006. For instance, in 2009, 8.73 USD billion flew to this sector, accounting for 15% of the annual investment (MOFCOM *et al.*, 2010).

Figure 3.2: the value and percentage of investment flows to different industries 2009 (USD billion; %)



Source: (MOFCOM *et al.*, 2010)

Last but not least, most investors are large SOEs, especially in early years; SOEs play the crucial part in investing overseas (MOFCOM, various years). However, the percentage taken by SOEs is surpassed by limited companies, which were only ranked in the second place in 2008. To be specific, 43% of total overseas investors were SOEs in 2003, while this proportion continuously declined to only 13.4% in 2009 (MOFCOM *et al.*, 2010). The diversity of investing companies' ownership can reduce the risk to invest abroad. This is also in accordance with the Chinese government's 'going out' strategy that encourages enterprises with various forms of ownership to invest abroad (Jiang, 2002). Concerning the stock value accumulated over years, however, the picture looks different. SOEs, which take 69.2% of the stock, are still regarded as the main power to invest abroad. Data and information of non-SOEs is quite limited. One possible reason is that investment by private companies flows to tax havens and then onwards to unknown destinations, which is thus unable to be traced.

In particular, only 4.9% of investors were central enterprises in 2009 (MOFCOM *et al.*, 2010). Affiliates founded by central enterprises account for 19% of the total number. As far as FDI outflow in 2009 was concerned, 67.6% was achieved by central enterprises, which was less than 85.4% in 2008. The stock of OFDI by central enterprises in 2009 maintained a high proportion, amounting to 80.2% of the total value (MOFCOM *et al.*, 2010). This can be recognised as a distinct characteristic of China's OFDI: central enterprises are 'weak' in numbers but dramatically strong in investment activities.

On the other hand, the above analysis of China's OFDI features is based upon official data. At the current stage, due to the lack of high quality data, most scholars applied official statistics from the Chinese government, in particular Chinese government sources like MOFCOM's Statistical Bulletin of China's Outward Foreign Direct Investment (Cui and Jiang, 2009), Almanac of China's Foreign Economic Relations and Trade (MOFCOM) (Buckley, Clegg *et al.*, 2008, 2007, Wu and Chen, 2001), and China Statistical Yearbook (Buckley, Clegg *et al.*, 2008, Buckley *et al.*, 2007, Liu *et al.*, 2005). However, applying official data to analyse OFDI has been questioned (Naughton, 2007, Voss *et al.*, 2009), as other official Chinese statistics, for example, Rawski's argument on the reliability of China's GDP statistics (Rawski, 2001a,b). Holz (2004) reveals the problems in compiling accurate data during the process of China's economic transition and development. In addition, Wong and Chan (2003) indicate that China's official figures for OFDI released by the Ministry of Foreign Trade and Cooperation (MOFTEC) between 1979 and 2001 are significantly underestimated. They include only non-trading outbound activities such as manufacturing and resource development. Korniyenko and Sakatsume (2009) have a similar assumption of underestimation due to the changing definitions and statistical methodologies. For example, China reported that up to 2007 the OFDI stock for Mongolia was USD 315 million, while the Mongolian FDI agency showed that the data should be USD 900 million (Korniyenko and Sakatsume, 2009). Moreover, China's OFDI statistics is significantly different from international standards in terms of quality and coverage; even large discrepancies exist between methodological approaches undertaken by MOFCOM and SAFE, two main official sources of OFDI data

(Buckley, Cross *et al.*, 2008, Schüller and Turner, 2005, UNCTAD, 2007a).

The inflation brought by 'round-tripping' investment also results in scholars' doubt in official data as discussed in (for example, Schüler-Zhou and Schüller, 2009, Sutherland, 2010, Sutherland and Matthews, 2009).

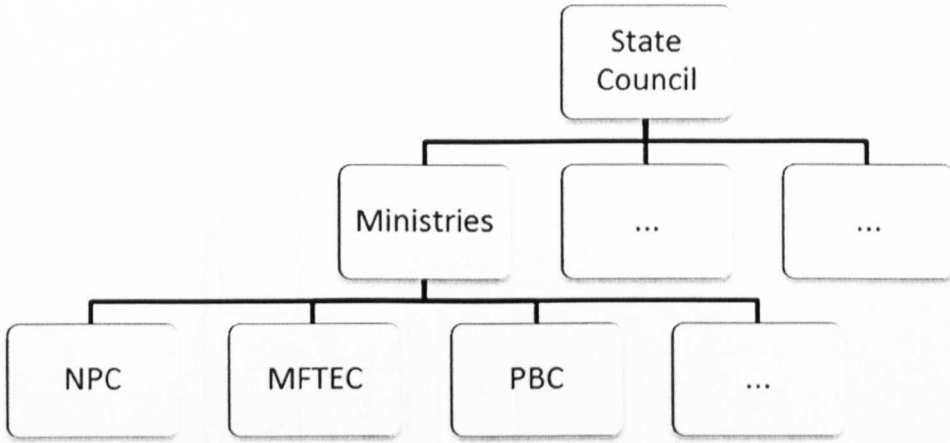
Due to the lack of high quality data, this research applies firm-level data obtained from enterprises' websites, financial reports and reliable news reports. The reason for methodology selection and data collection will be elaborated in the next chapter.

3.2 Institutional actors

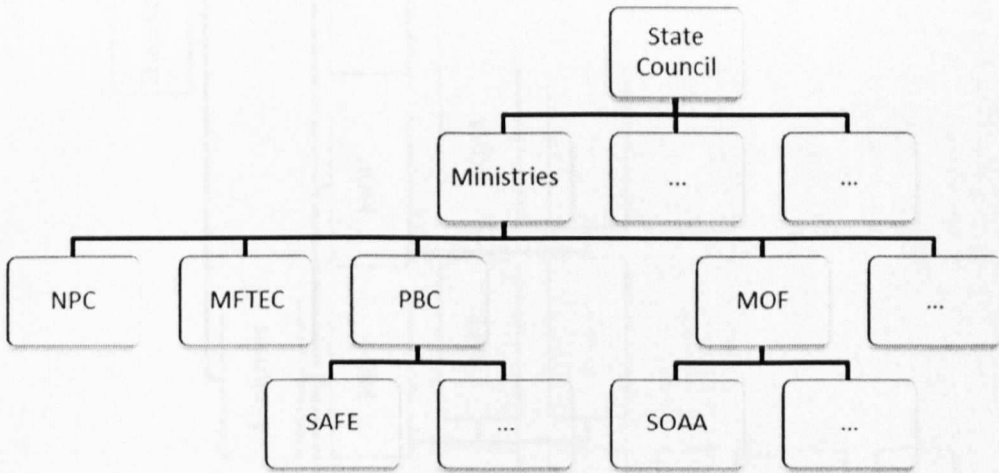
Nowadays, scholars agree that the major actors engaged in the administration and support of OFDI are the State Council, the National Development and Reform Commission (NDRC), the People's Bank of China (PBC), the Ministry of Commerce (MOFCOM), the State Administration of Foreign Exchange (SAFE), and the State Asset Supervision and Administration Commission (SASAC). They guide which country or industry is preferential, and which country or industry need more consideration when making OFDI decisions. Figure 3.3 outlines the evolution of these departments. To provide a more complete legal, regulatory and financial framework of OFDI, this section also discusses the Ministry of Finance (MOF), an important actor to offer financial support, and the China Securities Regulatory Commission (CSRC), crucial in the supervision of overseas listings. The rest of this section introduces their functions under the current Constitution.

Figure 3.3: evolution of Chinese regulation departments of OFDI

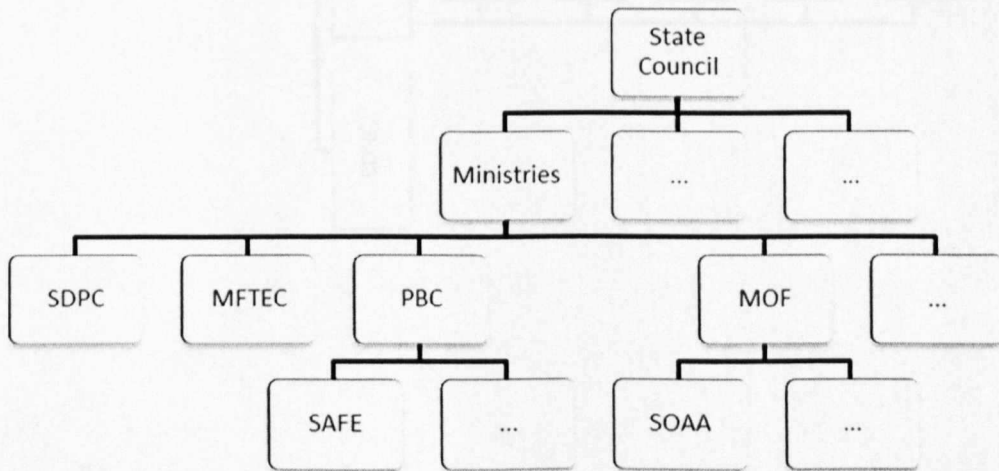
1998

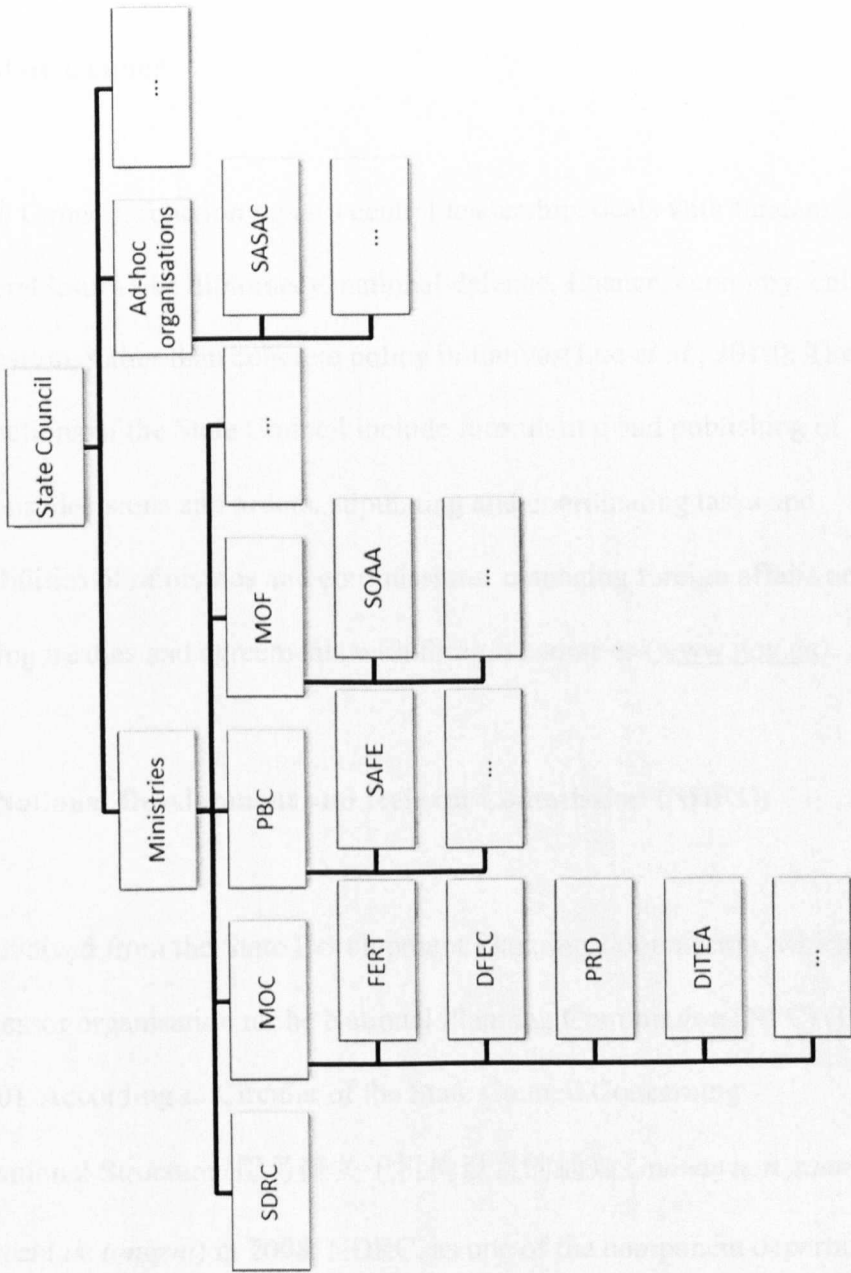


1994



1998





Notes: NPC, National Planning Commission; MFTEC, Ministry of Foreign Trade and Economic Cooperation, the predecessor of MOC; PBC, People's Bank of China; MOF, Ministry of Finance; SOAA, State-owned Assets Authority; SAFE, State Administration of Foreign Exchange; SDPC, State Development Planning Commission; MOC, Ministry of Commerce; SDRC, State Development and Reform Commission; SASAC, State-owned Assets Supervision and Administration Commission; DFEC, Department of Foreign Economic Cooperation; PRD, Policy Research Department; DITEA, Department of International Trade and Economic Affairs; FERT, Foreign Economic Relation & Trade.

Source: Luo *et al.* (2010)

3.2.1 State Council

The State Council, functioning as a central leadership, deals with fundamental and general issues like diplomacy, national defence, finance, economy, culture and education, rather than concrete policy initiatives (Luo *et al.*, 2010). The chief functions of the State Council include formulating and publishing of regulations, decisions and orders, stipulating and coordinating tasks and responsibilities of ministries and commissions, managing foreign affairs and concluding treaties and agreements with foreign countries (www.gov.cn).

3.2.2 National Development and Reform Commission (NDRC)

NDRC evolved from the State Development Planning Commission, which was the successor organisation to the National Planning Commission (NPC) (Luo *et al.*, 2010). According to Circular of the State Council Concerning Organizational Structure (国务院关于机构设置的通知 *Guowuyuan guanyu jigou shezhi de tongzhi*) in 2008, NDRC, as one of the component departments of the State Council, should approve, authorise, and review key investment projects for overseas resources development, and investment projects utilising large amount of foreign exchange as mandated by the State Council, as well as

develop strategies, planning, goals and policies to balance and optimise outward investment' (www.ndrc.gov.cn). For instance, one of the most important policies issued by NDRC is Interim Administrative Measures for the Examination and Approval of Overseas Investment Projects (境外投资项目核准暂行管理办法 *Jingwai touzi xiangmu hezhun zanxing guanli banfa*), which is studied in detail in Chapter 5. In addition, NDRC works closely with the Chinese policy banks to provide financial support for relevant overseas projects (Chapter 6). Under the control of NDRC, the Department of Foreign Investment and Overseas Investment is responsible for the examination of overseas resource development and large investment projects and the planning of using foreign exchange for OFDI (wzs.ndrc.gov.cn).

3.2.3 Ministry of Commerce (MOFCOM)

MOFCOM evolved from the Ministry of Foreign Trade and Economic Cooperation (MOFTEC). MOFCOM's functions include drafting and implementing policies and regulations of large non-financial OFDI projects, negotiating bilateral and multilateral investment and trade treaties, ensuring the alliance of China's economic and trade laws with international treaties and agreements, and coordinating China's foreign aid policy and relevant funding and loan schemes. As the competent authority of OFDI, the Department of Outward Investment and Economic Cooperation (hzs.mofcom.gov.cn), under the control of MOFCOM, is set up to formulate laws and regulations with regard to OFDI, to formulate administrative measures and policies guiding overseas investment, to examine and approve OFDI and establishment of

overseas affiliates (excluding financial companies) and supervise their operations, and to guide the work of Chinese authorities in foreign countries. Above responsibilities are reflected by MOFCOM's examination and approval of OFDI projects according to Measures for Overseas Investment Administration (境外投资管理办法 *Jingwai touzi guanli banfa*). MOFCOM also involves in information provision and technical assistance, in particular, the publishing of Countries and Industries for Overseas Investment Guidance Catalogue (对外投资国别产业导向目录 *Duiwai touzi guobie chanye daoxiang mulu*).

3.2.4 People's Bank of China (PBC)

As one of the component departments of the State Council and functioning as the Central Bank, PBC's main responsibilities are to macro-control and coordination of the Chinese financial system, such as to issue and enforce regulations, to formulate and implement monetary policy and to regulate inter-bank markets (www.pbc.gov.cn). PBC's influence on China's OFDI is exercised by its combined powers over monetary policies and foreign exchange control. For example, RMB appreciation and reduced foreign exchange reserve ratio are the incentives to motivate enterprises to invest abroad. However, PBC does not provide grants or loans for enterprises to invest abroad, which are executed by China's policy banks (directly under the State Council) and commercial banks (under the supervision of China Banking Regulatory Commission).

3.2.5 State Administration of Foreign Exchange (SAFE)

Similar to NDRC and MOFCOM, SAFE's current tasks are confirmed after several reorganisations, which can be dated back to the State General Administration for Exchange Control in 1982 (Voss *et al.*, 2008). SAFE is principally responsible for monitoring cross-border capital flows, supervising overseas and domestic foreign exchange accounts, and undertaking management of foreign exchange reserves (www.safe.gov.cn). Under the direct control of PBC, SAFE performs as the governor of China's foreign exchange reserves. Its main responsibilities include putting forward foreign exchange

management system reform, drafting regulations related to foreign exchange administration, and supervising the domestic and overseas foreign exchange accounts. Any enterprise aiming at overseas activities has to apply to SAFE or its local branches for the OFDI foreign exchange registration certificate. Meanwhile, SAFE works with MOFCOM to inspect and evaluate Chinese enterprises' performances per annum. SAFE also has rights to punish the institution which violates relevant stipulations regarding foreign exchange administration. China's foreign exchange reform and its effects will be investigated in Chapter 4.

3.2.6 Ministry of Finance (MOF)

The responsibilities of MOF related to OFDI are to formulate and implement government policies on mergers and acquisitions, to manage the government's non-tax revenues and governmental funds to support enterprises, to monitor the corporate finance of central enterprises and profitability of state-owned assets, to handle and supervise the appropriated funds for investment projects by the central government (www.mof.gov.cn). One of MOF's key contributions is to provide special funds for foreign economic and technical cooperation. MOF's support to OFDI will be discussed in Chapter 5.

3.2.7 China Securities Regulatory Commission (CSRC)

The China Securities Regulatory Commission (CSRC) is a ministry-level unit directly under the State Council. Its main responsibility is to regulate China's

securities and futures markets to ensure their orderly and legitimate operation, including drafting policies and development planning of securities and futures markets; inspecting the issuance, listing, trading, custody and settlement of stock, convertible bonds and corporate bonds; supervising listed companies and their stock market behaviours; inspecting domestic enterprises' direct or indirect overseas issuance and listing; monitoring foreign institutions to set up securities and futures organizations in china. CSRC issues annual reports to provide information of securities and futures on China's capital market on a yearly basis. Chapter 4 will explore CSRC's control over the listings on the foreign stock exchanges and its subsequent effects on OFDI.

3.2.8 State Asset Supervision and Administration Commission (SASAC)

In 2003 SASAC was established and directly subject to the State Council. In terms of the structure, SASAC is the only name in the category 'special organisation directly under the State Council' (国务院直属特设机构 *guowuyuan zhishu teshe jigou*). As indicated by SASAC official website, SASAC performs the responsibility as the investor on behalf of the state; guides and pushes forward the reform and restructuring of state-owned enterprises; supervises the preservation and increment of the value of state-owned assets for enterprises under its supervision; appoints and removes top executives of the enterprises under the supervision of the Central Government, evaluates their performances, and grants them rewards or inflicts punishments; and, directs and supervises the management work of local state-owned assets

(www.sasac.gov.cn). SASAC primarily functions throughout the administration, approval and support of central enterprises.

However, SASAC has been questioned whether it can fulfil the objective of ensuring SOEs to remain competitive and maintain and further increase the value of state-owned assets (Clarke, 2003, Naughton, 2007, Pearson, 2005). Working at both the national level and sub-national levels, SASAC exercises its power through appointing senior managers to SOEs and through involving in major decision-making of its controlled firms (Naughton, 2007), in particular before 2010. Reported by Tan (2009), at the end of 2009, the Organisation Department of the CPC Central Committee and SASAC promulgated two measures to administer and supervise SOEs' senior management. The Interim Provisions concerning the Administration of Central Enterprise Leaders (中央企业领导人员管理暂行规定 *Zhongyang qiye lindao renyuan guanli zanxing guiding*) formulates the requirements, positions and working periods for SOEs' board of directors, senior managers, party committee members and other leaders. Additionally, the Measure to Comprehensively Assess and Evaluate the Leadership Team and the Leaders (中央企业领导班子和领导人员综合考核评价办法 (试行) *Zhongyang qiye lindao banzi he lindao renyuan zonghe kaohe pingjia banfa (shixing)*) lists the detailed procedure and methods to assess senior management and relevant rewards and punishments. Although their complete official versions are not available, these two measures noticeably indicate that the Chinese government has rights to appoint and assess all leadership members of SOEs. These managerial candidates may not be most suitable but rather the most rewarded

(Voss *et al.*, 2008). Furthermore, an OFDI project is undoubtedly regarded as a crucial decision that influences a SOE's value of state-owned assets, which thus cannot avoid SASAC's supervision (Voss *et al.*, 2008).

The conflict between SASAC's two roles is yet not clarified (Wen and Tan, 2009). As a representative body created to exercise the government's ownership rights over selected state-owned firms (Naughton, 2008), staff of SASAC primarily came from the State Economic and Trade Commission (now restructured and cancelled) (Hu, 2005). They have the right to promulgate policies and regulations, which typically is the responsibility of institutional organisations. Except performing as the governmental supervisor, SASAC is currently the largest investor and owner of all non-financial SOEs (Luo *et al.*, 2010). However, this phenomenon is not consistent with the provided criteria 'separating politics from capitals' (政资分离 *zhengzi fenli*) (Zhang, 2009a). Voss *et al.* (2008) believe that OFDI by smaller SOEs and private firms may be discouraged due to their shortage of well established relations (*guanxi*) with the Central Government.

3.3 Chinese TNCs and their achievements

Having introduced the major institutional actors, the next step is to briefly review the development of China's TNCs. In 1997, the Fifteenth Party Congress put forward the slogan of 'grasping the big and letting go the small' (抓大放小 *Zhua Da Fang Xiao*). It is regarded as a strategic adjustment of SOE reform. At that time only about 1000 SOEs were considered 'large'. And

other 'small or medium size' SOEs were promoted to privatisation. The core of SOE reform from 2001 to present is ownership reform. In November 2001, the 10th National Congress promoted to establish central and local institutions in order to separate government administration from enterprise management and separate ownership from management power. Policy makers and business leaders in China have made great efforts to support the process of 'jituanhua', the transformation of enterprises into extended groups of enterprises (Sutherland, 2007). Members of Chinese enterprise groups are believed to benefit from being part of a group. Most of this reform is undertaken within the large-scale state sector. According to National Bureau of Statistics (NBS), by 2005 there were 2,845 large enterprise groups, holding assets of RMB 23 trillion (NBS, 2006), including central enterprises (groups) and enterprises (groups) approved by the central and local government.

3.3.1 Central enterprises

After the establishment of SASAC, the State Council initially announced that SASAC performed 'the responsibility of investor' (履行出资人职责 *lǚxíng chūzìrén zhìzè*) for 196 firms, which are also labelled 'the central enterprises'. From then on, SASAC has been China's largest investor and owner, which manages China's state-owned assets of all Chinese non-financial SOEs. According to 'Guiding Opinions about Adjustment and Reorganisation', till 2010, central enterprises would be highly consolidated and the number of central enterprises would be within 80-100 after further adjustment and restructure. As SASAC's planning, among these 80-100 central enterprises, 30-

50 will become big business groups with their own independent intellectual property rights and also with high international competitiveness. In other words, these 30-50 firms will be leading investors in the near future, which can be traced back to the idea of 'National Champions' (Nolan, 2001a). Moreover, Li Rongrong outlined five dominant fields for central enterprises' further development: the national security industries, the natural monopoly industries, the industries providing important public products and service and the key resource and pillar industries as well as some high-tech industries. Further consolidation is proposed for central enterprises that are not able to be among the leaders in these five fields.

By 31 December 2010 there have been lots of changes involving hundreds of central enterprises that had undergone corporate restructuring. As a result, the number of enterprises supervised by SASAC is updated and decreases from 196 to 122.¹ There are mainly four types of changes: changing names, introducing a new corporation, cancelling an existed company, and one company merging into another one. Table 3.2 gives several examples of different types of changes that have taken place in the central enterprises.

¹ The updated notice can be accessed at <http://www.sasac.gov.cn/n1180/n1226/n2425/index.html>.

Table 3.2: typical samples of changes

Types of restructuring	Example		Time
	Enterprises	Current situation	
Changing name	China Material Science and Industry Group Corporation 中国材料工业集团公司	China National Materials Group Corporation 中国中材集团公司	Jan. 2007
	China Forestry Group Corporation for International Co-operation 中国林业国际合作集团公司	China Forestry Group Corporation 中国林业集团公司	Jan. 2007
Establishing a new company	Commercial Aircraft Corporation of China Ltd. 中国商用飞机有限责任公司	Newly established	May 2008
	State Nuclear Power Technology Corporation Ltd. 国家核电技术有限公司	Newly established	May 2007
No longer on the list of central enterprises (Alternative: SASAC is no longer the investor of an enterprise.)	China National Automotive Industry Corporation 中国汽车工业总公司	Taken over by Shanghai Automotive	Dec. 2007
	Changjiang Estuary Construction Corporation 长江口航道建设有限公司	Changjiang Estuary Administration (长江口航道管理局) Under the supervision of China Ministry of Communications	Jan. 2006
Mergers	China Haisum International Engineering Investment Corporation 中国海城国际工程投资总院 and China Light Industrial Corporation for Foreign Economic & Technical Co-operation 中国轻工业对外经济技术合作公司	Both of them are wholly owned subsidiaries of China National Light Industry (Group) Corp. (中国轻工集团公司).	Nov. 2008
	China Water Investment Group Corp. 中国水利投资集团公司	It is a wholly owned subsidiary of China Three Gorges Project Corporation (中国长江三峡工程开发总公司).	Oct. 2008

Source: Changes of central enterprises (央企变更 Yangqi biangeng) (SASAC, 2008). Accessed at <http://www.sasac.gov.cn/n1180/n1226/n2665/index.html>

In particular, mergers between companies attract high attention. Summarised by Li Rongrong, primarily there are five types of corporate restructuring between central enterprises (Li, R., 2007). First, some scientific research institutions merged into industrial groups, like the merger of China Building Materials Academy (中国建筑材料科学研究院) into China National Building Material Group Corporation (中国建筑材料集团公司). The combination of research and production was supposed to increase the enterprises' capability of technological innovation, hence the merger. And academic institutions always become wholly owned subsidiaries of corporations.

Second, a number of industrial leaders were united together to become large-scale enterprise groups with 'greater overall capabilities' (较强综合竞争力 *Jiaoqiang zonghe jingzhengli*). For example, China Harbour Engineering (Group) Company (中国港湾建设(集团)总公司) and China Road & Bridge (Group) Corporation (中国路桥(集团)总公司) united and restructured to become China Communications Construction Company Ltd. (中国交通建设股份有限公司 CCCC). After the consolidation, CCCC becomes the largest enterprise of harbour design and construction in China. CCCC is also leading in road and bridge design and construction. It is also the largest dredging company in China and third largest in the world (CCCC website).

Third, the merger of 'window companies' (窗口公司 *Chuangkou gongsi*)² into key enterprises strengthens the capability to explore overseas markets. For instance, China Overseas Engineering Corporation (中国海外工程总公司, COVEC) became a wholly owned subsidiary of China Railway Engineering Corporation (中国铁路工程总公司), which now is called China Railway Group Ltd (中国中铁股份有限公司). COVEC's high experience in the international project contracting helps China Railway Group explore the international market and carry out overseas investment.

Fourth, like the merger of China National Group Corp. of Traditional & Herbal Medicine (中国药材集团公司) into Sinopharm (中国医药集团总公司), enterprises were combined to improve business integration and complementarities in industrial chains.

Fifth, through restructuring some enterprises were extricated from long-term loss. For example, China National Building Material & Light Industrial Machinery Group Corp. (中国轻工业机械总公司) began to make a profit after the merger into China National Building Material Group Corporation (中国建筑材料集团公司).

² A 'window company' refers to an economic entity directly invested, established and registered in Hong Kong and Macao by the people's government of a province, autonomous region, municipality directly under the Central Government or a Central Government department of the Mainland, which is authorized to exercise the administrative management functions over the enterprises established in Hong Kong or Macao by the said region, department or industry.

Despite the transformation among central enterprises, since 2004, SASAC has gradually recognised, announced and changed the main business industry of each central enterprise in seven batches (SASAC, 2007b). For example, China National Petroleum Corporation (CNPC), China Petrochemical Corporation (Sinopec) and China National Offshore Oil Corporation (CNOOC) have same main businesses: Oil and natural gas exploration and exploitation; Petroleum refining; manufacture, preservation, transportation and trade of petrochemicals and other chemical products; and, Relevant engineering technique research and service. SASAC's '2006 Review of Planning and Development and 2007 Key Work Ideas' (2006年规划发展工作回顾及2007年重点工作思路³ *2006nian guihua fazhan gongzuo huigu ji 2007nian zhongdian gongzuo silu*) emphasised that the verification of the main businesses is crucial for SASAC's effective supervision over central enterprises' strategic development. It also helps to concentrate limited resources on investment in main businesses, and then optimise the national economy. This reflects the support from the Chinese government to motivate overseas natural resources development.

3.3.2 Achievements

According to SASAC in recent years, central enterprises have made distinct progress in the aspects of restructuring, reform, research and administration (SASAC, 2008). Table 3.3 shows the achievements of central enterprises made during the period 2003-2007. At the end of the year 2007, although the number of central enterprises decreased from 196 to 151, the total assets of central

³ Accessed at <http://www.sasac.gov.cn/n1180/n3123702/n3123747/3308276.html>.

enterprises achieved RMB 14.92 trillion, around RMB 1.5 trillion growth annually. Total sales revenue in 2007 is more than twice as much as that in 2003, while total profits increase more than three fold in these five years. Table 3.4 also exhibits the numbers of leading central enterprises listed in SASAC and CNNMoney's statistical reports. Up to 2007, 44 and 27 central enterprises held assets and sales over RMB 100 billion, respectively. 19 central enterprises made more than RMB 10 billion profits. In other words, the numbers of central enterprises in 2007 are twice, or even triple, as many as the numbers in 2003, regarding enterprises whose assets and sales are over RMB 100 billion, and profits in excess of RMB 10 billion.

Table 3.3: the achievements of central enterprises 2003-2007

Year	Number of central enterprises	Total assets (RMB trillion)	Total sales (RMB trillion)	Total profits (RMB billion)	The number of central enterprises		
					Assets over RMB 100 billion	Sales over RMB 100 billion	Profits over RMB 10 billion
2003	196	8.32	4.47	300.5	17	9	6
2004	178	9.15	5.60	487.9	23	10	9
2005	169	10.51	6.79	637.7	27	15	11
2006	159	12.19	8.29	768.1	34	21	13
2007	151	14.92	10.03	1005.5	44	27	19

Source: Retrospect of Past Five Years 2008 (国务院国资委五年回顾 *Guowuyuan guozimei wunian huigu*)

In the triangular relationship of FDI activities, the global economy also has striking efforts on China's overseas plans. According to World Investment Report (UNCTAD, 2009), the year 2008 witnessed the first time that one Chinese TNC was listed in the world's top 100 non-financial TNCs ranked by foreign assets, namely CITIC Group. Due to the financial crisis at the end of 2008, a number of TNCs from developed countries bankrupted, for example, Lehman Brothers and the world's leading automakers General Motors and Chrysler Group. The number of enterprises financially shrank and necessary for financial support keeps increasing. This provides a potential for Chinese enterprises, whose government has plenty of foreign exchange reserves, to expand their business in the world economy.

Additionally, Chinese TNCs made huge progress in 2009, which is believed to be relevant to the global economic downturn. Ranked by revenues, there were only 8 Chinese firms nominated in the Fortune Global 500 list in 2003, which are all central enterprises. This number gradually climbed up to 30 central enterprises out of 43 Chinese firms in 2009 (table 3.4).

Table 3.4: numbers of Chinese enterprises listed in the Fortune Global 500

	2003	2004	2005	2006	2007	2008	2009
Total	8	15	19	22	25	34	43
CE	8	10	13	16	19	25	30

Note: CE refers to the central enterprises.

Source: CNNMoney, various years. 2009 data can be accessed at <http://money.cnn.com/magazines/fortune/global500/2008/index.html>.

According to the Global 500 list (Fortune, 2010), except 30 central enterprises and 8 banking and insurance companies, Citic Group is under the control of the central government, while Shanghai Automotive and Hebei Iron & Steel Group

are owned by SASAC's branches in Shanghai City and Hebei Province, respectively. Only Huawei and Jiangsu Shagang are private companies. Do these large-scale SOEs undertake market seeking and strategic assets seeking OFDI? Do China's home country measures facilitate their businesses? The representational OFDI projects are discussed in the following chapters to reveal the HCMs effects on the large-scale SOEs.

3.4 Conclusion

From above data and description, I try and better understand that despite that the increase of China's OFDI is significant, it merely accounts for a tiny proportion of the world's total. The chief investors leading OFDI are big SOEs, especially central enterprises. There is no doubt that one of the key responsibilities of Chinese government in recent years is to foster these large-scale enterprises growing to TNCs with high competence. Although China's OFDI has made vast progress, the problems with the official statistics, such as underestimation of regional data and the inflation caused by round-tripping investment cannot be ignored.

Most of existing research arises from the economic view, and no detailed study is based on the political matters. I have identified the important institutional agencies. Along with China's economic reform, the institutional system and relevant departments with regard to OFDI development has experienced distinct transformation. It evolved from a centralised administrative structure to decentralising the power to provincial and municipal levels. However, the

division of responsibility between departments is not always clear and has been modified frequently, which results in problems such as overlapping duties, conflicting interests and complicated authorisation to hinder OFDI progress (Voss *et al.*, 2008). Home country measures for the administration, support and protection of OFDI promulgated by the main governmental actors will be explored in Chapters 5 and 6.

As the owner of large SOEs and the supervisor of state-owned assets, SASAC's purpose and main task was to decrease the number of central enterprises from 196 to 80-100 in seven years, from 2003 to 2010. The 'high consolidation' mode appears to promote Chinese enterprises to become competitive giants in the international market. Even though central enterprises have made tremendous progress in the past few years, problems of 'becoming big' cannot be ignored. All Chinese SOEs ranking the top in the Fortune Global 500 are in monopolised industries such as petrol, power and steel. Their top management team members are chosen, appointed and evaluated by the central government. Their growth may be based on the government's support to a great extent, not on advantages in price, management, techniques or services. Morck *et al.* (2008) doubt that SOEs' leaders may use OFDI projects to advance their careers. Naughton (2008) reveals that central enterprises are 'national champions in the sense that they can be sent forth to battle for objectives the national government wants to achieve.' It has been noted that being used as an instrument is not beneficial to the long-term growth of central enterprises. Chapters 7 and 8 will bring in the analysis of Chinese TNCs' overseas activities.

Chapter 4 Methodology and Approach

The previous chapters illustrate the need for empirical research into the HCMs effects on China's OFDI. This chapter reviews the methods used by existing research projects, compares their strengths and weaknesses, and reasons why methods are chosen for my research. This chapter also describes the multi-method approach, the interpretation of official documents and case studies, and how the data was collected and analysed.

4.1 Methods and data used

Most prior research of China's outward FDI has been undertaken through three approaches, descriptive analyses, econometric models and case studies, and has relied on two sources of data: aggregate (including national-level and industry-level) and firm-level.

4.1.1 Descriptive analyses

Descriptive analyses are broadly adopted to infer international investment strategies from secondary data. As the major purpose of the descriptive method is to address research questions of all types (what, why, how), this approach is extensively adopted by researchers in exploring new areas (Babbie, 2007).

China's OFDI development has a very short history. Most research on China's OFDI thus employed the descriptive method based on aggregate data to identify the various characteristics of China's OFDI and to direct further

research, for example, the role of home country government, the choice of entry mode, investment destinations and motivations (for example, Buckley *et al.*, 2006, Buckley, Cross *et al.*, 2008, Child and Rodrigues, 2005, Deng, 2004, Wang, 2002, Wong and Chan, 2003, Wu and Chen, 2001, Yeung and Liu, 2008). The study of China's HCMs effects on OFDI remains at a preliminary stage. The picture of the Chinese institutional framework on OFDI is complex, as institutional factors are dynamic and HCMs change over time (Buckley, Cross *et al.*, 2008). Therefore, the method of approach undertaken by this research is essentially descriptive.

4.1.2 Case studies

A case study research methodology is more extensively relied on when scholars study worldwide MNEs' overseas investment (for example, Andersen, 1993, Coviello and McAuley, 1999, Zaby, 1996). Some scholars recognise case studies as being the best approach for understanding the holistic, dynamic and paradoxical nature of an organisation (Eisenhardt, 1989, Li, P.P., 2007, Numagami, 1998, Yin, 2009). As discussed in section 3.1, aggregate data by official publications can be problematic. Therefore, this research attempts to apply firm-level data. Rather than denying or doubting all the literature based on the aggregate data, this research applies a new approach to analyse Chinese firms' overseas activities and their responses to HCMs. It also has potential to compare the conclusions drawn on national- and firm- level data, in order to find whether they are in compliance.

Due to the difficulty in accessing firm-level data on China's OFDI, most extant case studies are based on research on a small sample, which is normally comprised of two or three companies and/or restricted to some certain industry, such as a study on 5 state-owned manufacturing enterprises, Shougang, SEG, Municipal Light, Baiyunshan, Northeast Pharmaceutical by Young *et al.* (1996), Haier, Huawei, Lenovo and TCL by Deng (2007), Haier, Lenovo and TCL by Li (2007), Lenovo, Nanjing Automobile and Huawei by Rui and Yip (2008), TCL, BOE and Lenovo by Deng (2009), Shanghai Electric Printing & Packaging Machinery Group, Ningbo Veken Elite Group and Lenovo Group by Wu and Ding (2009), Lenovo and TCL by Deng (2010) and a comparative study of Haier and Matsushita (Japan) by Yang *et al.* (2009). These MNEs are well known due to highly publicised investment projects and the deficiency in location and ownership advantages. These firms, however, are carefully selected to provide evidence for scholars to testify propositions. I doubt whether research on these companies can induce general conclusions on the Chinese companies' OFDI. First, most above-mentioned enterprises investigated by other scholars in particular are private firms. Conversely, I will look into the investment by Chinese SOEs, as I assume that the behaviours and motivations of Chinese SOEs and private companies may differ.

Second, most of the above-mentioned enterprises are manufacturers. For example, Haier and TCL produce domestic appliances. Lenovo manufactures and markets personal computers. Huawei provides networking and telecommunications equipment. However, according to the official statistics, as

illustrated in Chapter 3, most OFDI flew to business service, mining, and wholesale and retailing sectors.⁴ Findings on the solely manufacturing industry are limited to address whether the motivations driving investment to different sectors are similar or divergent. By applying the multiple case studies, it has the potential to help understand the behaviours of Chinese firms in OFDI and operating in different industries. For example, Nolan and Zhang (2002, 2003) analysed PetroChina (created on the core businesses of CNPC) and Sinopec in the oil and petrochemicals industry, and Aviation Industries of China (AVIC) in the aerospace sector, as well as Nolan's studies in Sanjiu (pharmaceuticals) (Nolan and Yeung, 2001a), Shougang (steel) (Nolan and Yeung, 2001b), and Shenhua (mining) (Nolan and Rui, 2004, Nolan *et al.*, 2004). In this research I expand the study to several companies rather than one in each target industry, intending to generalise commonalities and individualities of Chinese investors and industries related to OFDI.

Some scholars introduce primary data to assist case studies. Cui and Jiang (2010) adopt a multiple case study design to a sample of ten Chinese MNEs with semi-structured interviews with executives. Deng (2009) interviewed three to five senior managers of each of the three target firms with open-ended questions. The interviews were supplemented with other data, such as observations, company documentation and Internet data. Voss *et al.* (2009) collected primary data through semi-structured interviews (May-August 2006) with senior managers from nine Chinese enterprises (3 SOEs and 6 private firms).

⁴ As this research focuses on non-financial outward investment, I exclude investment to the banking and finance sector.

Significantly different from prior literature, Sutherland (2010) collected the annual reports of Chinese private companies listed on the Hong Kong stock exchange (initial public offerings (IPOs) between 1st January 2004 and October 2009) and the US stock exchange (listed between 2004 and 2006) to find out activities of foreign subsidiaries and then to identify the motivation. It is the first time employing data from the Chinese enterprises' financial reports, as well as the first trial to bring in the Chinese offshore holding companies to enrich research on China's OFDI. The financial reports clearly state a company's corporate structure, OFDI projects, and the number and role of offshore holding companies. My research is conducted in a similar way, collecting data from financial reports of a sample of Chinese firms. Section 4.3 gives details of data collection.

4.1.3 Econometric models

As research on China's OFDI expands, the econometric models, particularly after 2003, have been applied to analyse China's OFDI internationalisation path, locations or determinants (for example, Buckley, Clegg *et al.*, 2008, Buckley *et al.*, 2007, Liu *et al.*, 2005), or the motivations of Cross-border M&As by Chinese enterprises (for example, Boateng *et al.*, 2008). Regarding the econometric analysis, both aggregate (country-level and industry-level) and firm-level data have been used.

Aggregate data is mostly derived from official publications (Buckley *et al.*, 2007, Cheng and Ma, 2007, Wong and Chan, 2003). Scholars that focus on specific research objectives adopt data from other sources. For example, Sutherland (2009) uses national-level data from the China Statistical Yearbook (2005/2007) and business group OFDI data from the Big Business Group Yearbook (2002-2007) to explore whether China's big business groups undertake strategic-asset-seeking OFDI. Firm-level data used in the econometric analysis comes from sources of a wider variety, including surveys, questionnaires, databases, and business and news reports. Lu *et al.* (2010) collected data through a survey in seven provinces and finally utilised data of 632 Chinese private firms. In the survey, they evaluate the effects of the Chinese government along with a five-point scale. Yiu *et al.* (2007) investigated international venturing based on a questionnaire survey (conducted in 2003 and 2004) of a sample of 274 Chinese manufacturing firms. Chen and Young (2010) collected information of cross-border M&As by Chinese firms (2000-2008) through news announcements published by China Mergers and Acquisitions Association (CMAA). Boateng *et al.* (2008) used a sample of 27 companies listed in the Shanghai and Shenzhen Stock Exchanges engaged in cross-border M&As (2000-2004). Relevant information of M&A activity is collected from the China Daily newspapers and China Securities. Zhang and Ebbers (2010) used information from a sample of 1324 M&A deals (January 1992 to March 2009) accessed from the Thomason Financial Merger & Acquisition database. Gu and Reed (2010) drew data from Thomson's SDC Platinum M&A Database and the final sample comprised 145 M&A deals by 78 firms between 1 January 1994 and 10 March 2008.

It might be problematic to apply the econometric analysis for this research, which aims to expand the understanding in China's institutional effects on outward investment. The concept of 'institution' is arguably ambiguous (Markusen, 2003) and the role of a home country government cannot be captured appropriately (Buckley, Clegg *et al.*, 2008). 'Institutions' are defined as 'the rules of the game', which consist of informal constraints and formal rules (North, 1991), and rules and norms, which are effective and backed with sanctioning power (Scott, 2001). It is quite challenging to distinguish the role of a home country government from other determinants (Buckley, Cross *et al.*, 2008). It is also difficult to measure and subsequently model relevant elements, such as customs and beliefs, religious and other norms, the legislature, judiciary and bureaucracy, government structures and market mechanisms (Buckley, Clegg *et al.*, 2008, Williamson, 2000). Therefore, the broad finding based on the econometric analysis may be contradictory to some extent to other studies taking high levels of government involvement into account (Buckley, Clegg *et al.*, 2008).

Taking into account my research purpose and the strengths and weaknesses of different methods, I apply multiple case studies and descriptive/explanatory analyses in this thesis. The reasons are as follows. First, the interpretation of official HCMs is essential. Second, my research aims at the theoretical extension of international business, while an inductive case study is the best method for building theory as recommended by Yin (2009). Third, extant empirical research is unable to find evidence to understand the role that the

Chinese government played in the process of OFDI. Case studies have potential to explain my core concern, and the effects of home country measures with in-depth and longitudinal investigation. Fourth, to understand Chinese MNEs' responses to relevant policies and regulations, empirical models are problematic to provide reasonable explanations due to the lack of firm-level data. It is more suitable to apply descriptive/explanatory analyses of carefully selected materials, including news reports, documents and business reports. Fifth, as shown in section 3.1, China's overseas investment distributes into a variety of countries and industries, while Chinese investors come from a wide-range of industries. I choose multiple case studies as no two or three companies can represent the holistic nature of China's OFDI.

4.2 Official documents

What China's HCMs are is the first question to be answered in analysing China's HCMs effects on OFDI. To the best of my knowledge, only three research projects introduced official documents when studying the policy regime of China's OFDI. Ren *et al.* (2010) listed policies and their key points, without clarifying their evolutionary changes, for example, how SAFE liberalised the quota on purchasing foreign exchange. Voss *et al.* (2008) had a discussion on the historic documents' step-by-step progress, but was rather brief. In spite of interpreting HCMs, Luo *et al.* (2010) divided the Chinese measures into two groups, promotional and monitoring. They illustrated a picture of China's legal, political and economic framework on OFDI. This, however, is far from complete. For example, for monitoring policies, Luo *et al.*

(2010) mentioned ‘Interim Measures for Joint Annual Inspection of Overseas Investment’, but failed to provide any details of provisions or an analysis on the result of annual inspection. The comparisons between regulations are very broad rather than in-depth. Moreover, none of these works have been supported by evidence from enterprises’ responding activities, for example, whether the Chinese enterprises comply with relevant policies or whether they attempt to avoid the restrictions.

I select current policies and measures in China that affect Chinese companies’ overseas businesses. Based upon the description of the roles of the Chinese official departments and relationship between the government and enterprises in Chapter 3, I understand that the main actors are the State Council (www.gov.cn), PBC (www.pbc.gov.cn), NDRC (www.ndrc.gov.cn), MOFCOM (www.mof.gov.cn), SAFE (www.safe.gov.cn), SASAC (www.sasac.gov.cn), MOF (www.mof.gov.cn), and CSRC (www.csrc.gov.cn).

I collected primary documents related to monitoring and supporting China’s OFDI from their official websites. The original language of these regulations is Chinese. I translated them into English and added Chinese text and Pinyin to the titles of measures and key expressions for better understanding.

Based on policies and regulations studied by Luo *et al.*(2010) and Voss *et al.*(2008), I eliminated measures that have been abolished or replaced and have added newly updated ones, and thus concentrated on 26 key OFDI regulations, most of which have been promulgated 2003-2009. Chapter 5 and chapter 6 discuss the Chinese government’s role as a supervisor and a promoter,

respectively. Regulations listed in table 4.1 are analysed in Chapter 5. Chapter 6 investigates measures listed in tables 4.2 and 4.3. The thesis also considers relevant historic OFDI policies and presents evolutionary changes of the government's attitude towards overseas expansion.

Table 4.1: regulations on government supervision

Regulation	Issued	Enunciator
Interim Administrative Measures for the Examination and Approval of Overseas Investment Projects 境外投资项目核准暂行管理办法 (<i>Jingwai touzi xiangmu hezhun zanxing guanli banfa</i>)	2004	NDRC
Circular concerning the approval certificate of overseas investment projects 关于境外投资项目备案证明的通知 (<i>Guanyu jingwai touzi xiangmu beian zhengming de tongzhi</i>)	2007	NDRC
Measures for Overseas Investment Administration 境外投资管理辦法	2009	MOFCOM
(<i>Jingwai touzi guanli banfa</i>)		
Provisions on the Foreign Exchange Administration of Overseas Direct Investment by Domestic Institutions 境内机构境外直接投资外汇管理规定 (<i>Jingnei jigou jingwai zhijie touzi waihui guanli guiding</i>)	2009	SAFE
Regulation on Reporting before the Overseas Merger and Acquisition of Enterprises 企业境外并购事项前期报告制度 (<i>Qiy jingwai Binggou Shixiang Qianqi Baogao Zhidu</i>)	2005	MOFCOM
Circular Concerning Issues relevant to Improving the Administration of Overseas Investment Projects 关于完善境外投资项目管理工作有关问题的通知 (<i>Guanyu wanshan jingwai touzi xiangmu guanli youguan wenti de tongzhi</i>)	2009	NDRC
Circular on encouraging enterprises to undertake overseas processing and assembling business with supplied materials 关于鼓励企业开展境外带料加工装配业务意见的通知 (<i>Guanyu guli qiye kaizhan jingwai dailiao jigong zhuangpei yewu yijian de tongzhi</i>)	1999	the State Council
Notice on relevant issues regarding the adjustment of the examination and approval of overseas investment 关于调整境外投资核准有关事项的通知 (<i>Guanyu tiaozheng jingwai touzi hezhun youguan shixiang de tongzhi</i>)	2008	MOFCOM
Interim Measures for Joint Annual Inspection of Overseas Investment 境外投资联合年检暂行办法 (<i>Jingwai Touzi Lianhe Nianjian Zanxing Banfa</i>)	2003	MOFTEC and SAFE
Measures for Evaluating Comprehensive Results of Overseas Investment (Trial)		

境外投资综合绩效评价办法(试行) (<i>Jingwai Touzi Zonghe Jixiao Pingjia Banfa Shixing</i>)			
Notice on relevant issues of Joint Annual Inspection of Overseas Investment 关于境外投资联合年检工作有关事项的通知 (<i>Guanyu jingwai touzi lianhe nianjian gongzuo youguan shixiang de tongzhi</i>)	2009	MOFCOM and SAFE	
Detailed Rules for the Interim Measures for the Registry and Administration of Property Rights of Overseas State-owned assets 境外国有资产产权登记管理暂行办法实施细则 (<i>Jingwai guoyou zichan chanquan dengji guanli zanxing banfa shishi xize</i>)	1996	State-owned Assets Administration Bureau (now SASAC)	
Interim Measures for the Administration of Overseas State-owned Assets 境外国有资产管理暂行办法 (<i>Jingwai guoyou zichan guanli zanxing banfa</i>)	1999	MOF, Ministry of Foreign Affairs, SAFE, and China Customs	
Opinions about Further Deepening the Reform of the Economic System 关于深化经济体制改革的意见 (<i>Guanyu shenhua jingji tizhi gaige de yijian</i>)	2005	State Council	

Table 4.2: regulations on financial support

Regulation	Issued	Enunciator
Measures Governing Special Funds for Foreign Economic and Technical Cooperation 对外经济技术合作专项资金管理办法 (<i>Duiwai jingji jishu hezuo zhuanxiang zijin guanli banfa</i>)	2005	MOF and MOFCOM
Notice concerning relevant issues on providing more financing support to key overseas investment projects 关于进一步加强对境外投资重点项目融资支持有关问题的通知 (<i>Guanyu jinyibu jiaqiang dui jingwai touzi zhongdian xiangmu rongzi zhichi youguan wenti de tongzhi</i>)	2005	NDRC and CDB
Notice on providing credit support policy for key overseas investment projects encouraged by the State 关于对国家鼓励的境外投资重点项目给予信贷支持政策的通知 (<i>Guanyu dui guojia guli de jingwai touzi zhongdian xiangmu jiyu xindai zhichi zhengce de tongzhi</i>)	2003	NDRC and China Eximbank
Guidelines on the Risk Management of M&A Loans of Commercial Banks 商业银行并购贷款风险管理指引 (<i>Shangye yinhang bingou daikuan fengxian guanli zhiyin</i>)	2008	CBRC

Circular concerning relevant issues on setting up a risk prevention mechanism for key overseas investment projects 关于建立境外投资重点项目风险保障机制有关问题的通知 (<i>Guanyu jianli jingwai toudi zhongdian xiangmu fengxian baozhang jizhi youguan wenti de tongzhi</i>)	2005	NDRC and Sinosure
Circular concerning relevant issues on further strengthening the financial insurance support for key overseas investment projects 关于进一步加大对外重点项目金融保险支持力度有关问题的通知 (<i>Guanyu jinyibu jiada dui jingwai zhongdian xiangmu jinrong baoxian zhichi lidu youguan wenti de tongzhi</i>)	2006	CDB and Sinosure

Table 4.3: regulations on information services

Regulation	Issued	Enunciator
Countries and Industries for Overseas Investment Guidance Catalogue 对外投资国别产业导向目录 (<i>Duiwai toudi guobie chanye daoxiang mulu</i>)	2004 2005 2007	MOFCOM and Ministry of Foreign Affairs MOFCOM, Ministry of Foreign Affairs and NDRC
Outward Investment Cooperation Countries (Regions) Directory 对外投资合作国别(地区)指南 (<i>Duiwai toudi hezuo guobie diqu zhinan</i>)	2009	MOFCOM (CAITEC and IPA) and China's embassies*
Country/Region Report of China's Outward Investment Promotion (Series) 中国对外投资促进国别/地区系列报告 (<i>Zhongguo duiwai toudi chujin guobie/diqu xilie baogao</i>)	2006- 2009	MOFCOM (IPA)
Notice on Establishing the Data Bank about OFDI Proposals 关于建立企业境外投资意向信息库的通知 (<i>Guanyu jianli qiye jingwai toudi yixiang xinxi ku de tongzhi</i>)	2003	MOFCOM
Reporting System of Overseas Investment Operation Obstacles 国别投资经营障碍报告制度 (<i>Guobie Toudi Jingying Zhan'ai Baogao</i>)	2004	MOFCOM
Statistical System of Overseas Direct Investment 对外直接投资统计制度 (<i>Duiwai Zhijie Toudi Tongji Zhidu</i>)	2009	MOFCOM and NBS

4.3 Case studies

- *Multiple case studies*

Chapter 7 shows my particular interest in the institutional effects on China's OFDI by the largest enterprises. Research on Chinese MNEs is underdeveloped. Case studies done by the prior literature are limited to several typical examples. Regarding the data collection, no scholar has ever selected a sample of more than ten companies, except Sutherland (2010). Their conclusions, either on SOEs or private companies, cannot be extensively applied to all Chinese firms. Furthermore, overseas activities undertaken by the Chinese MNEs merely take cross-border M&As into consideration, regardless of offshore holding subsidiaries. To ascertain the motivations of China's SOEs establishing offshore holding companies and undertaking cross-border M&As, studying China's investment to tax havens and subsequent destinations (flowing back to China or carrying on to other countries) is a challenge. My objective cases, therefore, should represent the main investors of Chinese outward FDI.

Following this objective, I used the appendix of '2009 Statistical Bulletin of China's Outward Foreign Direct Investment' (MOFCOM *et al.*, 2010) as our sampling frame, which contains a list of top ranking Chinese firms by total foreign assets in 2009 (table 4.4). These top 50 business groups can be regarded as the most internationalised in the global market. Before the promotion of 'go global' and the relaxation of the Chinese government's administrative control, many business groups established offshore subsidiaries.

There is no official report to describe what overseas subsidiaries have done. Neither have I known whether in the OFDI development onward journey OFDI is significant. Contributions made by overseas subsidiaries to their parent groups have never been analysed. Any overseas activities undertaken by offshore subsidiaries in tax havens were under high-secrecy protection, which could also avoid the State's inspection and approval. Therefore, I investigated listed companies' annual reports to know where OFDI flows onwards.

Table 4.4: The 50 largest Chinese TNCs ranked by foreign assets 2009

Rank	Company	Rank	Company
1	China National Petroleum Corporation (CNPC) 中国石油天然气集团公司	26	China Huaneng Group 中国华能集团公司
2	China Resources (Holdings) Co. Ltd. 华润（集团）有限公司	27	Shenzhen Investment Holdings Co.LTD 深圳市投资控股有限公司
3	China Petrochemical Corporation (Sinopec) 中国石油化工集团公司	28	Yanzhou Coal Mining Company Limited 兖州煤业股份有限公司
4	China National Offshore Oil Corporation (CNOOC) 中国海洋石油总公司	29	Guangzhou Yuexiu Holdings Limited 广州越秀集团有限公司
5	China Merchants Group 招商局集团有限公司	30	SINOTRANS Changjiang National Shipping (Group) Corporation 中国外运长航集团有限公司
6	China Ocean Shipping (Group) Company (COSCO) 中国远洋运输（集团）总公司	31	China Metallurgical Group Cop. (MCC) 中国冶金科工集团有限公司
7	China Mobile Communications Corporation 中国移动通信集团公司	32	China National Chemical Corporation (Chemchina) 中国化工集团公司
8	China State Construction Engineering Corporation (CSCEC) 中国建筑工程总公司	33	China Communications Construction Company Ltd. (CCCC) 中国交通建设集团公司
9	Aluminium corporation of China (Chalco) 中国铝业公司	34	ZTE Corporation 中兴通讯股份有限公司
10	Sinochem Corporation 中国中化集团公司	35	China North Industries Group Corporation (CNGC) 中国兵器工业集团公司
11	Huawei Technologies 华为技术有限公司	36	Shougang Corporation 首钢总公司
12	China National Cereals, Oils & Foodstuffs Corp. (COFCO) 中粮集团有限公司	37	Shanghai Baosteel Group Corporation 宝钢集团有限公司
13	Legend Holdings Ltd. 联想控股有限公司	38	Changsha Zoomlion Heavy Industry Science & Technology Development Co. Ltd 长沙中联重工科技发展股份有限公司
14	China Power Investment Corporation (CPI)	39	State Grid Corporation of China

Rank	Company	Rank	Company
	中国电力投资集团公司		国家电网公司
15	China Unicom Corporation 中国联通网络通信集团有限公司	40	China Nonferrous Metal Mining & Construction (group) Co. Ltd. (CNMMC) 中国有色矿业集团有限公司
16	Shum Yip Holdings Company Limited 深业(集团)有限公司	41	Shanghai Automotive Industry Corporation (SAIC) 上海汽车工业(集团)总公司
17	Yunnan Copper Co. Ltd 云南铜业(集团)有限公司	42	China Electronics Corporation 中国电子信息产业集团有限公司
18	China Mimetals Corporation 中国五矿集团公司	43	China Telecom 中国电信集团公司
19	Hunan Valin Iron & Steel (Group) Co. Ltd 湖南华菱钢铁集团有限责任公司	44	China International Marine Containers (Group) Ltd. (CIMC) 中国国际海运集装箱(集团)股份有限公司
20	GDH Limited 广东粤海控股有限公司	45	CSSD Venture Capital Co.Ltd 中新苏州工业园区创业投资有限公司
21	China National Aviation Holding Corporation (Airchina) 中国航空集团公司	46	China Aerospace Science and Technology Corporation (Spacechina) 中国航天科技集团公司
22	China Shipping (Group) Company 中国海运(集团)总公司	47	China Railway Construction Corporation Limited (CRCCG) 中国铁道建筑总公司
23	China International Trust and Investment Corporation (CITIC) 中国中信集团公司	48	Jiangsu Shagang Group 江苏沙钢集团有限公司
24	China Poly Group Corporation 中国保利集团公司	49	China National Gold Group Corporation (Chinagold) 中国黄金集团公司
25	SinoSteel Corporation 中国中钢集团公司	50	Jinchuan Group Ltd. 金川集团有限公司

Source: 2009 Statistical Bulletin of China's Outward Foreign Direct Investment (MOFCOM *et al.*, 2010)

I proceed as follows: with the sample of 50 business groups, I firstly explore their official websites and corporate reports to gather general information, such as their ultimate controllers, their main businesses, corporate structures, and lists of subsidiaries, including both unlisted and listed subsidiaries. For those unlisted subsidiaries, I explore their websites, if they have one, to find whether they have overseas subsidiaries or assets.

Secondly, concerning companies listed on the domestic stock exchanges (Shanghai and Shenzhen), I use their annual reports to collect information, such as shareholders, overseas subsidiaries and assets, and the current year's outward investment. With regard to companies listed on the overseas stock exchanges (Hong Kong, the US, Singapore, or Australia), after checking the places of incorporations, I use these annual reports to acquire the details of these listed companies' subsidiaries. The annual reports list the particulars of the principal subsidiaries in the notes to the consolidated financial statements.

All annual reports I used are dated from 2003 to 2009. If a firm was listed within this time period, I only use annual reports from the IPO to 2009. I also record the number of listed companies' overseas subsidiaries, their places of incorporation/registration and operation and principal activities to see whether there is onward journey OFDI and to examine their motivations and the role of overseas subsidiaries playing in the internationalisation.

I adopted the method of a multiple longitudinal case study, as well as to respond to the call to extend the prior case studies (for example, Li, 2003, Li,

P.P., 2007). These cases should reflect the government intervention on decision making of China's investing MNEs. As there is no official summary of M&A transactions, I primarily collected data to compile a list of China's M&A deals (2003-2009). I count on the time of the final contract assignment; if the deal has not been closed, I consider the time of the bid announcement. The list of China's M&A activities is achieved by a search for historic data (2003-2009) and observations on ongoing projects (from October 2009 to July 2010). This thesis focuses on non-financial OFDI, so I exclude investment flows to the banking, insurance and security sectors.

Supplementary to the data gathered from a firm's website and listed companies' annual reports, I also referred to official news sites. For central enterprises, SASAC's website has a section called 'overseas expansion by central enterprises'⁵ 'releasing the progress of all overseas projects undertaken by central enterprises. The data of other business groups was collected from the publications by the China Mergers & Acquisitions Association (CMAA) (online), which provide comprehensive information about cross-border M&As, including industry categories, name of the bidding and target companies, and rationale behind the deal. CMAA⁶ is a non-profit, non-governmental organisation administered by the All-China Federation of Industry and Commerce (ACFIC), summarising the M&A deals in the global market (Chen and Young, 2010). The news reports of these transactions originate in Chinese. If information from the above-mentioned websites was not enough for research, I used key words (Chinese and English translation), such as the names of

⁵ Available at <http://www.sasac.gov.cn/n1180/n1226/n2410/n314289/index.html>.

⁶ Available at <http://www.ma-china.com/chinese/news/index.asp>.

acquiring and acquired companies, to search for more information from both Chinese and English websites. I trust information gathered from leading reporters, such as China Daily (www.chinadaily.com.cn), the largest English-language newspaper in China, Reuters, Financial Times and Yahoo Finance.

- *Examples for in-depth analysis*

The multiple case studies undertaken by Chapter 7 analyse China's HCMs effects on a variety of industries, including natural resources and manufacturing. To provide an in-depth insight of the relationship between the Chinese government and TNCs as well as the motivation of OFDI, Chapter 8 investigates and compares two cases: Chinalco's investment in Rio Tinto and Geely's acquisition of Volvo.

There are four reasons that I choose Chinalco and Geely for the comparison. First, these two cases appeared after 2008, when the global financial crisis had brought significant changes to the world economy. Both Chinalco and Geely regard this as an opportunity to strengthen their competitive advantages and potential to catch up with the world's leading giants. This also represents the attitude of most Chinese TNCs towards the global economic downturn. Second, these two cases are quite typically meaningful for the internationalisation of Chinese TNCs. Until then, Chinalco's attempt for Rio Tinto's shares was the largest overseas investment decided by a Chinese TNC. Geely's purchase of Volvo is the largest M&A deal in China's automotive industry. Third, based on previous analysis, China's HCMs effects on SOEs and private companies are

different. Regarding the two cases, Chinalco is one of the central enterprises. Geely is a private company. The comparison may reveal the discrepancy of the government's incentives and disincentives in OFDI made by Chinese TNCs of different ownerships. The two corporations' motivations to conduct overseas investment may also differ. Fourth, these two M&A deals are undertaken by Chinese corporations from two industries, automotive and natural resources development. Through the comparison, the government's attitude and strategy may be different towards industries.

Generally field work and interviews are conducted for the in-depth case studies. This research targeted officials of the Chinese government departments and senior management in Chinese business groups as interviewees. However, the response rates to emails were low and it was difficult for them to find an appropriate time to be interviewed. As a result, this research applies secondary materials like companies' financial statements, websites, and news reports.

4.4 Conclusion

This chapter first presents the detailed review of data and methods used by prior research. Due to the difficulty to collect firm-level data, aggregate data from China's official sources has been widely adopted, (Buckley, Clegg *et al.*, 2008, 2007, Cui and Jiang, 2009, Liu *et al.*, 2005, Wu and Chen, 2001), in particular econometric models, although the data quality has been questioned simultaneously (Buckley *et al.*, 2007, Rawski, 2001b, Voss *et al.*, 2009, Wong and Chan, 2003).

Apart from the descriptive analysis, the tentative approach to study a new event, econometric models and case studies are two widely employed approaches. Neither of them is perfect and both have limitations. However, variables in terms of HCMs effects like government structures and customs and beliefs are complex and difficult to identify or measure (Buckley, Clegg *et al.*, 2008, Williamson, 2000). On the other hand, the multiple case studies are consistent with investigating the interplay between the enterprises and social structures.

The review of the literature conducted in Chapter 2 illustrates the underdevelopment of China's HCMs effects on OFDI. To date, comparatively little detailed research has been undertaken on them. Current literature (Luo *et al.*, 2010, Ren *et al.*, 2010, Voss *et al.*, 2008) only listed a number of home country measures and their key points. Scholars did not look at evolutionary changes of these measures, whether they are effective now, or apply these measures with OFDI activities of Chinese enterprises. Therefore, the descriptive/explanatory analysis of official documents is most appropriate to investigate the Chinese government's behaviour. I translate, summarise and analyse 26 published documents obtained from the Chinese government's official websites, which are effective and most updated at present.

Supplemented by historic measures, these documents constitute an important evolutionary record of the Chinese policies. Chapters 5 and 6 discuss administrative and supportive HCMs and address the government's role as a supervisor and a promoter.

In addition, there is a lack of empirical research on the Chinese enterprises' overseas activities. Chapter 7 employs firm-level data of a sample of the top 50 business groups ranked by their foreign assets. Based on the websites and annual financial reports of the 50 largest business groups, I compile two distinct but combinable data sets, overseas subsidiaries and cross-border M&As. The multiple case studies thus allow investigation on OFDI from two perspectives. The firms' overseas subsidiaries, in particular, have nearly been taken into account by extant literature, except Sutherland's research on private companies (Sutherland, 2010). For the better understanding of HCMs effects and the motivation of Chinese TNCs undertaking OFDI, Chapter 8 applies the in-depth analysis of two examples: the Chinalco-Rio Tinto deal and the Geely-Volvo acquisition.

Chapter 5 The Chinese government: as a supervisor of OFDI

The previous chapter indicates how official documents and case data were collected and analysed to investigate the research objective. This chapter reports and discusses findings from research. Section 3.2 has indicated the key institutional actors, in particular NDRC and MOFCOM, and their functions as a supervisor. In this chapter, 14 OFDI-related key policies and regulations collected from official websites are investigated. Based on the findings, answers are provided to questions raised in Chapter 1: what monitoring measures are, whether they are restricted or liberalised, what the evolutionary changes are, and to what extent they influence overseas expansion.

Section 5.1 studies China's step-by-step reform on the examination and approval of OFDI, including the two most important regulations by NDRC and MOFCOM, SAFE's administration on foreign exchange, and measures on overseas M&As and establishing subordinate enterprises. Section 5.2 explores the Chinese government's supervision after investment, the result of which yet remains under question. Section 5.3 deliberates the state's extraterritorial controls, in particular, concerns on overseas state-owned assets and listing on stock exchanges outside China, both of which have been tightened in recent years to deal with the loss of state-owned assets and capital flight.

5.1 Examination and approval reform

5.1.1 The most important: two national-level measures

China's policies on overseas investment have been built up since Deng Xiaoping's 'reform and opening up' policy. The State Council enacted 15 economic reform measures in 1979, one of which approved the establishment of foreign companies. In fact, owing to the lack of overseas experience and limited foreign exchange reserves, OFDI was only a tentative activity. From 1983, MOFTEC was assigned to supervise China's OFDI. At that time, there was no standard procedure for examination and approval. A Chinese firm had first to apply to local or provincial governments and the application was then submitted to MOFTEC, which also needed advice from the embassies to make the final decisions. In 1984, the first regulation on Chinese OFDI was issued. From then on, the main executors of the Chinese government regarding OFDI, NDRC and MOFCOM, promulgated a series of policies and regulations.

NDRC's updated policy to encourage OFDI is the Interim Administrative Measures for the Examination and Approval of Overseas Investment Projects (境外投资项目核准暂行管理办法⁷ *Jingwai touzi xiangmu hezhun zanxing guanli banfa*) ('Examination and Approval Measures' hereinafter). This measure replaces the policy implemented since August 1991. It shows what information the project application report has to provide. The measures clearly explain the content of application reports, procedures and requirements of

⁷ Accessed at http://www.ndrc.gov.cn/zcfb/zcfbl/zcfbl2004/t20051010_44801.htm

examination and approval, and the responsible departments. The most important clauses of this regulation can be summarised as followed: first, the projects of resource development with investment over USD 200 million and the projects using large amounts of foreign exchange with investment over USD 50 million will be audited by NDRC and then be reported to the State Council for examination and approval. Second, the projects of resource development with investment over USD 30 million and the projects using large amounts of foreign exchange with investments over USD 10 million will be subject to the examination and approval of NDRC. Third, regarding the projects of resource development with investment of USD 30 million or less and the projects using large amount of foreign exchange with investment of USD 10 million or less, the central enterprises are able to independently make their own decisions. Local SOEs, however, still need approval by provincial or municipal departments in charge of development and reform. After the final approval is given, pertinent documents are sent to NDRC for record keeping. To make this reporting concise, ‘Circular concerning the Reporting Certificate of Overseas Investment Projects’ (关于境外投资项目备案证明的通知⁸ *Guanyu jingwai touzi xiangmu beian zhengming de tongzhi*) was subsequently issued. It requires the central enterprises to fill in a form to describe the details of a project, such as the domestic and foreign investors, target country, the scale of investment, and where the money comes from (self-owned or loans). ‘Examination and Approval Measures’ were significantly different from previous regulations on examination and approval in the following aspects.

⁸ Accessed at <http://www.fdi.gov.cn/pub/FDI/zcfg/qt/P020070606382229847095.pdf>

First, it was the first time that the Chinese government granted permission to all types of companies to invest abroad. Previously, the question of who could undertake OFDI was never clearly answered. People assumed that all policies and regulations were set up for SOEs, which left private companies under vague and unsteady supervision. Second, the measures reduce the steps for examining and approving project applications other than project proposals and feasibility reports. Third, in the past the government had to examine and approve any investment over USD 1 million. Now the limitation for examination and approval has been increased numerously. Fourth, through the project application reports, the government mainly wants to confirm investors, investment orientation and whether the investments comply with relevant regulations. Before the measures, the government had to examine product portfolio and financial documents.

MOFCOM's 'Measures for Overseas Investment Administration' (境外投资管理办法⁹ *Jingwai touzi guanli banfa*) replaces and abolishes the previous MOFCOM documents. Any enterprise embarking on OFDI under the following circumstances reports to MOFCOM: investing in countries with no diplomatic relations with China; investing in particular countries or regions; the Chinese party investing more than USD 100 million; investment involving multi-national (regional) interests; and, the establishment of offshore special purpose companies. As shown by table 3.1 (see Chapter 3), investments to/from these offshore companies are very significant. Any local enterprise initiating investment under the following circumstances reports to provincial or

⁹ Accessed at <http://www.mofcom.gov.cn/aarticle/b/c/200903/20090306103210.html?3333633464=383633112>

municipal departments in charge of commerce: the Chinese party's investment between USD 10 million and 100 million; investing in power energy and mineral resources; and projects which raise capital within China. Regarding other OFDI, the companies log into the website of 'the Administration System of Overseas Investment' (境外投资管理系统¹⁰ *Jingwai touzi guanli xitong*), fill in and print the application form, then report to MOFCOM or provincial departments. The government will award 'the Certificate for the Enterprise's Overseas Investment' (企业境外投资证书 *Qiye jingwai touzi zhengshu*) within three working days if the application form complies with the relevant standards.

'Measures for Overseas Investment Administration' delegates MOFCOM's approval authority to relevant local official departments. Based on the number of applications approved in 2008, around 85% of projects will be submitted to provincial governments (Xinhuanet, 2009). In addition to being authorised more power and sharing the central government's responsibilities, provincial government can work closely with local SOEs. The simplified procedure is also beneficial for local SOEs to respond more quickly to potential investment projects. For OFDI projects requiring examination and approval, MOFCOM scrutinises whether they have negative effects on bilateral political and economic relationships, national security, or initiate vicious competition. Enterprises themselves take responsibility for finance and technology concerns.

¹⁰ <http://jwztz.hzs.mofcom.gov.cn/fecp/fem/corp/fem.jsp>

Table 5.1 applies NDRC's 'Examination and Approval Measures' and MOFCOM's 'Measures for Overseas Investment Administration' to 52 M&A deals.¹¹ 36 of 52 deals conducted by the central enterprises and 13 of 20 by other SOEs need the approval of MOFCOM, NDRC and the State Council. For central enterprises, only three of 52 deals (investment under USD 30 million) can be determined independently. Despite this, any OFDI by the central enterprises need SASAC's approval. For local SOEs, only three of 20 projects can be exempted from the national-level examination, while intervention by the provincial or municipal government cannot be avoided.

Table 5.1: cross-border M&As deals and their approving departments (USD million)

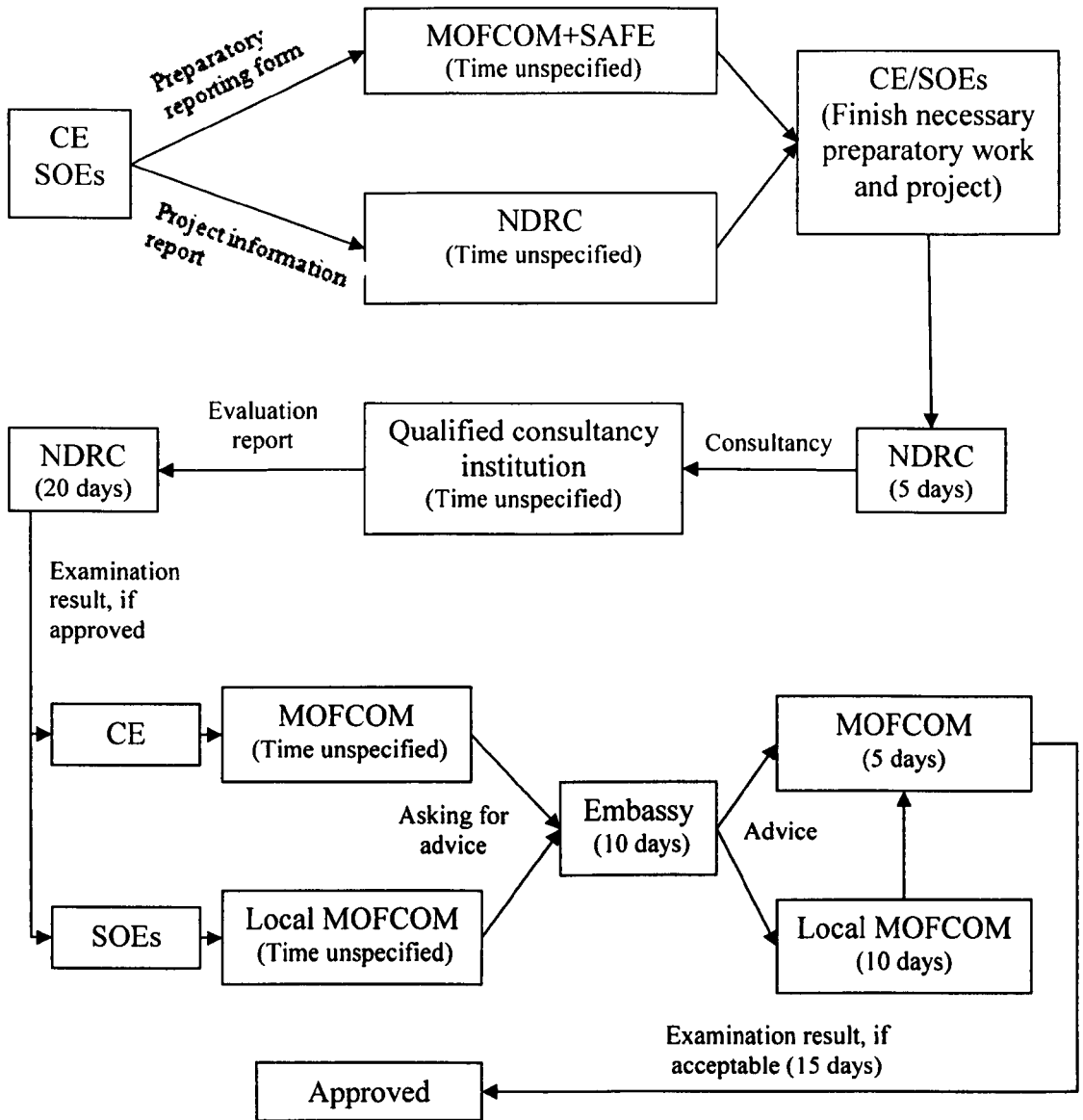
Value	Departments		Numbers	
	CE	Other SOEs	CE	SOEs
R>\$200m	MOFCOM, NDRC and SC	MOFCOM, NDRC and SC	29	6
\$100m<R<\$200m	MOFCOM and NDRC	MOFCOM and NDRC	4	3
\$30m<R<\$100m	NDRC	NDRC and local MOFCOM	1	0
R<\$30m	None	Local MOFCOM and local NDRC	3	3
L>\$100m	MOFCOM, NDRC and SC	MOFCOM, NDRC and SC	7	7
\$50m<L<\$100m	NDRC and SC	NDRC, SC and local MOFCOM	0	0
\$10m<L<\$50m	NDRC	NDRC and local MOFCOM	2	0
L<\$10m	None	Local NDRC	0	0

Notes: SC refers to the State Council. CE refers to the central enterprises. Local MOFCOM and local NDRC refer to provincial or municipal departments in charge of commerce and development and reform. R refers to overseas resource development. L refers to investment using large amount of foreign exchange.

¹¹ These M&A deals were mentioned in Chapter 4. The detailed data will be shown and discussed in Chapter 7.

To investigate the whole procedure of examination and approval and political decision making, overseas M&A projects are taken as essential for the approval of MOFCOM, NDRC and the State Council as an example. Based on the relevant policies issued by NDRC, MOFCOM and SAFE (will be discussed in the next section), the approximate time needed for the approval process is summarised (as shown in figure 5.1). Even under the most successful circumstances, the central enterprises and other SOEs need at least 55 to 60 days. This excludes the unspecified time required for SAFE's issuing of a foreign exchange registration certificate and SASAC's approval for the central enterprises.

Figure 5.1: the time needed for the approval process



Note: All 'days' refer to working days. This figure is summarised from NDRC's Examination and Approval Measures and MOFCOM's Measures for Overseas Investment Administration.

Apart from the timing problem, the situation is more complicated in practice than shown by figure 5.1. No documentation clarifies whether a firm first applies to NDRC or MOFCOM or both at the same time. For investment in industries or projects encouraged by the government, for example, petrol and gas and advanced technology, the state will speed up the approval, not confined to as long as 55-60 days. Nevertheless, it is doubtful if the central government treats SOEs' and private investment as equals. Furthermore, as SMEs are more

profoundly prone to invest in small-scale projects facing intense competition, timing, simplified procedures and a stable institutional environment are crucial. Institutional impediments, including unexpected changes of regulatory policies, widespread corruption, and weak enforcement of regulations, are recognised as competitive disadvantages in the home country to private companies rather than SOEs.

Regarding large-scale investment by SMEs, *Tengzhong case* is taken as an example. Sichuan Tengzhong, a privately owned engineering company, dropped its acquisition of GM's Hummer brand in February 2010. The announced reason was that Tengzhong failed to obtain government approval within the time limit determined by Tengzhong and GM, even though Tengzhong believed it would benefit from the investment. According to NDRC's 'Examination and Approval Measures', Tengzhong's \$160 million investment, the original plan, exceeded the threshold \$100 million, which needed NDRC's approval and subsequent report to the State Council. However, Tengzhong announced its purchase without NDRC's approval letter, which violated the regulation. Tengzhong then decided to buy the Hummer brand only, shares and technology excluded. However, MOFCOM repeated that they had yet to receive any formal application from Tengzhong. In fact, Tengzhong did not have the qualifications to manufacture automobiles. The investment also conflicted with the government's promotion of energy saving cars. Tengzhong failed to provide clear information of the M&A deal. The failure of the Tengzhong transaction indicates the HCMs' negative effects on private firms.

5.1.2 Foreign exchange administration reform

As shown by table 5.2, the approval procedures were gradually relaxed in three aspects: the guarantee for remitting profits, the examination of capital sources, and the foreign exchange quota. In the beginning, the Chinese government emphasised companies remitting their overseas profits. The guarantee for remitting profits commenced in 1989 and was abolished in 2002. After that, SAFE started to return the paid guarantee. The source of funds was strictly confined to self-owned foreign exchange in the early 1990s. All commercial loans need National Planning Commission (NPC) approval. From 2006, domestic investors were permitted to use self-owned foreign exchange, foreign exchange purchased with RMB and/or domestic foreign exchange loans. The idea of ‘pilot areas’ was introduced in 2002 for the reform of foreign exchange administration. Any overseas projects requiring more than USD 1 million foreign exchange from the Chinese party had to be approved by SAFE. Since 2003, the inspection rights of SAFE have been gradually decentralised to local foreign exchange bureaus. In pilot regions, the inspection limit of foreign exchange bureaus expanded from less than USD 3 million in 2003 to USD 10 million in 2005. The quota on purchasing foreign exchange available for all investors was increased from USD 3.3 billion in 2003 to USD 5 billion in 2005 and finally cancelled in 2006. From 2007 no matter how much foreign exchange was to be invested, the provincial foreign exchange departments are entitled to review all OFDI projects, with exceptions for certain projects like overseas natural resource development.

As the rapid development of China's OFDI, it is attractive to introduce more relaxed administrative regulations for foreign exchange. Based on previous scattered normative documents, SAFE promulgated a new measure, Provisions on the Foreign Exchange Administration of Overseas Direct Investment by Domestic Institutions (境内机构境外直接投资外汇管理规定¹² *Jingnei jigou jingwai zhijie touzi waihui guanli guiding*) ('Forex administration of OFDI' hereinafter) and this regulation has been effective since 1 August 2009. Nine previously issued regulations from 1990-2007, including those listed above, are all annulled or abolished.

'Forex administration of OFDI' provides a detailed explanation on the foreign exchange registry, the inward and outward capital remittance, the export of pre-investment costs, and foreign exchange settlement. SAFE's updated system regarding OFDI standardises the foreign exchange administration by domestic financial institutions. This also clarifies that the domestic financial institutions can provide loans and guarantees to enterprises investing abroad. Based upon this measure, SAFE will also establish a statistical information system to monitor cross-border capital flows.

With regard to foreign exchange fund sources, Chinese TNCs can use their own foreign exchange funds, domestic foreign exchange loans, RMB to purchase foreign exchange or in-kind, intangible assets and other sources of foreign exchange assets approved by SAFE to conduct overseas investment.

¹² Accessed at http://www.safe.gov.cn/model_safe/laws/law_detail.jsp?ID=804040000000000000.29&id=4

Compared with previous regulations, the capital sources have been further expanded. After approval by the relevant competent authorities, domestic investors register at a local foreign exchange bureau with the documents, such as the foreign exchange registration application form for OFDI, explanatory materials of the foreign exchange source, the approval documents or certificates by competent authorities. After examining these documents, SAFE issues a foreign exchange registration certificate. Domestic investors use the certificate at designated foreign exchange banks for foreign exchange income and expenditure operations. This process requires fewer documents and less time compared with the past investigation of foreign exchange funds sources.

Particularly, SAFE allows the export of pre-investment costs, which was ignored in previous measures. Pre-investment costs like deposits for purchasing overseas stakes or assets, should not access 15% of the total value of OFDI applied to competent authorities. This spending can be compensated by the special funds provided by MOF, according to 'Measures Governing Special Funds for Foreign Economic and Technical Cooperation' (will be discussed in section 6.1.1).

Table 5.2: SAFE's step-by-step liberalisation

Historic measures	Time issued	Key points
Measures on Foreign Exchange Administration for Overseas Investment 境外投资外汇管理办法	1989	(1) First regulation on the use of foreign exchange; (2) evaluated the source of funds and the foreign exchange risk; (3) 5% of the investment to be deposited in a special account; (3) profit earned abroad should be remitted back to China
Implementing rules of Measures on Foreign Exchange Administration for Overseas Investment 境外投资外汇管理实施细则	1990	Detailed regulation on what was required to apply for an overseas investment
Examination and approval standards on foreign exchange risks and capital sources for outward investments 境外投资外汇风险及外汇资金来源的审查的审批规范	1993	(1) Specified that SAFE's responsibility; (2) first document to detail the foreign exchange administration after the approval of OFDI projects.
Notice on supplemental provisions to Measures on Foreign Exchange Administration for Overseas Investment 关于境外投资外汇管理办法的补充通知	1995	Chinese investors are allowed to purchase foreign exchange for an OFDI project; prior to this, a Chinese investor had to earn the foreign exchange
Notice on certain projects exempted from paying the guaranty for remitting profits in Overseas Investment 关于部分项目免缴境外投资汇回利润保证金的通知	1999	Companies were exempt from the guaranty for remitting profits if they contributed investment in kind.
Notice on cleaning the guaranty for remitting profits in Overseas Investment 关于清理境外投资汇回利润保证金有关问题的通知	2002	The guaranty for remitting profits was abolished.
Notice on relevant issues relating to simplify foreign exchange capital sources and examination for overseas investment 关于简化境外投资外汇资金来源与审查有关问题的通知	2003	(1) only investigated domestic foreign exchange sources; (2) foreign exchange obtained from the outside of mainland China was no longer examined
Circular on Relevant Issues to return the guaranty of profit remitting to China in Overseas Investment 关于退还境外投资汇回利润保证金有关问题的通知	2003	Returned the paid guaranty for remitting profits

Circular on Relevant Issues concerning further intensifying the Foreign Exchange Administration Reform regarding Overseas Investment 关于进一步深化境外投资管理改革有关问题的通知	2003	(1) Simplified approval procedures; (2) established pilot areas for eased and extended local approval
Circular on Relevant Issues concerning expanding the pilot areas for the Foreign Exchange Administration Reform regarding Overseas investment 关于扩大境外投资管理改革试点有关问题的通知	2005	(1) Reform of the exchange approval regime is extended to the whole country; (2) local SAFE departments named as authority on OFDI projects with a higher threshold; (3) total foreign exchange available for all investors increased
Notice on the adjustment of certain foreign exchange control policies for overseas investment 关于调整部分境外投资管理政策的通知	2006	Lift SAFE restrictions on the amount of foreign exchange available annually to domestic investors' outbound investments
Notice on decentralising the rights to examine the foreign exchange capital sources of overseas investment 关于下放境外投资外汇资金来源审查权限的通知	2007	The inspection rights of provincial SAFE departments were further expanded.

Source: Luo et al. (2010); Voss et al. (2008); SAFE website.

5.1.3 Measures on cross-border mergers and acquisitions

Pertaining to overseas mergers and acquisitions, MOFCOM implemented ‘Regulations on Reporting before the Overseas Merger and Acquisition of Enterprises’ (企业境外并购事项前期报告制度¹³ *Qiye Jingwai Binggou Shixiang Qianqi Baogao Zhidu*), which began to function on 1 May 2005. Mergers and acquisitions mentioned in this reporting system refers to the investment behaviour that a domestic enterprise and its overseas holding obtain the assets or operations of an overseas enterprise through the purchase of the overseas enterprise’s stocks or assets. After making a decision on M&A, central enterprises report to MOFCOM, while other enterprises report to provincial business administration departments. All enterprises submit the M&A preparatory reporting form, in which they list the investor, the subsidiary that conducts M&A, and the target company. They also have to give the estimated amount of investment and the transaction approach and explain how they raised the money. Time and risk management should also be included. Additionally, in 2009, the updated Circular Concerning Issues relevant to Improving the Administration of Overseas Investment Projects (关于完善境外投资项目管理有关问题的通知¹⁴ *Guanyu wanshan jingwai touzi xiangmu guanli youguan wenti de tongzhi*) shows the government’s concerns regarding overseas acquisitions and biddings. This new regulation requires that the Chinese enterprises send application reports to NDRC before signing a binding contract, making a binding offer or applying to the host country government.

¹³ Accessed at <http://www.mofcom.gov.cn/aarticle/b/g/200505/20050500087223.html>.

¹⁴ Accessed at http://www.gov.cn/gzdt/2009-06/19/content_1345236.htm

5.1.4 Measures on establishing overseas subsidiaries

For establishing overseas enterprises, MOFCOM's 'Measures for Overseas Investment Administration' replaces most of previous regulations (table 5.3) on the establishment of overseas subordinate companies, with the exception of two measures. The Circular on encouraging enterprises to undertake overseas processing and assembling businesses with supplied materials (关于鼓励企业开展境外带料加工装配业务意见的通知¹⁵ *Guanyu guli qiye kaizhan jingwai dailiao jiagong zhuangpei yewu yijian de tongzhi*) issued by the State Council in 1999 specifies the support for enterprises in five aspects: financial incentives, simplifying procedures of foreign exchange administration, export tax refund, financial services and policy insurance. Notice on relevant issues regarding the adjustment of the examination and approval of overseas investment (关于调整境外投资核准有关事项的通知¹⁶ *Guanyu tiaozheng jingwai touzi hezhun youguan shixiang de tongzhi*) issued by MOFCOM in 2008 enlarges the scope of countries where local enterprises may set up branches examined and approved by local authorities. It is noteworthy that the 2009 new measure strengthens the supervision of the special purpose ventures (SPVs). Any SPV set up by Chinese citizens or enterprises has to be approved by MOFCOM. SPV and 'round-tripping' investment will be discussed in section 5.3.2.

¹⁵ Accessed at http://www.gov.cn/fwxx/bw/swb/content_449812.htm

¹⁶ Accessed at <http://vn.mofcom.gov.cn/aarticle/ddfg/tzzhch/200903/20090306073222.html>

Table 5.3: Measures on establishing overseas subsidiaries

Regulation	Issued	Enunciator	Comments
Circular concerning the approval authorities and principles for opening non-trade joint venture overseas as well as in Hong Kong and Macao 关于在国外和港澳地区举办非贸易性合资经营企业审批权限和原则的通知 (<i>Guanyu zai guowai he gangao diqu juban feimaoyixing hezi jingying qiye shenpi quanxian he yuanze de tongzhi</i>)	1984	MOFTEC	The first regulation on Chinese OFDI
Approval procedures and administrative measures concerning the establishment of non-trade joint ventures abroad 关于在国外开设非贸易性合资经营企业的审批程序和管理办法 (试行) ¹⁷ (<i>Guanyu zai guowai kaishe feimaoyixing hezi jingying qiye de shenpi chengxu he guanli banfa shixing</i>)	1985	MOFTEC	(1) A core document for laying out the principles for the regulation of OFDI during the 1980s; (2) opened OFDI for all economic entities with financial resources, foreign joint venture partners, and relevant capabilities; (3) Ceiling for investments to be evaluated at USD 10 million
Regulations governing the approval of setting up trade-related enterprises abroad* 关于在国外设立贸易机构的审批管理办法 (<i>Guanyu zai guowai sheli maoyi jigou de shenpi guanli banfa</i>)	1988	MOFTEC	(1) Deposit 5% of the investment sum in a special account; (2) All foreign profits to be remitted to the Chinese state. The firm could retain 100% foreign exchange quota.
Regulations on Approval and Administration of Non-trading Overseas Enterprises (trial) 关于在境外举办非贸易性企业的审批和管理规定(试行稿) ¹⁸ (<i>Guanyu zai jingwai juban feimaoyixing qiye de shenpi he guanli guiding shixinggao</i>)	1992	MOFTEC	(1) Ceiling for investments to be evaluated at USD 30 million; (2) projects were evaluated by NPC and MOFTEC instead of the State Council
Provisions on the examination and approval to open and operate enterprises abroad 关于境外投资开办企业核准事项的决定 ¹⁹ (<i>Guanyu jingwai touzi qiye kaiban qiye hezhun shixiang de guiding</i>)	2004	MOFCOM	(1) No feasibility study is required anymore; (2) list the application materials; (3) explain the examination procedure and content.
Provisions on the examination and approval of inland enterprises to establish	2004	MOFCOM and	Similar to the above policy, only suitable for setting up

¹⁷ Accessed at http://hddrc.gov.cn/zfjfgwj/qswj/200709/t20070925_1856.htm.

¹⁸ Accessed at http://www.law-lib.com/law/law_view.asp?id=8460.

¹⁹ Accessed at http://www.gov.cn/fwxx/bw/swb/content_447509.htm

<p>enterprises in Hong Kong or Macao special administrative region 关于内地企业赴香港、澳门特别行政区投资开办企业核准事项的规定²⁰ (Guanyu neidi qiye fu xianggang, aomen tebie xingzhengqu touzi kaiban qiye hezhun shixiang de guiding)</p>		State Council	enterprises in Hong Kong and Macau
<p>Examination and approval rules to open and operate enterprises abroad 境外投资开办企业核准工作细则²¹ (Jingwai touzi kaiban qiye hezhun gongzuo xize)</p>	2005	MOFCOM	Specifies and clarifies the 2004 regulation on requirements, risk avoidance, and project feasibility

Note: * Voss et al. (2008). MOFTEC has been restructured to MOFCOM since 2003.

²⁰ Accessed at http://www.gov.cn/fwxx/bw/swb/content_447515.htm

²¹ Accessed at <http://www.fdi.gov.cn/pub/FDI/zcfg/tzxd/dqxd/P020060619617047963984.pdf>

5.2 Post-investment monitoring

China's control over overseas enterprises has a very short history. Due to long-term problems suffered from OFDI, such as capital flight, huge losses and corruption, the Chinese government has started to pay more attention to post-investment administration. Until recently, MOFCOM and SAFE worked together to practise two measures, Interim Measures for Joint Annual Inspection of Overseas Investment (境外投资联合年检暂行办法²² *Jingwai Touzi Lianhe Nianjian Zanxing Banfa*) and Measures for Evaluating Comprehensive Results of Overseas Investment (Trial) (境外投资综合绩效评价办法(试行)²³ *Jingwai Touzi Zonghe Jixiao Pingjia Banfa Shixing*), which were jointly used as the foundation of the annual inspection and evaluation of OFDI during the period 2003-2008. According to these two measures, all overseas enterprises are categorised into three groups: service and trade, manufactures or resource development. MOFCOM and provincial business administrative departments assess enterprises in terms of five indices: the benefit of asset management, the quality of asset, the ability of debt payment, the development capability, and social contribution. Enterprises should fill in annual inspection reports for the examination of relevant departments. The annual inspection result of level I, II or III will be decided. The certificate of annual inspection will be sent to domestic parent companies (母公司 *mu gongsi*) and must be reserved for future requirement.

²² Accessed at

http://www.safe.gov.cn/model_safe/laws/law_detail.jsp?id=6&ID=804040000000000000,18

²³ Accessed at <http://sg.mofcom.gov.cn/aarticle/catalog/zgqy/200404/20040400207005.html>

From 2009, MOFCOM and SAFE's 'Notice on relevant issues of Joint Annual Inspection of Overseas Investment' (关于境外投资联合年检工作有关事项的通知²⁴ *Guanyu jingwai touzi lianhe nianjian gongzuo youguan shixiang de tongzhi*) simplified the content and process of inspection. The new marking standard concerns the current situation of overseas business organisations, whether enterprises comply with home and host country regulations, and the evaluation on foreign exchange administration. Only enterprises that are awarded the result of level I are able to apply for special funds support (will be discussed in Chapter 6) and enjoy relevant beneficial policies, such as foreign exchange, customs, tax payment and exit-entry. Enterprises nominated level II have no access to any support policies. If an enterprise gets level III in a series of two years, it is forbidden to conduct overseas activities in the third year. Firms that do not submit reports will be recorded as 'uninspected' in SAFE's information system, and not allowed to apply for MOFCOM's special funds.

MOFCOM and SAFE's 2009 measure updates award and punishment criteria. This modification was made after Beijing comprehensively considered the problems illustrated in annual inspections in the past few years. As far as I can ascertain, the Chinese government has never published the outcomes of annual inspection. The only accessible example is Hunan Province's 2009 annual inspection. The results for Hunan for other years or of other provinces are not available. In other words, it is likely that the central government and sub-national departments have reports but only for internal publication and

²⁴ Accessed at <http://hzs.mofcom.gov.cn/aarticle/zcfb/b/200912/20091206705370.html>.

reference. This may be due to the short-term implementation of the above measures. There may not be strong requirement to disclose the results.

Hunan Province's 2009 annual inspection can be taken as an example (Hunan, 2010). By the end of 31 December 2009, 300 Hunan companies had overseas subsidiaries, 210 of which needed the annual inspection. Among 126 (60% of 210) submitting the annual inspection reports, 117 (93% of 126), seven and two were labelled level I, II and III, respectively. Most uninspected firms were SMEs, which had no financial or managerial system abroad. Although the annual inspection has been working since 2003, the documents submitted are not yet complete or standard. Due to the lack of effective post-investment management, it is difficult for parent companies to know changes of shareholding structure and financial conditions promptly. The penalty in fact has little effect on domestic parent companies, especially those without further support by MOFCOM or SAFE. In addition, the Hunan government also found problems with its provincial enterprises during OFDI. The investments undertaken by Hunan companies, especially SMEs, showed the lack of risk prevention and effective management.

5.3 Extraterritorial controls

5.3.1 Overseas state-owned assets

Detailed Rules for Interim Measures for the Registry and Administration of Property Rights of Overseas State-owned assets (境外国有资产产权登记管理

暂行办法实施细则²⁵ *Jingwai guoyou zichan chanquan dengji guanli zanxing banfa shishi xize*) ('Property rights of OSA' hereinafter) were promulgated and executed by the State-owned Assets Administration Bureau (now SASAC) on 11 September 1996. These regulations provide the first definition of overseas state-owned assets, the principles to administer the registration of property rights, the procedure and documentations for enterprises' registration, issues concerning changes of property rights, the procedure and documentations for annual inspection and how to deal with relevant documents. The regulations provide facilities for the punishment and penalising of firms that do not respect these regulations.

Interim Measures for the Administration of Overseas State-owned Assets (境外国有资产管理暂行办法²⁶ *Jingwai guoyou zichan guanli zanxing banfa*) ('Administration of OSA' hereinafter) were promulgated and executed by the Ministry of Finance, Ministry of Foreign Affairs, SAFE, and China Customs on 27 September 1999. For centrally owned enterprises, they highlight the important capital operations that have to be inspected by the Ministry of Finance or relevant government department. They also list activities that have to be recorded by the State Council. The basic administration of overseas state-owned assets is concerned with the definition, registration, statistics and evaluation of property rights. In addition, regulations provide the evaluation of efficiency and performance and relevant legal responsibilities of enterprises.

²⁵ Accessed at

http://www.moc.gov.cn/zizhan/siju/caiwusi/zhengceguiding/guihangzhidu/200709/t20070920_398021.html

²⁶ Accessed at <http://www.jincao.com/fa/17/law17.03.htm>

Both of these regulations are widely used for the administration of overseas state-owned assets and are important documents. They pinpoint the rights and responsibilities of the government and enterprises and strengthen the government's supervision and administration. However, both of them were issued a decade ago and are rather dated and therefore have certain weaknesses in administering current overseas investments. According to these regulations, SASAC, SAFE and MOFCOM all have the right to inspect or administer overseas state-owned assets. Due to this imperfect regulation and difficulties in implementation, the government can administer overseas assets but only through the financial supervision of parent companies within China. Nonetheless, up to 2006, there were 161 central enterprises in China with 16,373 subsidiaries (Naughton, 2008). Due to the complexity of internal structure of central enterprises, the government is insufficient in command of those subsidiaries. Furthermore, because of the lack of efficient and effective supervision, the loss of overseas state-owned assets is getting worse. According to Wang, only one third of overseas central enterprises were profitable, and the other two thirds merely balanced or even in deficit (Wang, 2004). This brings into question how easy it is for SASAC to monitor the performance of its groups.

In the process of internationalisation, the loss of state-owned assets attracted the government's attention. It became increasingly important to shape new regulations for the administration of overseas assets. Two cases are influential: Beijing Shougang Corporation's acquisition (now China Shougang Group) of

Hierro Peru (1992), and the derivatives trading of China Aviation Oil (Singapore) Corporation (2003).

The Shougang case. In 1992, Beijing Shougang Corporation spent USD 118 million on a 98.4% share in a state-owned iron ore mining company in Peru and subsequently established Shougang Hierro Peru, which nowadays is the largest iron ore supplier on the east coast of the Pacific Ocean (Shougang Hierro Peru website). However, Shougang's investment in Peru occurred during the initial period of Chinese enterprises going global. Although a few scholars mentioned this case (for example, Nolan and Yeung, 2001a,b, Young *et al.*, 1996, Zhan, 1995), there seems to be little study of the motivations or implications. According to a number of Chinese news reporters and scholars, Shougang failed to run its Peru company successfully due to its lack of knowledge of Peru's relevant laws and regulations (Liu, C., 2005, Shen, 2010). Despite this, Shougang signed an agreement with the Peru labour union, stating that Peru's employees could enjoy free medical treatment, education and accommodation. All these clauses are far beyond legal requirements in Peru, China and many other countries in the world, and were therefore highly favourable. Shougang accordingly incurred many extra costs due to this agreement. In addition, Shougang struggled with the Peruvian employees' strikes, which focused on raising wages and improving health benefits (for instance, Che, 1996, Deng, Y., 2010, Gou, 2005). Before Shougang, Chinese enterprises had little experience of dealing with labour relations in host countries, which were very different from those in China. To summarise, I argue that most SOEs developed under the government's protection with soft

financial and institutional constraints. It is also true that many of these enterprises lacked experience in international markets, as well as knowledge of where to locate accurately in the global market. Poor decision making is one of the most important reasons leading to the loss of state-owned assets.

China Aviation Oil (CAO) case. Generally, domestic parent companies supervised their overseas subsidiaries through financial and personnel control. In fact, due to the small size of many overseas firms, the managerial group is simplified. For instance, in one company the executive manager could also be the financial officer. In 2003, as an overseas holding subsidiary of China National Aviation Fuel Group Corporation, CAO (Singapore) Corporation began a hedging business dealing in oil products (Chen *et al.*, 2005). The executive of the Singapore Corporation, Jiulin Chen, privately expanded the business to futures trading of oil derivatives, which is prohibited under Chinese law. This insider trading caused the loss of around USD 554 million and subsequently led to the collapse of the company (Chen *et al.*, 2005). After that, the Chinese government agreed that the reshuffle of CAO (Singapore) be conducted in line with Singapore's laws and business rules, not the normal reform of Chinese SOEs. This won support from all parties in Singapore such as creditors, small shareholders, strategic investors and other related parties. Since March 2006, the new board of directors held the first meeting and CAO (Singapore) recovered (He, 2006).

Since the CAO case happened after the establishment of SASAC, the government's insufficient supervision of overseas affiliates became a hot topic.

As mentioned above, one of responsibilities of SASAC is to supervise the preservation and increment of the value of state-owned assets. Scholars have questioned whether SASAC can fulfil these objectives (Clarke, 2003, Naughton, 2007, Pearson, 2005). Nevertheless, it is more problematic managing overseas subsidiaries than domestic ones. First, people in charge of overseas subsidiaries always have overwhelming power with weak supervision. For example, due to the lack of internal control monitoring, Jiulin Chen of CAO (Singapore) was the only person who had real power to make decisions on how to use the corporation's money, apart from the chief directors (Jin *et al.*, 2005). Jiulin Chen's exclusive position and use of risky investment to exaggerate his achievement also supports the argument made by Voss *et al.* (2008) and Morck *et al.* (2008). Therefore, the speculation for futures trading by Jiulin Chen could not be impeded in its early stages. Second, existing laws and regulations are not complete for the administration of overseas national assets. Third, until 2008 the State Council had decided to establish the department of overseas auditing under the National Audit Office of China. Before that, no department was responsible for the supervision of revenues, debts, profits or losses of enterprises outside China.

It was concluded from these three cases that the loss of state-owned assets was due to the lack of experience in the international market (the Shougang case), and the lack of means of supervision (China Aviation Oil case). For these reasons, if the government aims to reinforce the effectiveness of overseas assets administration, relevant regulations have to be updated, especially in

terms of restructuring central enterprises, the selection and appointment of executives, and how to put these regulations into practice.

The State Council issued ‘Opinions about Further Deepening the Reform of the Economic System’ (关于深化经济体制改革的意见²⁷ *Guanyu shenhua jingji tizhi gaige de yijian*) in April 2005, which was recognised as the work guidelines for different government departments in the following years until an updated one was issued in 2008. According to the ‘Opinions’, NDRC and MOFCOM took the leading role to establish the guidelines for improving ‘going-out’ strategy. Furthermore, SASAC and Ministry of Finance had to lead the revision of laws, regulations and criteria related to supervision and administration of overseas state-owned assets.

In April 2007, based on ‘Property rights of OSA’ and ‘Administration of OSA’, Ministry of Finance, SASAC, MOFCOM and SAFE worked together for the troubleshooting of overseas property rights registration. The registration involved four aspects: whether the application and changes of overseas assets rights comply with relevant regulations; whether the procedure of changing overseas assets is completed; the situation of safety, value preservation and appreciation of overseas assets; and whether legal rights are trespassed. Relevant results were regarded as an important reference for future policy. Through the registration of property rights, the government was able to comprehensively understand the current situation of overseas assets.

²⁷ Accessed at http://www.gov.cn/zwggk/2005-08/12/content_21634.htm

Accordingly, the government will be able to update relevant regulations and adopt pertinent measures to avoid the loss of state-owned assets.

As planned, the State Council would have promulgated the measures for the administration of state-owned property rights of overseas enterprises and for the auditing, supervision and administration of overseas state-owned assets in 2007. However, due to conflicts between national and international laws, after several years of drafting, relevant updated regulations have not yet been promulgated. A number of problems are now discussed, such as how to balance between national and international auditing criteria, the payment of exchange, and information disclosure.

5.3.2 Overseas listing and round-tripping investment

The Hong Kong, United States and Singapore stock exchanges are the top three popular destinations for Chinese enterprises. According to the World Federation of Exchanges statistics (www.world-exchanges.org), the United States has the largest size of market capitalisation and attracts the most capital. The New York Stock Exchange (NYSE), however, has the highest demand for IPOs. Regarding profitability, a firm should have \$2 million pre-tax income annually in the last three years and \$2.5 million in the most recent year (NYSE, 2009). The requirements of the Hong Kong Stock Exchange (HKSE) and Singapore Exchange (SGX) are lower than the NYSE but still higher than China's capital markets (HKSE, 2010, SGX, 2010). It is significantly difficult for normal SMEs to access overseas capital markets. Accordingly, most

Chinese enterprises or enterprises with Chinese assets that have are imprinted 'state-owned' or 'state-related'. Relevant regulations are listed in table 5.4 regarding the evolution of Chinese enterprises' going out to overseas stock exchanges.

Table 5.4: regulations related to overseas listing

Regulations	Year	Enunciator
Circular Concerning Further Strengthening the Administration of Share Issuance and Overseas Listing 关于进一步加强在境外发行股票和上市管理的通知 ²⁸ <i>Guanyu jinyibu jiaqiang zai jingwai faxing gupiao he shangshi guanli de tongzhi</i> (‘No. 21’)	1997	The State Council
Circular on Relevant Issues Concerning Enterprises Applying for Overseas Listing 关于企业申请境外上市有关问题的通知 ²⁹ <i>Guanyu qiye shenqing jingwai shangshi youguan wenti de tongzhi</i> (‘No. 83’)	1999	CSRC
Notice on Issues Concerning the Overseas Stock-Issuance and Listing by Foreign Enterprises Involving Domestic Rights and Interests 关于涉及境内权益的境外公司在境外发行股票和上市有关问题的通知 ³⁰ <i>Guanyu sheji jingnei quanyi de jingwai gongsi zai jingwai faxing gupiao he shangshi youguan wenti de tongzhi</i> (‘No Objection Letter’)	2000	CSRC
Notice on Issues Concerning Improving the Foreign Exchange Administration of Mergers and Acquisitions by Foreign Capitals 关于完善外资并购外汇管理有关问题的通知 ³¹ <i>Guanyu wanshan waizi binggou waihui guanli youguan wenti de tongzhi</i> (‘No. 11’)	January 2005	SAFE
Notice on Relevant Issues Concerning Registration of Overseas Investments by Domestic Individual Residents and Foreign Exchange Registration of Mergers and Acquisitions by Foreign Capitals 关于境内居民个人境外投资登记及外资并购外汇登记有关问题的通知 ³² <i>Guanyu jingnei jumin geren jingwai touzi dengji ji waizi binggou waihui dengji youguan wenti de tongzhi</i> (‘No. 29’)	April 2005	SAFE
Notice on Relevant Issues Concerning Foreign Exchange Administration of Financing and Round-tripping Investment by	October 2005	SAFE

²⁸ Accessed at <http://www.csrc.gov.cn/n575458/n575727/n575772/871143.html>.

²⁹ Accessed at <http://www.csrc.gov.cn/n575458/n776436/n805070/n829260/n829292/1991820.html>.

³⁰ Accessed at <http://www.csrc.gov.cn/n575458/n870654/n6018320/n9498435/n11073980/n11074218/n11074611/11091150.html>.

³¹ Accessed at http://www.law-lib.com/law/law_view.asp?id=88422.

³² Accessed at <http://www.mofcom.gov.cn/aarticle/b/g/200505/20050500102082.html>.

Domestic Residents via Overseas Special Purpose Companies 关于境内居民通过境外特殊目的公司融资及返程投资外汇管理有关问题的通知 ³³ <i>Guanyu jingnei jumin tongguo jingwai teshu mudi gongsi rongzi ji fancheng touzi waihui guanli youguan wenti de tongzhi</i> (‘No. 75’)		
Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors 关于外国投资者并购境内企业的规定 ³⁴ <i>Guanyu waiguo touzizhe bingou jingnei qiye de guiding</i> (‘No. 10’)	2006	MOFCOM, SASAC, SAT*, SAIC*, CSRC and SAFE

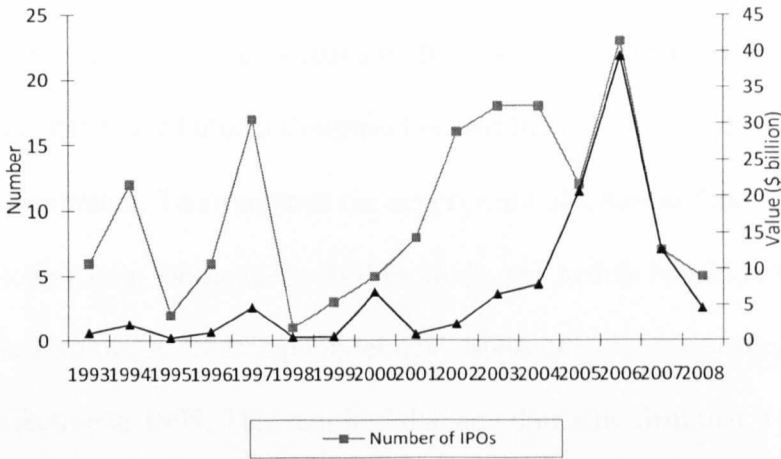
Note: SAT= the State Administration of Taxation, SAIC = the State Administration for Industry and Commerce

In the 1980s, along with China’s economic development and deepening understanding of the capital market, Chinese enterprises began actively to use capital markets to raise funds. However, the A-share market in China was far from mature, and was mainly organised in line with increasing cash flows for SOEs. Other companies, especially private companies and SMEs, had to look for other approaches to raise capital. At the end of the 1980s, Yuexiu Group and GDH Group indirectly listed on the Hong Kong Stock Exchange. In 1993, Tsingtao Brewery listed on the Hong Kong Stock Exchange and became China’s first H share. Up to the end of 2008, 111 Chinese enterprises have listed on the main board of overseas stock markets (CSRC, 2009). Figure 5.2 indicates the fluctuation of IPO numbers during this period, the result of CSRC’s changing policies.

³³ Accessed at http://www.safe.gov.cn/model_safe/laws/law_detail.jsp?id=4&ID=8040300000000000,1.

³⁴ Accessed at <http://english.mofcom.gov.cn/aarticle/subject/cv/lanmuc/200804/20080405490455.html>.

Figure 5.2: the numbers and raised capitals of Chinese enterprises' overseas IPOs 1993-2008



Source: CSRC, 2009. Accessed at <http://www.csrc.gov.cn/n575458/n776436/n805070/n829715/n829734/11072242.html>

During this period, compared with listing on the A-share market, the procedure of overseas listing was simpler. The number of enterprises thriving in overseas stock markets kept increasing and reached a peak in 1997. Between 1993 and 1995, major overseas listed companies were from traditional industries and manufacturing, such as Shanghai Petrochemical, Maanshan Iron and Steel, Harbin Power Equipment. Around 1997, a number of typical high-quality companies listed abroad in succession, such as Eastern Airlines, Huaneng Power and Shenzhen Expressway, which operated in the power and infrastructure industries.

Before 1997, the government’s administration and inspection of overseas listings were comparatively liberal. Any Chinese enterprise to be listed abroad had to inquire whether they needed CSRC’s approval. However, no specific laws explained how to deal with the domestic assets of red-chip companies. In

March 1997, GITIC Group issued the prospectus on the HKSE without notifying CSRC in advance. It then was ordered to suspend its capital raising. Although GITIC finally listed on the HKSE after mediation by the Hong Kong Securities and Futures Commission, this incident alerted the Chinese government. To strengthen the supervision of Chinese-funded enterprises in Hong Kong, the State Council promulgated Article No. 21, which was also well-known as 'red chip guidelines'. Subsequently, the Securities Law became effective in 1999. This required that any domestic firm that was inclined to list on overseas stock markets needed the approval of provincial governments or the relevant departments of the State Council and had to report to CSRC for inspection, whether they listed directly or indirectly.

The year 1999 witnessed the launch of HKSE's Growth Enterprise Market (GEM). With the rise of dot.com shares, a large number of private high-tech enterprises listed abroad, like Sina and Sohu, apart from the large monopolies in the petroleum and telecommunication industries.

In July 1999, CSRC's Article No. 83 required that all domestic enterprises listed outside China must meet the following conditions: net assets no less than RMB 400 million; raising capital no less than USD 50 million; and, after-tax profits of the past year no less than RMB 60 million. The increase in the threshold blocked many enterprises from direct overseas listings, especially private firms with limited sizes but thirst for capitals. As a result, more and more companies landed overseas stock markets through the red-chip approach, using overseas listed companies to acquire domestic assets.

At that time, CSRC had no clear approval process for indirect overseas listing. There happened *Yuxing Case* (Wang, 2001). 12 out of 16 founding shareholders of Beijing Yuxing transferred their shares to the other four shareholders, who registered two companies in BVI. These two companies then established a joint venture Yuxing Technology, which would be listed on the HKSE, registered in Bermuda to evade China's legal obligations. In December 1999 Yuxing Technology completed its international placement without CSRC's approval. Instructed by CSRC, Yuxing waited one month and was finally approved by CSRC to list on the Hong Kong GEM in January 2000.

The Yuxing case revealed the deficiency of existing laws and regulations. As a remedy, CSRS issued Article No. 72, which was also recognised as a 'No Objection Letter'. According to this article, regardless of the place of registration, as long as it involved business or assets in China, a company applying for overseas listing had to find a lawyer to declare the details of assets, formation and evolution and to comment on its legal validity. CSRC would accept the lawyer's legal opinion. After some certain procedures, if there were no further objection, CSRC would reply to the lawyer with a 'no objection letter'.

The introduction of the 'No objection letter' almost closed overseas listings. This functioned well against the loss of domestic assets, particularly state-owned ones. However, it usually took four months or more to obtain the 'no objection letter'. The complicated and time-consuming approval process made

it difficult for Chinese enterprises to judge the best time for listing.

Accordingly, most Chinese enterprises had to postpone or even give up the overseas listing plan. After the 'No objection letter' became effective in 2001, Chinese enterprises only raised capital RMB 20.2 billion, which was only 1/18 of that in 2000 (CSRC, 2009). During this period, most Chinese enterprises achieving overseas listings through the red-chip approach were SOEs, such as CNOOC's IPOs on NYSE and HKSE (CNN, 2001), and Bank of China's listing on HKSE (Dong and Huang, 2007).

After two years of implementation, the State Council cancelled 406 administrative examination and approval projects³⁵, including Article No. 72. The 'No objection letter' was finally annulled in March 2003. This was, undoubtedly, good news for domestic private enterprises, as plenty of time was saved for overseas listing. Consequently, the overseas listing of Chinese enterprises reached a new peak. In 2003 and 2004, respectively, 18 and another 18 Chinese enterprises undertook overseas IPOs and raised USD 6.49 billion and 7.83 billion (figure 5.2).

However, the approach of establishing an overseas holding company to acquire domestic equity or assets rapidly became popular and troublesome. The concern about loss of state-owned assets and capital flight made the Chinese government start a new round of strengthening supervision. In 2005, SAFE successively promulgated three circulars: Article No. 11 in January, Article No. 29 in April and Article No. 75 in October, respectively. Article No. 11 declared

³⁵ Accessed at <http://www.chinatax.gov.cn/n480462/n480513/n480979/n554229/1015017.html>.

that domestic residents should obtain the approval from foreign exchange administration departments, if they wanted to transfer domestic assets or equity for overseas shares and other equity. Article No. 29 emphasised that any resident should finish foreign exchange registration, if they injected domestic assets or equity into foreign firms and held overseas shares directly or indirectly. Although SAFE's two circulars aimed to combat capital flight and the loss of state-owned assets, their regulations unavoidably restricted legal acquisition by foreign companies. The new declaration and registration procedure obstructed the red-chip approach. Chinese enterprises had to postpone or suspend their overseas listing plans once more. Therefore, Article No. 75 was issued to alleviate the suppression brought by the previous two regulations. It clearly recognised the offshore company established for the red-chip listing as a special purpose venture (SPV). In addition, it stated that a domestic resident could set up an SPV and use this SPV as a springboard to undertake capital activities. Correspondingly, the red-chip listing boomed again after a brief period of stagnation.

However, Chinese enterprises had to face internal and external changes. Internally, MOFCOM and another five departments jointly promulgated Article No. 10, which re-defined and regulated the red-chip listing. Before the establishment of an SPV, Chinese companies had to apply for approval from MOFCOM. The listing and trading of an SPV should be approved by the securities regulatory authorities. An approved SPV had to complete its listing within one year, or the corporate structure of the domestic company must be restored. Overall, Article No. 10 clarified the multilevel supervision of

MOFCOM, CSRC and the State Administration for Industry and Commerce, which was believed effectively to prevent 'round-tripping' OFDI. On the other hand, the operations of 'round-tripping' investment and red-chip listing are extremely similar. The restraint of 'round-tripping' investment will inevitably be affected by the red chips adversely. Overseas listings also become more risky due to the strengthened examination, approval and registration procedures and the compulsory one-year operating time. Up to now, no one has broken through the block of Article No. 10 to list on overseas stock markets. The companies that succeeded their overseas listings after 2006 had all completed their equity swaps before the issue of Article No. 10.

5.4 Conclusion

This chapter has addressed the research questions of the contemporary home country measures and their evolutionary changes on the basis of analysing China's examination and approval reform, post-investment monitoring, and extraterritorial controls. The Chinese government traditionally controlled outbound businesses through rigid restrictions on the supervision before investment, as well as limitations on the amount of foreign exchange used for OFDI. By contrast, nowadays, the state uses the examination and approval approach to control pre-investment intentions and the annual inspection and assets registry to monitor post-investment results. The control over the approval of overseas projects has been significantly relaxed. The principal criteria for approval is whether OFDI projects are in compliance with the state's long-term planning, that is, the requirements of sustainable development and development of strategic resources required for national development.

Contrary to the state's pre-investment examination and approval, the post-investment monitoring seems out of control to some extent. The penalty on non-participation in relevant inspections is relatively weak. This may result in SOEs' capital flight and the loss of state-owned assets.

The issues of extraterritorial controls have caught the government's attention due to the concerns regarding the loss of state-owned assets addressed in the Shougang and China Aviation Oil cases. The institutional constraints on SOEs can be found on GITIC and Yuxing's listings on the Hong Kong stock exchange, but are not significant. The purpose of OFDI examination and inspection is not to hinder OFDI, but more for the government to understand SOEs' business operations and the feasibility of their OFDI projects. Therefore, it is not significant that HCMs effects drive SOEs to escape from the home country. The escapism perspective is not suitable for addressing Chinese SOEs' internationalisation.

Chapter 6 The Chinese government: as a promoter of OFDI

Morck *et al.* (2008) believe that to investigate China's OFDI, research should consider institutional, political, and social factors. This is along with the cross-disciplinary nature of international business theory. The macro-level analysis also provides an essential background to micro-level study. Therefore, before later studying the motivations and strategies of Chinese TNCs, the previous chapter presents the HCMs effects on OFDI in the light of the Chinese government performing as a supervisor. In addition to this, it is vital to understand China's stimulatory measures, as classified by Luo *et al.* (2010). Apart from the argument on China's institutional hindrances, scholars have accredited diplomatic and financial assistances, state-supported scientific and technical research (Buckley *et al.*, 2006, Cai, 1999, Child and Rodrigues, 2005, Deng, 2004, Luo *et al.*, 2010, Rui and Yip, 2008), unfortunately, without detailed interpretation of measures or discussion on their interrelationship. Section 3.2 has described the key actors, particularly MOF and PBC, and their functions as a promoter. This chapter investigates 12 measures that support Chinese TNCs going global in terms of finance and information services.

Section 6.1 discusses the financial support, including special funds, sovereign wealth funds, preferential loans provided by policy banks and state-owned commercial banks, and the risk prevention mechanism. Section 6.2 concerns policies to encourage TNCs in specific industries, for example, overseas exploration of natural resources. Enterprises from industries obtaining extra

support will be elaborated on in case studies (chapter 7). After that, section 6.3 explores the Chinese government's information provision and technical assistance. Their effects on OFDI development are indirect, functioning as a step in the simplified examination and approval procedure (online services), the supplement to the financial support (guidance catalogues and reports), and the reference to regulate new measures (the statistical system).

6.1 Financial incentives

6.1.1 Financial subsidies

In the year 2005, MOF and MOFCOM circulated Measures Governing Special Funds for Foreign Economic and Technical Cooperation (对外经济技术合作专项资金管理办法³⁶ *Duiwai jingji jishu hezuo zhuanxiang zijin guanli banfa*) ('Special Funds Measures' hereinafter). 'Special Funds Measures' has been used as the guideline for the application and reporting for special funds in the following years. From then on, through an annual notice, MOF and MOFCOM determined the key scopes exactly supported in the previous year, as well as concerning the details of application and reporting.

Regarding the 'Special Funds Measures', the government provides the special funds to support the foreign economic and technical cooperation business, which includes: overseas investment, overseas agricultural, forestry and fishery cooperation, foreign engineering contracting, foreign labour services, the

³⁶ Accessed at <http://hzs.mofcom.gov.cn/aarticle/zcfb/f/200512/20051201256329.html?180378298=366855896>

establishment of overseas R&D platforms on high and new technologies, and foreign designing consultation.

The special funds are used by the means of direct compensation and interest subsidy. In general, direct compensation applies to costs incurred before a domestic enterprise registers any overseas enterprise, such as consultation of laws, technology and business, translation of documents, and payment for relevant materials. Direct compensation shall not exceed 50% of the actual pre-investment expenses spent by the applicant enterprises (MOF and MOFCOM, 2005). One project can only enjoy the support of direct compensation once. An interest subsidy is appropriate for the medium and long-term loans from domestic banks for overseas investment, cooperation and an engineering contract. The maximum rate of the interest subsidy shall not exceed the People's Bank of China base rate in effect. The annual rate of an interest subsidy for loans in foreign currencies shall be lower than 3% (MOF and MOFCOM, 2005). Furthermore, the support of an interest subsidiary provided for each project is limited to five years. In addition, different projects have different bottom lines for the contract sum. For example, an overseas investment project shall not be lower than USD 1 million (or equivalent currencies) in principle.

Notice for 2005 gives a detailed explanation for overseas investment and other foreign business activities. Other regulations are in compliance with the 'Special Funds Measures'. Since 2006, however, Notice for 2006, Notice for 2007 and Notice for 2008 have some differences from 'Special Funds

Measures'. Notice for 2006 and Notice for 2007 start to consider and act in accordance with the Countries and Industries for Overseas Investment Guidance Catalogue(s). A number of forms for an enterprise's application and materials for reference are also introduced. Additionally, Notice for 2006 (MOF and MOFCOM, 2006) and Notice for 2007 (MOF and MOFCOM, 2007) give details of the content of the special funds support. A 20% subsidy is granted for the transport cost of raw materials to China. This applies only to a Chinese enterprise engaged in the exploitation of raw materials, such as oil, natural gas, iron, copper, aluminium and other metals, and also forestry and fishery resources. Moreover, the support of build-operate-transfer projects is mentioned in Notice for 2007. In 2006 the total amount of special funds given to each enterprise was limited to RMB 20 million (MOF and MOFCOM, 2006). For 2007 the maximum subsidies for each enterprise was increased to RMB 30 million (MOF and MOFCOM, 2007). Notice for 2008 has little difference from Notice for 2007, but specifies that in overseas agricultural cooperation projects and overseas R&D centres, the Chinese party should invest more than \$500,000, and that is not less than RMB 1.5 million (MOF and MOFCOM, 2008).

6.1.2 Sovereign Wealth Funds

At the end of 2009, the balance of China's foreign exchange reserves had totalled USD 2,399 billion, ranking first in the world since 2006 (SAFE, 2010). How to use this huge amount of foreign exchange to promote China's OFDI gradually became a hot topic.

Established in 2007, China Investment Corporation (CIC) is a solely state-owned enterprise engaged in foreign exchange capital investment. Nowadays, it has become one of the world's largest sovereign wealth funds. Chinese Ministry of Finance issued the special treasury bonds to raise RMB 1.55 trillion, which was used in turn to purchase USD200 billion as China's national foreign exchange reserves (CIC, 2008). This huge amount of money was used as CIC's registered capital. CIC follows the criteria 'separation of enterprises from the government' (*zhengqi fenkai*) and is profit-oriented.

CIC aims at the maintenance and increment of China's foreign exchange reserves, the liquidity contraction in the financial system, and the hedge of macroeconomic fluctuations (CIC, 2008). In terms of the governance, CIC performs accountable to the State Council. Due to its peer administrative position to ministries and commissions in China, no ministry or commission has rights to supervise CIC's performance.

During the initial period of operation, most of CIC's investment flew to overseas banks or financial agencies, for example, USD 3 billion to acquire 9.99% of Blackstone's shares in 2007 (Blackstone, 2007). Until 31 December 2009, CIC had invested USD 811 million in foreign developed and emerging economies (CIC, 2010), especially several investments in overseas resource exploration (table 6.1). I assume that excluding investment to banks and financing corporations, CIC's outward investment is primarily to secure the

nation's energy and to maximise long-term investment returns of these surplus state funds.

Table 6.1: CIC's overseas investment (financial investment excluded)

Target	Value	Industry	Time
Teck Resources (Canada)	\$1.5 billion	Mining and resources development	07/2009
JSC KazMunaiGas (Kazakhstan)	\$940 million	Oil and gas	07/2009
PT. Bumi (Indonesia)	\$1.9 billion	Coal mining	09/2009
Nobel Oil Group (Russia)	\$270 million	Oil and gas	09/2009
Noble Group (Singapore)	\$858 million	Resources	09/2009
SouthGobi Energy (Canada)	\$500 million	Coal mining	11/2009
AES (USA)	\$1.58 billion	Power generation	11/2009
GCL-Poly (HK)	\$717 billion	Renewable energy	11/2009

Source: CIC 2009 annual report

Furthermore, it can smooth the impact of the short- and medium-term fluctuations of oil and other commodity prices, and further promote domestic economic stability (Portman, 2008). However, due to the limited knowledge on the CIC's operation, scholars have argued about the intentions of China's sovereign wealth funds. A number of experts in international finance cautioned that the Chinese government-backed investment could potentially disrupt global financial markets and harm the U.S. economy (for example, Cox, 2007, Francis, 2007, Surowiecki, 2007). Other experts were less apprehensive and pointed out that both China and the US could benefit from the investment (for example, Berger and Berkofsky, 2008, Davidson, 2007, Martin, 2008).

6.1.3 Banking support

First registered in 2003, Central Huijin Investment Ltd. ('Central Huijin' hereinafter) was once the largest investment corporation in China. After the establishment of CIC, Central Huijin became CIC's wholly owned subsidiary. Regarding the corporate governance, Central Huijin's Board of Directors and Supervisory Board members are appointed by MOF, PBC and SAFE.

After China's step-by-step banking reform began with the entry into the WTO, currently, China's banking system includes three state policy banks and four state-owned commercial banks³⁷. Three policy banks were established by the Chinese government in 1994 and are policy-driven rather than profit-oriented, namely, China Development Bank³⁸ (CDB), the Import-Export Bank of China³⁹ (China Eximbank), and Agricultural Development Bank of China⁴⁰ (ADBC). The policy banks are under the direct leadership of the State Council, solely owned by the Chinese government and are supervised by PBC.

Following special financing principles, their main responsibilities are to implement the national industrial projects and regional development plans. The policy banks are also mainly supportive in the overseas projects of Chinese enterprises (figure 6.1). On behalf of the State Council to act as the investor, Central Huijin holds the shares of China's one policy bank and four commercial banks (table 6.2) and several other financial companies.

³⁷ Accessed at <http://www.cbrc.gov.cn/bankbbs/bankbbs/BbsPageAction.do?operate=getJrpl>.

³⁸ CDB website <http://www.cdb.com.cn/web/>

³⁹ China Eximbank website <http://www.eximbank.gov.cn/>

⁴⁰ ADBC website <http://www.adbc.com.cn/index/index.asp>

Figure 6.1: China's financial framework related to OFDI

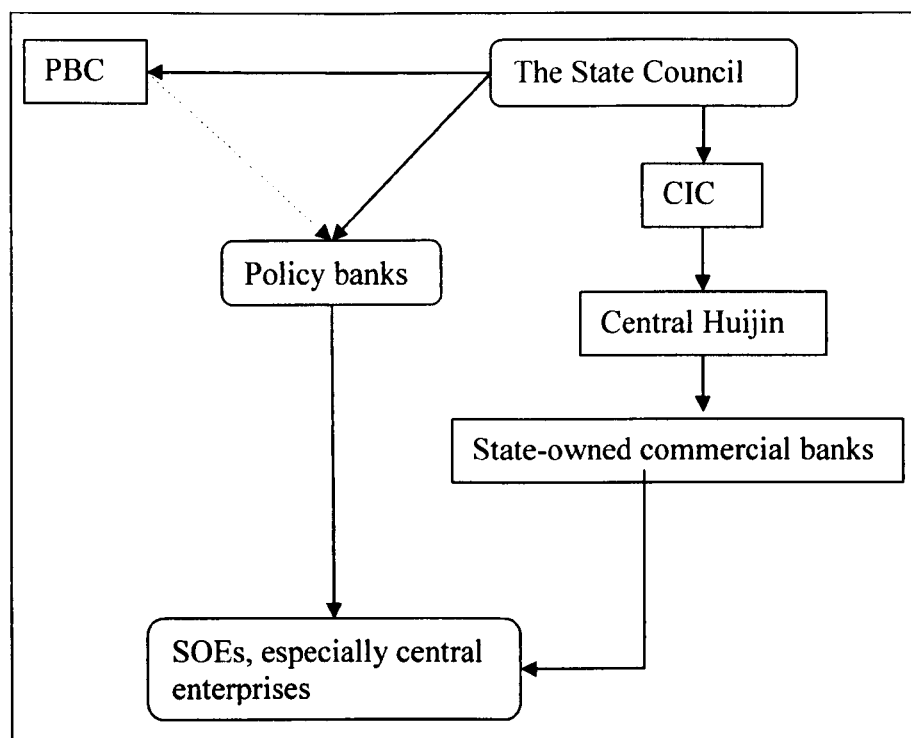


Table 6.2: key shareholders and their shares of policy banks and state-owned banks

Bank	Shareholders	Shares
CDB	MOF	51.3%
	Central Huijin	48.70%
China Eximbank*	The State Council	100%
ADBC*	The State Council	100%
ICBC ⁴¹	Central Huijin	35.42%
	MOF	35.33%
	HKSCC Nominees	16.31%
ABC	Central Huijin	50.00%
	MOF	50.00%
BOC ⁴²	Central Huijin	67.53%
	HKSCC Nominees	24.69%
CCB ⁴³	Central Huijin	57.09%
	HKSCC Nominees	19.12%
	Bank of America	10.95%

Note: China Eximbank and ADBC are not stock corporations.

Source: Central Huijin website http://www.huijin-inv.cn/investments/investments_2008.html; Sina Finance websites, data at the end of 31/12/2009.

⁴¹ Accessed at http://money.finance.sina.com.cn/corp/go.php/vCI_StockHolder/stockid/601398/displaytype/30.phtml

⁴² Accessed at http://money.finance.sina.com.cn/corp/go.php/vCI_StockHolder/stockid/601988/displaytype/30.phtml

⁴³ Accessed at http://money.finance.sina.com.cn/corp/go.php/vCI_StockHolder/stockid/601939/displaytype/30.phtml

The differences between the policy banks and the commercial banks are as follows (Peng and Gu, 2011). First, the policy banks are wholly owned by the Chinese government and are in compliance with all requirements by the Ministry of Finance in China. Joint-stock commercial banks conduct business on their own decisions and independent accounting. Second, the capital of the commercial banks chiefly comes from the civil deposits. In contrast, the policy banks do not accept civil deposits. Their capital comes from the issuance of financial bonds, the government's financial allocation and PBC's interest-free loans. Third, the commercial banks have to maximise their profits for business purposes, with a wide range of businesses. The policy banks are specialised to provide policy financial support for the development of some sectors or industries, not for profits. They all have a close relationship with corresponding industrial departments.

In general, the policy banks provide low-interest, long-term loans for specific targets. Their loans cover the areas that the commercial banks are disinclined to enter in the initial developing stages. For example, CDB serves 'bottleneck' industries like power and transportation, and areas requiring priority support, such as developing the western region and revitalising the old industrial base of Northeast China (CDB, 2005). China Eximbank is committed to expanding exports of electro-mechanical products and high-tech products, as well as supporting overseas contracting projects and OFDI projects (Eximbank, 2009). ADBC is mainly responsible for the rural financial services. They mostly target in agriculture and rural development and provide loans for the purchases and reserves of food, cotton and oil (ADBC, 2005). Deduced from their specific

responsibilities, CDB and China Eximbank are key supporters in the OFDI development.

- *China Development Bank (CDB)*

Being decided by the main responsibilities, CDB, undoubtedly, has been highly involved in the OFDI activities. After 14 years of operations, up to the end of 2008, CDB has provided USD 40.4 billion for overseas projects (CDB annual report, 2008), an average annual USD 2.9 billion. Most of CDB's loans have flowed to public infrastructure (28.80%), road construction (20.27%) and electric power (15.70%). Only a small part facilitated the development of natural resources like petrochemicals and coal.

NDRC and CDB jointly issued Notice concerning relevant issues on providing more financing support to key overseas investment projects (关于进一步加强对外投资重点项目融资支持有关问题的通知⁴⁴ *Guanyu jinyibu jiaqiang dui jingwai touzi zhongdian xiangmu rongzi zhichi youguan wenti de tongzhi*) in 2005. Since then, they have had annual plans to provide financing support for the key overseas investment projects. In particular, they comprise natural resource-seeking projects that compensate China's insufficient resources; productive and infrastructural projects that stimulate the export of domestic technologies, products, equipment and labour services; R&D projects in advanced international technology, management experience and professional

⁴⁴ Accessed at http://www.fdi.gov.cn/pub/FDI/zcfg/yh/t20060619_49400.jsp

talents; and M&A projects to improve the international competitiveness and to explore the international market.

In CDB's annual scales of equity loans (股本贷款 *Guben daikuan*), a certain amount of special equity loans for overseas investments is arranged for Chinese enterprises to increase capital funds, improve their financing capabilities, exert their predominance and actively participate in overseas projects. Additionally, CDB affords medium- and long-term non-equity loans for key investment projects, provides services in industry analysis and risk evaluation and other financial services.

- ***The Export-Import Bank of China (China Eximbank)***

China Eximbank is wholly owned by the Chinese government and is under the direct leadership of the State Council. Its main responsibility is to 'implement state policies in industry, foreign trade and economy, finance and diplomacy; to promote, through the provision of policy financing, the import and export of Chinese mechanical and electronic products and high- and new-tech products, and encourage Chinese companies with comparative advantages to undertake offshore construction contracts and overseas investment projects; to strengthen China's relations with foreign countries and enhance the international economic and trade cooperation.' (China Eximbank website 2009)

I deduce several points from China Eximbank annual reports (various years).

First, from the financial statements, China Eximbank's total assets and

revenues increased more than six-fold in seven years, from RMB 119.5 (2003) to 792.14 (2009) billion. Nevertheless, the gross profit margin yet maintained at an extremely low level, even no more than 1% (calculated from original data gathered from annual reports). As a state-owned policy bank, I understand that China Eximbank cannot be recognised as a common enterprise. Its main purpose is not to maximise profits, but to follow state policies and to provide policy financing for relevant projects.

Second, based on China Eximbank's loans disbursement (table 6.3), the total disbursement has increased dramatically as well, from RMB 62.72 to 368.4 billion. Using the data of interest income and the total loans, I calculate the average interest rate, which increased from 5.17% in 2003 to 6.44% in 2009.

Third, the export seller credit⁴⁵ plays a critical role in all China Eximbank's businesses, although the ratio of export seller credit to the total disbursement declined from 94% in 2003 to 47% in 2009. Loans disbursed by China Eximbank to overseas investment projects reached RMB 54.0 (\$8.2) billion in 2009, the percentage of which in the total disbursement grew from 8.6% in 2003 to 14.7% in 2009. This also reflects the contribution China Eximbank made to support the government's 'going out' strategy and enterprises' overseas activities.

⁴⁵ The Export Seller's Credit refers to loans provided to an exporter to finance its export of manufactured or purchased mechanical and electronic products, complete sets of equipment, and high- and new-tech products as well as the provision of labour services (http://english.eximbank.gov.cn/businessarticle/activities/export/200905/9395_1.html).

Table 6.3: loans disbursement of China Eximbank 2003-2009 (Units: RMB billion; unless otherwise stated)

	2003	2004	2005	2006	2007	2008	2009
Total	62.72	69.25	118.26	131.5	196	296.14	368.4
Interest income	3.24	3.66	6.49	8.40	12.96	20.27	23.74
Average interest rate (Interest income/total)	5.17%	5.29%	5.49%	6.39%	6.61%	6.84%	6.44%
Export seller credit	59.02	62.15	82.42	102.79	123.94	130.04	173.1
For overseas investment projects	5.42	6.28	31.02*	28.78*	23.52 (\$3.4)	37.48 (\$5.5)	54.0 (\$8.2)

Note: *Loans disbursement for overseas investment projects in 2005 and 2006 includes disbursement for overseas construction contracts.

Source: China Eximbank annual reports, several years. <http://www.eximbank.gov.cn/annual/index.shtml>

Since 2003, according to Notice on providing credit support policy for key overseas investment projects encouraged by the State (关于对国家鼓励的境外投资重点项目给予信贷支持政策的通知⁴⁶ *Guanyu dui guojia guli de jingwai touzi zhongdian xiangmu jiyu xindai zhichi zhengce de tongzhi*), NDRC and China Eximbank have jointly established a credit support mechanism for overseas investments. Among the annual export credit plans (出口信贷计划 *Chukou xindai jihua*) (NDRC and Eximbank, 2004), China Eximbank arranged a certain amount of special loans to back the key overseas investment projects encouraged by the State. The special loans are under a preferential interest rate on export credit loans. The key projects are the same as the ones supported by CDB's special equity loans. China Eximbank also provides other conveniences, such as extending the loan term for long-term investments and approving loans directly to overseas subsidiaries if the projects have the potential for low-risk and stable returns.

If an enterprise, especially an SOE, wants to borrow from China Eximbank, the target OFDI project shall be approved and authorised by relevant departments in China and/or the host country. For example, the borrower has to pay at least USD 1 million, which is no less than 30% of the total amount of the target project value (Eximbank, 2008). This means that for any project requiring over USD 3.3 million, it is easy for an enterprise to borrow 70% from the bank.

⁴⁶ Accessed at http://wzs.ndrc.gov.cn/jwtz/cyzn/t20050714_35625.htm

- *State-owned commercial banks*

Illustrated by table 6.2, China's four main commercial banks, Industrial and Commercial Bank of China (ICBC), Agricultural Bank of China (ABC), Bank of China (BoC), and China Construction Bank (CCB), are controlled by the State through Central Huijin and/or MOF. In spite of shareholders, ICBC, ABC, BOC and CCB are under the supervision of China Banking Regulatory Commission (CBRC). CBRC's main responsibilities include formulating supervisory rules and regulations governing the banking institutions; conducting examination and surveillance of the banking institutions; publishing statistics and reports of the overall banking industry; and functioning as the supervisory board of the major state-owned banking institutions (CBRC, 2010).

On 6 December 2008, CBRC promulgated Guidelines on the Risk Management of M&A Loans of Commercial Banks (商业银行并购贷款风险管理指引⁴⁷ *Shangye yinhang bingou daikuan fengxian guanli zhiyin*). To engage in M&A lending business, a bank must have a loan loss special reserve ratio of no less than 100%, a capital adequacy ratio of 10% or above, and a general reserve balance of no less than 1% of the loan balance over the same period. According to Bankscope⁴⁸ 2008 data, most of China's listed banks are qualified, including state-owned banks (ICBC, BOC and CCB), state-controlled banks (CITIC bank and Bank of Communications) and banks

⁴⁷ Accessed at <http://www.cbrc.gov.cn/chinese/home/jsp/docView.jsp?docID=20081209D8E013330FDF1498FFE8080300CB6500>.

⁴⁸ Bankscope is an important resource for banking information. It can be accessed at <https://bankscope2.bvdep.com/version-2010122/Home.serv?product=scope2006>.

controlled by the local government (Bank of Beijing and Bank of Shanghai).

Despite these, a bank also has to comply with nebulous criteria as a sound risk management and effective internal control mechanism and a professional term for credit due diligence and risk assessment. These requirements are not stringent for state-owned banks.

The Guidelines also require commercial banks to analyse and evaluate strategic risk, legal and compliance risk, integration risk, operation risk and financial risk. For risk control purposes, the total M&A loans should not exceed 50% of the lending bank's net core capital. M&A loans issued to a single borrower should be no more than 5% of the net core capital. The amount of the loan for one M&A deal should be within 50% of the total amount of the investment.

The term of any M&A loan should be no longer than five years.

Before the implementation of CBRC's Guidelines, General Principles on Lending (贷款通则⁴⁹ *Daikuan tongze*), issued by People's Bank of China in 1996, forbade borrowers to use loans in equity investments, with the exception of particular cases stipulated by the State. This regulation left limited space for domestic investors to obtain M&A loans. Only for a very small number of enterprises, especially large-scale SOEs, might they be released after special approval.

After the promulgation of the Guidelines, the permission of the issuance of M&A loans by commercial banks is regarded as a crucial measure to support

⁴⁹ Accessed at <http://www.pbc.gov.cn/rhwg/19961202f.htm>.

various M&A activities, including cross-border mergers and acquisitions. In December 2008, Shanghai United Assets and Equity Exchange⁵⁰, ICBC's Shanghai branch and Bank of Shanghai launched an RMB 10 billion credit line for M&A activities. In January 2009 Beijing Equity Exchange⁵¹ and ICBC's Beijing Branch signed an agreement with Beijing Capital Co., Ltd., which became the first company in China to obtain loans for M&A transactions. Shortly after that, according to a Caijing news report (Zhang, 2009), CDB provided its first M&A loan, RMB 1.6 billion in total, to Citic Group and Citic Guoan Group.

The Guidelines aim to expand the capital sources that can be used for M&As, which is thus expected to have a positive impact on domestic corporate consolidation and overseas investment beyond China. However, during the initial period of implementation of the M&A loans by commercial banks, I expect that the commercial banks will be as cautious as possible. Therefore, priority will probably be extended to enterprises and projects in line with national and industrial policies and strategies. Based on the security and profitability considerations, the commercial banks will also be inclined to extend loans to large SOEs rather than SMEs.

CDB, China Eximbank and state-owned commercial banks have established the strategic cooperation relationships with some central enterprises and have provided billions of loans to finance the state's key industries and projects.

⁵⁰ Shanghai United Assets and Equity Exchange (上海联合产权交易所), approved by Shanghai Municipal Government, is a comprehensive platform for assets and equity transaction.

⁵¹ China Beijing Equity Exchange Group (北京产权交易所) provides the comprehensive information package needed to succeed in today's Chinese financial market.

Considering the natural resources development, CDB inked a cooperation agreement with CNPC, which promised that in the next five years, CDB would offer CNPC USD 30 billion to support CNPC's overseas assets acquisitions (CNPC, 2009). Furthermore, CDB signed several agreements of loan-for-oil deals with Russia, Venezuela, Brazil, as well as India. For example, two Russian companies (Rosneft Oil Company and Russian pipeline company Transneft) will provide 300,000 barrels a day for 20 years to pay down a \$25 billion loan from CDB (Winning *et al.*, 2009). Venezuela's Petroleos de Venezuela agreed to take a \$4 billion loan from CDB and supply 200,000 barrels of oil a day (Liu and Martinez, 2009). CDB provided Brazil's state-controlled oil company, Petroleo Brasileiro SA, with \$10 billion of loans in return for 100,000 barrels of oil a day (Dantas and Blount, 2009). Through these loan-for-oil deals, China would ensure a stable oil supply from these countries.

Regarding the metal industry, Chinalco obtained a USD 2 billion loan from China Eximbank to develop copper ore in Peru (Xu, 2008) and a USD 21 billion syndicated loan from CDB, China Eximbank, ABC and BOC when acquiring Rio Tinto's shares (ChinaDaily, 2009b). China Wuhan Iron and Steel Corporation (WISCO) received an extended credit line of RMB 80 billion (2009) from CDB, which would be used in WISCO's overseas expansion and mid- to long-term development (Song, 2009). CDB also signed cooperate agreements of development financing with Ansteel (2005) (SASAC, 2005a), Sinosteel (2005 and 2009) (SASAC, 2005c, 2009b), and Baosteel (USD 10 billion, 2010) (SASAC, 2010) for resources development and corporate

consolidation. China Eximbank provided WISCO USD 90 billion in foreign exchange financing from 2010 to 2015 (Song, 2010). Additionally, Sinosteel had strategic cooperation agreements with ABC (2005) (SASAC, 2005b), BOC (2006) (SASAC, 2006), and China Everbright Bank⁵² (RMB 10 billion, 2008) (Sinosteel, 2008). Similarly, Ansteel was supported by ICBC (RMB 20 billion, 2007) (SASAC, 2007a), ABC (RMB 15 billion, 2008) (Ansteel, 2009), CCB (RMB 20 billion, 2008) (Ansteel, 2009), and BOC (RMB 20 billion, 2009) (SASAC, 2009a).

However, a key criterion of the financial support, the preferential loan interest rate, has never been explained clearly in the above-discussed HCMs. There are two possible reasons for this phenomenon. First, the Chinese government is able to apply different interest rates based on the target project and the amount of investment. Second, the nebulous interest rate would hinder the comparison of the government's treatment to SOEs and private companies. Furthermore, the information of signed strategic cooperation agreements was collected from news reports and enterprises' websites. None of them provided any subsequent information regarding the utilisation of capitals and financing services.

In addition, CDB undertook a granted USD 1 billion as the initial funding of China-Africa Development Fund (CAD Fund), which was established in 2007 and aimed at investing in Africa. Now CAD Fund has reached USD 5 billion. CAD Fund works as private equity (PE) funds, only supervising corporate business rather than getting involved in daily operations. Meanwhile, in

⁵² China Everbright Bank is approved and controlled by the State Council of China.

addition to the corporate governance of a general fund company, CAD Fund has a unique guidance committee, comprising ministerial-level representatives from MOFCOM, Ministry of Foreign Affairs, MOF, PBC, CBRC, CSRC, SAFE and CDB. The office of this committee is located in MOFCOM's Department of Western Asian and African Affairs. Any project related to vital industries and economic policies has to consult with the committee first. This government-backed PE fund aims at encouraging Chinese enterprises to invest in Africa and explore new markets under the 'going out' policy. It has sponsored or built cooperative relationships with a number of SOEs, for instance, Jinchuan's acquisition of Wesizwe (South Africa), Zijin's copper exploitation in Congo, Jidong's cement plant setup in South Africa, FAW's establishing of a large-scale manufacturing base, WISCO's exploring of mineral resources like metals and coal, and coal investigation and investment by China National Administration of Coal Geology.⁵³

6.1.4 Risk prevention mechanism

China Export & Credit Insurance Corporation (Sinasure) is China's sole policy-oriented insurance company offering export credit insurance. It was established in 2001 with the capital from the Export Credit Insurance Risk Fund as arranged by the State's fiscal budget. Sinasure is mandated to support the Chinese enterprises through providing the export credit insurance against non-payment risks and the guarantee service for overseas investment.

⁵³ China National Administration of Coal Geology is an institute under the direct leadership of the Central Government, specialising in coal resources exploration and geology industry management.

In 2005 NDRC and Sinosure promulgated Circular concerning relevant issues on setting up a risk prevention mechanism for key overseas investment projects (关于建立境外投资重点项目风险保障机制有关问题的通知⁵⁴ *Guanyu jianli jingwai touzi zhongdian xiangmu fengxian baozhang jizhi youguan wenti de tongzhi*). The risk prevention mechanism serves overseas projects as follows: overseas resources development to compensate for China's insufficiency; overseas production and infrastructure to drive the export of domestic technology, products and equipment; overseas R&D projects to utilise advanced technology, management experience and expertise; and overseas M&As to improve the international competitiveness of enterprises and to speed up exploring the global market.

Furthermore, CDB and Sinosure issued Circular concerning relevant issues on further strengthening the financial insurance support for key overseas investment projects (关于进一步加大对境外重点项目金融保险支持力度有关问题的通知⁵⁵ *Guanyu jinyibu jiada dui jingwai zhongdian xiangmu jinrong baoxian zhichi lidu youguan wenti de tongzhi*) in 2006. CDB and Sinosure particularly emphasise the support for the central enterprises under SASAC's supervision and local large business groups and their offshore subsidiaries with capital, technology, management and brand strengths. The overseas projects highlighted in the above circulars will be funded by CDB in priority and guaranteed by Sinosure with preferential insurance.

⁵⁴ Accessed at http://wzs.ndrc.gov.cn/jwtz/cyzn/t20050714_35755.htm.

⁵⁵ Accessed at http://wzs.ndrc.gov.cn/jwtz/cyzn/t20060228_61389.htm.

Before the enunciation of the above two measures, China, as other developing countries, had done little in formulating measures regarding investment insurance. A number of Chinese scholars appealed the importance of establishing a guarantee mechanism to shelter outward investment (for example, Hu, 2004, Huang and Xiong, 2004, Liu, J., 2005, Zhu, 2004). Sinosure's two measures not only broaden financing channels and spread investment risks, but also promote China's security market with international practice. Generally speaking, the insurance covers political risks, such as nationalisation, expropriation, restrictions on foreign exchange and restrictions when investing abroad. OFDI insurance has a common precondition, that is, investment projects must be consistent with the economic interests of the home country. For example, an overseas project is helpful to increase employment opportunities for the home country, or to increase the home country's economic interests. Unlike private insurance, investment insurance is implemented by the state institutions. It is also often closely related to the intergovernmental agreement, with the nature of the national security or government guarantee. The purpose of investment insurance is not only to compensate ex post facto, but more importantly to take preventive measures to avoid incidents.

6.2 Industrial promotion policies

To encourage enterprises to develop OFDI in resources, the Chinese government has introduced a number of policy measures in terms of finance, industrial guidance and credit loans. 'Special funds for exploring overseas mineral resources' (国外矿产资源风险勘查专项资金) was established by

MOFCOM and Ministry of Land and Resources (MLR) in 2003. Provisional measures⁵⁶ concerning how to manage the special funds were promulgated by the Ministry of Finance in 2005. Furthermore, OFDI in resources development is also listed as one of the key projects sponsored by special funds for foreign economic and technical cooperation (discussed in section 6.1.1). To assist overseas resources development, MOFCOM and MLR establish ‘Online Recording System of Developing Overseas Mineral Resources⁵⁷’. When business activities are still in the preparation stage, enterprises have to report to MOFCOM and MLR. Through this online system, enterprises are able to fill in, submit and search for the recording forms. In the appendix, it also provides a detailed manual to explain how to use this online system. The ‘Recording mineral resources’ is highly regarded as the important platform for the communication between the government and enterprises.

At the first national energy conference⁵⁸ in February 2009, Guobao Zhang, the head of the Energy Bureau of NDRC, emphasised China’s cooperation with foreign countries and international energy organisations. According to the Oil and Gas Development Planning 2009-2011, the Energy Bureau will offer discount loans and preferential loans to support overseas oil and gas projects. The proportion of the government’s capital injection will also be increased. In addition, the Energy Bureau has plans to sign bilateral agreements with relevant countries regarding the protection of investments, avoidance of double taxation and legal assistance. Moreover, the Energy Bureau will make efforts

⁵⁶ 国外矿产资源风险勘查专项资金管理暂行办法

Accessed at <http://fdi.gov.cn/pub/FDI/zcfg/cwgl/P020060619694876096517.pdf>.

⁵⁷ Accessed at <http://fec.mofcom.gov.cn/>

⁵⁸ Accessed at http://news.xinhuanet.com/energy/2009-02/05/content_10766913.htm.

to set up special funds with the utilisation of China's foreign exchange reserves for overseas energy exploration and petroleum reserve.

In January and February 2009, one after another, the State Council published the Adjustment and Revitalisation Plans of the top ten industries, namely, iron and steel, automobile, textile, equipment manufacture, shipbuilding, electronics and information, light, petrochemical, nonferrous metal and logistics. Among them, five industries are endowed with missions to progress global projects (table 6.4). Derived from the motivations of Chinese SOEs investing overseas, the Chinese government has concerns on resources development, market seeking, technology seeking and overseas network building. Concerning the entry mode to a foreign market, for natural resources development the Chinese government encourages both individual and joint venture operation. For information technology the State is more inclined to support the establishment of overseas subsidiaries and the build-up of a global network. For manufacturing CBMA is more likely to receive discount loans.

However, key industries being promoted and supported by the State are all under the control of China's largest SOEs. In other words, private companies are excluded from these opaque but rigid thresholds. The difficulty in financing, however, is that it obstructs Chinese private enterprises investing abroad. Because of limited national export credit and high interest rates of loans, Chinese SMEs have problems with repayment and cash flow. The Chinese government has to consider extending the repayment period or reducing interest rates as well.

Table 6.4: resource industries with OFDI-related support

Industry	Encouraged projects	Government support
Petrochemical	Development and cooperation of overseas oil and gas, potash and sulphur.	Simplify the approval procedure; fulfil measures of credit loans, foreign exchange and taxation
Iron and steel	Overseas wholly-owned or joint venture mining operation; overseas exploration, development, technical cooperation and mergers by key enterprises; build up overseas network	Fulfil measures of credit loans, foreign exchange, taxation and entry and exit; prevent and eliminate the offshore risks; extend export credit; provide export credit insurance and special funds
Nonferrous metal	Overseas wholly-owned or joint venture mining operation	Strengthen international cooperation; simplify the approval procedure; fulfil measures of credit loans, foreign exchange, taxation, insurance and entry and exit; prevent and eliminate the offshore risks; strict entry to the overseas resources development business
Electronics and information	Establish overseas R&D and production bases; build up overseas network; cooperation between the Chinese enterprise and foreign governments	Provide export tax refund and export credit insurance
Equipment manufacture	M&As with the offshore manufacturing and R&D institutions	Provide discount loans

6.3 Information service

Before 2002, the Chinese government's information provision and technical assistance for overseas investment was deficient. Since 2003, MOFCOM has worked with other departments on the OFDI-related information publication. It has also devoted itself to establish online service platforms.

6.3.1 Guidance

In the 16th National Congress (2002) and the Third Plenary Session of the 16th CPC Central Committee (2003), Chinese leaders emphasised several points related to OFDI, including encouraging and supporting enterprises with comparative advantages to invest abroad, and perfecting the service system of overseas investment. To carry out and implement the central guidance, Countries and Industries for Overseas Investment Guidance Catalogues (对外投资国别产业导向目录⁵⁹ *Duiwai touzi guobie chanye daoxiang mulu*) ('Catalogues' hereinafter) were drawn to strengthen the coordination and guidance of OFDI. Catalogues I, II and III cover 28, 67 and 25 countries correspondingly, including industries of agriculture, forestry, animal husbandry, fishery, mining, manufacturing, service and others. Enterprises, which comply with requirements of the Catalogues and which have approved certificates of

⁵⁹ Catalogue I can be accessed at <http://www.china.com.cn/chinese/PI-c/626171.htm>
Catalogue II can be accessed at www.ndrc.gov.cn/uploadfiles/f2008-09-01/200809011859089945.doc
Catalogue III can be accessed at http://www.ndrc.gov.cn/zcfb/zcfbtz/2007tongzhi/t20070227_118707.htm

overseas investment, have priority to enjoy preferential policies regarding funding, foreign exchange, tax payment, customs, and exit-entry.

The Catalogues first select countries, and then define relevant investment fields, based on the consideration on comparative advantages of Chinese enterprises, economic structure and environment of target countries. Countries are mainly selected from peripheral countries with a good relationship, high complementarity to China's economy, primary trading partners, strategic partners⁶⁰, and members of important regional economic organisations in the world. The choice of industries takes into account areas that target countries try to attract investment for, and is referred to China's National Economical Industry Classification (GB/T4754-2002).

Table 6.5 gives an example of India selected from Catalogue I (2004). Firstly, India has a close relationship with China. In 2005, China and India agreed to establish a 'strategic and cooperative partnership for peace and prosperity' between them. According to the statement, China-India relations have entered a new stage of comprehensive development. Secondly, according to the India Investment Centre website, India's 1991 Power Policy seeks to attract significant foreign investment in the power sector. Concerning the infrastructure sector, FDI up to 100% is automatically permitted in projects for construction and maintenance of roads, highways, vehicular bridges, toll roads, vehicular tunnels, ports and harbours. SASAC's website demonstrates that in past years, most projects involved Chinese central enterprises and their

⁶⁰ China has established strategic partnership with many countries, for example, with Mongolian and South Korea in 2003, with Chile and Uzbekistan in 2004, and with Peru and Indonesia in 2005.

participation in the construction of Indian power stations and roads (SASAC, 2009). This also shows that China's investment in India complies with the Catalogues.

Table 6.5: an example selected from Catalogue I 2004

Country	India
Agriculture, forestry, animal husbandry and fishery	Crop planting
Mining	Coal and iron
Manufacturing	Manufacture of instruments and office equipment; Manufacture of high/low voltage switchgears, generators and other electric machinery; Mechanic manufacture of refrigerating equipment and air conditioning; Manufacture of televisions and other electric equipment; manufacture of plastic products; Pharmaceutical production
Service	Trade Software development Building Transportation Travelling Infrastructure
Other	Electricity production and supply

Source: Countries and Industries for Overseas Investment Guidance Catalogue (I), 2004

From 2006 to 2009, the Investment Promotion Agency (IPA) of MOFCOM published 24 reports concerning the investment in different countries and regions. All these reports are within the category of Country/Region Report of China's Outward Investment Promotion (Series) (中国对外投资促进国别/地区系列报告⁶¹ *Zhongguo duiwai touzi chujin guobie/diqu xilie baogao*) and focus on the target country's macroeconomic environment, industrial structure, laws, policies and incentives, the establishment of foreign enterprises, production costs, and investment services. Furthermore, in 2009, MOFCOM's

⁶¹ Accessed at <http://tzswj.mofcom.gov.cn/static/redianzhuizong/redianzhuizong.html/1?3635885496=383633112>

two departments, Chinese Academy of International Trade and Economic Cooperation (CAITEC) and IPA, worked jointly with the Economic & Commercial Counsellor's Office of China's embassies in various countries to compile Outward Investment Cooperation Countries (Regions) Directory (对外投资合作国别(地区)指南⁶² *Duiwai touzi hezuo guobie diqu zhinan*). In 2010 MOFCOM will release three more reports and supplement relevant information to the issued reports. These reports assist the Chinese enterprises to understand the politics, economy, society and culture, laws and customs of 162 countries and regions.

6.3.2 Online services

The website of 'Outward Investment and Economic Cooperation'⁶³, was put into operation by MOFCOM in 2004. It supports the Chinese enterprises with the information of China's laws and regulations, policy explanations and the enterprise directory. Additionally, MOFCOM provides administrative services through the online systems, including OFDI Statistics System, OFDI Approval System, Developing Overseas Mineral Resources Recording System and OFDI Operation Obstacles Reporting System. The online performance evaluation is under construction.

According to Notice on establishing the information bank of OFDI proposals (关于建立企业境外投资意向信息库的通知⁶⁴ *Guanyu jianli qiye jingwai*

⁶² Accessed at <http://fec.mofcom.gov.cn/gbzn/gobiezhinan.shtml>

⁶³ 中国对外经济合作指南网站 Accessed at <http://fec.mofcom.gov.cn/>.

⁶⁴ Accessed at <http://hzs.mofcom.gov.cn/aarticle/zcfb/b/200403/20040300191018.html>.

touzi yixiang xinxi ku de tongzhi), MOFCOM established an information bank of OFDI proposals in 2003. It was designed to provide the capital supply and demand information for domestic and foreign enterprises. However, the applicants to join this information bank have to comply with the following requirements: the registered capital of over RMB 10 million; making profit in three consecutive years; and aiming at the OFDI project of over USD 1 million. The government's bias obstructs many SMEs from useful information. Furthermore, if an enterprise wants to release its proposal on MOFCOM's website, it has to fill in a form and submit it to the relevant department. Relevant information will be publicised online only twice a year, in June and December. This time-consuming procedure will predicatively delay the investment opportunities. It is hardly believed that the enterprises will take this so-called information bank seriously. As a result, the information bank does not function as well as it sounds. According to the website of the Department of Outward Investment and Economic Cooperation,⁶⁵ little information can be found of domestic intentions. Most of the overseas requests for China's investment were publicised in 2004 and 2005. Only a few have been updated in recent years.

Reporting System of Overseas Investment Operation Obstacles (国别投资经营障碍报告制度⁶⁶ *Guobie Touzi Jingying Zhangai Baogao*) ('Reporting obstacles' hereinafter) was issued by MOFCOM on 11 November 2004. The main purpose of this 'Reporting obstacles' is to protect Chinese investors' legal rights and to create a good environment for promoting overseas investment.

⁶⁵ Accessed at <http://hzs.mofcom.gov.cn/static/j/j.html/1>.

⁶⁶ Accessed at <http://gbtz.hzs.mofcom.gov.cn/>

According to this 'Reporting obstacles', Chinese economic and commercial agencies, chambers of commerce and enterprises abroad shall submit annual and irregular reports. Chinese enterprises shall provide the following information in their reports: the overall situation of their overseas investment and operation, obstacles and risks of target countries, barriers of investment and service trade, and suggestions to deal with these problems. Enterprises shall submit written materials in compliance with the sample report annexed. Online submission can be completed at the programme 'Reporting Overseas Investment Operation Obstacles' on the website of China's Foreign Economic Cooperation (<http://fec.mofcom.gov.cn/>).

These reports shall reflect various obstacles, barriers and related problems encountered in their investment and operation in the host countries and regions. Furthermore, these reports will be used as the bases of the annual 'Foreign Market Access Report' (国别贸易投资环境报告 *Guobie maoyi touzi huanjing baogao*) issued by MOFCOM. Relevant domestic departments will consult these reports to understand various problems of investing in the target countries, and then to safeguard the legal rights and interests of Chinese enterprises through multilateral or bilateral mechanisms.

'Foreign Market Access Report', released since 2003, has been regarded as a useful reference for enterprises to have updated information of overseas investment environments. It is also important for enterprises to report the overall situation of their outward investment, especially problems they have encountered. Foreign Market Access Report 2009 ('Access Report 2009')

hereinafter) introduces the trade and investment environment of 16 countries and areas: Argentina, Egypt, Australia, Brazil, Russia, Philippines, The Republic of Korea, Canada, the United States, Mexico, South Africa, the European Union, Japan, Turkey, India, and Indonesia. 'Access Report 2009' describes the general situation of trade and investment in these 16 countries and areas, their administrative systems and relevant changes in 2008, their trade barriers and negotiations with Chinese government. The Indian cabinet further relaxed FDI policies in a number of sectors. In the civil aviation sector, 100% foreign ownership is permitted in aircraft maintenance, flight training and helicopter services. In the petroleum and natural gas sector, the Indian government cancelled the requirement that a foreign investor has to transfer 26% of its equity to its Indian partner or the public within five years. In the mining sector, after the approval of Indian government, 100% foreign ownership is permitted in titanium mining and sorting operations. It all looks good for Chinese enterprises that want to invest in relevant industries in India.

6.3.3 Statistics

The Statistical System of Overseas Direct Investment (对外直接投资统计制度⁶⁷ *Duiwai Zhijie Touzi Tongji Zhidu*) ('Statistical system' hereinafter) became effective in 2009, and was issued by MOFCOM and NBS. The 'Statistical System' replaces the earlier version, which was promulgated in 2004 and 2006. The 'Statistical System' is suitable for all enterprises that invest overseas. The main purpose of the 'Statistical System' is to grasp overall

⁶⁷ Accessed at <http://hzs.mofcom.gov.cn/aarticle/zcfb/b/200701/20070104213569.html?4236645562=383633112>

information of enterprises' overseas investment. Based on collected data, the government publishes 'Statistical Bulletin of China's Outward Foreign Direct Investment' every year. The government would be able to analyse the trend of OFDI and to efficiently administer overseas activities. The government would make relevant guidance policies for outward investment.

In the first section, it specifies general instructions, including the main content of the reports, submission and filing of materials, publication and adjustment of statistical data and the training of statistics personnel. In spite of this, it also specifies that some behaviour may receive administrative punishments, according to Rules for the Implementation of the Statistics Law of the People's Republic of China. This includes false declaration, concealment, forgery or falsification of statistic materials, refusing to declare or continuous late report materials.

In the second section, it lists tables and forms required by statistic reports, which have to be fulfilled by enterprises on time. Then it gives explanations for the basic concepts and index, and details of statistical standards and calculation methods in the following two sections. The forms imply what the government concerns and what the crucial information is related to OFDI. They are interested in basic information of domestic and overseas enterprises, investment and profit distribution between domestic and overseas enterprises, import and export through overseas enterprises, and reinvestment by domestic enterprises through tax havens.

Tables 6.6 and 6.7 summarise the core information provided by the 'Statistical System' and relevant forms. MOFCOM is responsible for the statistics of OFDI and administers the statistic work of central enterprises and all provincial business administration departments. Domestic investing parties should organise and compile all information of their overseas subsidiaries and activities. Considering 16,373 subsidiaries under 161 central enterprises (Naughton, 2008), however, it is intricate for domestic parties to finish this work.

Table 6.6: regulation for OFDI statistics

Form No.	Name	Issued period	Reporter	Reporting date and method
FDIJ1	Agreement signed on overseas investment	Quarterly	Domestic enterprises	Online transmission, within 10 days after the end of each quarter
FDIJ2	Statistics on overseas investment	Quarterly	Ditto	Ditto
FDIN1	Brief information of domestic enterprises	Annual	Ditto	Online transmission, before 20 th June in the year later
FDIN2	Brief information of overseas enterprises	Annual	Ditto	Ditto
FDIN3	Investment and profit distribution between domestic and overseas enterprises	Annual	Ditto	Ditto
FDIN4	Import and export through overseas enterprises	Annual report	Ditto	Ditto
FDIN5	Re-investment by domestic enterprises through tax havens	Annual	Ditto	Ditto
FDI101	Brief information and operation activities of overseas enterprises	Annual	Overseas enterprises	Arrange the time and method within the deadline required for domestic enterprises

Source: MOFCOM et. al, 2009 Statistical System of Overseas Direct Investment

Notes: Central enterprises should send all the above forms (except FDI101) to MOFCOM. Other SOEs should send forms to provincial business administration departments. The form FDI101 should be sent to domestic mother enterprises by their overseas subsidiaries.

Table 6.7: information required by each form

Form No.	Name	Key information required
FDIJ1	Agreement signed on overseas investment	The date of the agreement; The investment mode; and Investment by Chinese party, itemising capital, real and other investment
FDIJ2	Statistics on overseas investment	The investment mode; and Investment by Chinese party, specifying capital, real and other investment
FDIN1	Brief information of domestic enterprises	The amount of total assets, debts, shareholders' interests, revenues and profits; and The number of employees in total and abroad
FDIN2	Brief information of overseas enterprises	The amount of total assets, debts, shareholders' interests, revenues, profits and taxation paid to the host country
FDIN3	Investment and profit distribution between domestic and overseas enterprises	OFDI in current period: net amount, total amount (itemising added capital stock and profit reinvestment), and reverse investment; OFDI accumulated: net amount, total amount (itemising capital stock and profit reinvestment), and reverse investment; Distribution of profit made by domestic enterprises in current period: net amount, total amount (itemising profits), and distribution of profit made by overseas enterprises; and Profits returned to domestic enterprises
FDIN4	Import and export through overseas enterprises	The total value of import and export through overseas enterprises; and, Imported resource products, itemising petroleum, natural gas, timber, copper, iron and aluminium
FDIN5	Reinvestment by domestic enterprises through tax havens	The location (HK, CI, BVI, and/or Bermuda); The amount of reinvestment in current period and accumulated amount; and, The industry reinvested
FDI101	Brief information and operation activities of overseas enterprises	Basic information; Investment between domestic enterprises; Profit distribution with domestic enterprises; and Import and export

Source: Ibid.

Relevant official reports, however, are far from enough for overseas investment.

They merely concentrate on key countries and industries, and are not able to

provide detailed information. The central government is likely to take into consideration problems reflected in Foreign Market Access Reports and OFDI statistic reports when examining OFDI projects in the following year or years. These reports are used for analysis rather than providing information for investors. Information collected by Country/Region Reports and OFDI Directories may be comprehensive, but not concurrent. Due to the increasingly close relationship between China and the host country government, the central government, as well as provincial and municipal government departments, has the fastest and most efficient information of potential projects outside China. Chinese SOEs, in particular, the central enterprises would have first and foremost priority to take advantage of relevant information.

It is also insufficient if it only knows that Chinese government provides financial support or not. The firm certainly should have overall information of the local investment environment, such as how many competitors, which entry mode to select, labour and infrastructure costs. Some scholars argue that China's service system for overseas investment has to be strengthened in supplying detailed information and training specialised personnel, and encouraging the development of commercial and non-commercial organisations (for example, Wei and Zhu, 2010, Zhang and Zhou, 2007, Zhao and Chen, 2010).

However, it shall be the firms' responsibility, not the State's, to search relevant first-hand information like target country environment and target sector. Based on my research, first, the government has already established a platform for

companies' communications. The service system is also relatively complete. Second, it is impossible for the government to provide updated and detailed information of all countries and sectors. It always takes time for institutional departments to compile reports or catalogues. It is crucial to train specialised personnel to collect and deal with information. There is also a large potential market for information in need.

6.4 Conclusion

This chapter focuses on what supportive measures are and their concerns, as well as the range of application. First of all, this chapter investigates the Chinese government's role as a promoter. The financial support and information services from Chinese government have dramatically improved. In addition to special funds offered by MOF and MOFCOM as well as sovereign wealth funds, NDRC and CDB provide capital support for projects that supplement domestic resources and stimulate the export of technology, products, equipment and labour. NDRC and China Eximbank also have jointly established credit support mechanism for overseas investment projects. China's state-owned commercial banks closely work with SOEs' overseas projects as well, for example, extending M&A Loans. The analysis concerning Beijing's financial policy by other scholars like Luo et al. (2010) and Voss et al. (2008), which are close to this research, is quite broad. MOF's special funds, CIC's use of sovereign wealth funds, long-term low-interest loans provided by policy banks and state-owned commercial banks are not yet discussed.

On the other hand, some problems of the Chinese regulations promoting OFDI have been discovered in this chapter. The State lays emphasis on five industries through industrial promotion policies. SOEs are the leading actors in the fields of petroleum and refining, metallurgy, electronics and information and manufacture. Most of the promotional measures first and foremost service SOEs, sometimes even exclusively, although this is hardly written in documents. This prevents private companies from enjoying financial support as fairly as SOEs.

Information support and consultation will also assist investors in gaining access to the investment environment of host countries. Therefore, the state provides information on a variety of countries through embassies, banks and specialised consulting companies. The Catalogues list the attractive target countries and encouraged industries. The Directories and Country/Region Reports describe general information of potential host countries. 'Foreign Market Access Report' also helps enterprises update their knowledge of overseas investment environments, as well as China's OFDI statistical reports.

Chapter 7 Evidence from business groups: China's largest companies by foreign assets

Functioning as an administrator and a sponsor, the Chinese government has promulgated a series of policies and regulations, 26 of which are currently effective and are enunciated by the key policymakers. To enrich the extant literature with more detail and to construct a more complete institutional framework, Chapters 5 and 6 illustrate China's institutional context of TNCs' overseas expansion. Generally speaking, the attitude of the Chinese government is to encourage OFDI development to the utmost extent, along with reasonable and essential controls.

This chapter responds to calls for empirical research at the micro level (Cui and Jiang, 2010, Li, P.P., 2007, Yin, 2009) and the need for a better understanding of HCMs and their effects on Chinese TNCs (Child and Rodrigues, 2005, Luo *et al.*, 2010). In this chapter, I investigate the data of China's largest companies by examining their foreign assets and overseas subsidiaries. Section 7.1 provides the overview of the sample. Sections 7.2 to 7.4 investigate the relationship between the groups and their subsidiaries. In particular these sections consider the corporate governance of business groups and examine and discuss the motivations of business groups' OFDI. Section 7.5 seeks the rationale of round-tripping investment. Section 7.6 is the conclusion.

7.1 Corporate structure

7.1.1 The mother companies

As stated in Chapter 4, I apply the data of the top 50 business groups ranked by their foreign assets in 2009 (MOFCOM *et al.*, 2010). Among these business groups, I find little information of CSSD Venture Capital (rank 45), due to no website or listed holding subsidiaries. For the 49 companies with available data, based on the overviews from their official websites, regarding their ownership, 32 of them are SASAC-owned central enterprises; 5 are state-owned or controlled enterprises (CITIC⁶⁸, SAIC⁶⁹, Shougang, CIMC⁷⁰, and Legend⁷¹); 9 are owned or controlled by the provincial and municipal government (Shum Yip, Yunnan Copper, Hunan Valin, Yanzhou Coal, Changsha Zoomlion, GDH, Guangzhou Yuexiu, Shenzhen Investment, and Jinchuan), and 3 are private companies (ZTE, Huawei and Jiangsu Shagang).

Considering the places of incorporations, 5 are registered in Hong Kong, namely, China Resources, China Merchants, Shum Yip, GDH, and Guangzhou Yuexiu, based on the introductory information from their official websites. Others are incorporated in mainland China.

⁶⁸ CITIC refers to China International Trust and Investment Corporation, a state-owned investment company.

⁶⁹ SAIC refers to Shanghai Automotive Industry Corporation.

⁷⁰ CIMC refers to China International Marine Containers (Group) Ltd., which is principally engaged in the manufacture and sale of transportation equipment.

⁷¹ Legend is the holding company of the famous Lenovo Group. The State-owned Assets Management Company of the Chinese Academy of Sciences, a Chinese government agency, holds 35% shares of Legend, which makes it the largest shareholder of Legend.

7.1.2 Listed companies

In our sample, except for Huawei, Shagang and Jinchuan, 46 Chinese TNCs have 127 listed companies. 51 out of 127 are listed on the Chinese stock exchanges, while the rest are listed outside mainland China. 9 companies are listed in more than one stock exchange, for example, CNPC's holding company Petrochina is listed on the China, Hong Kong (HK) and New York stock exchanges. For these companies, I only refer to their financial reports from the Hong Kong Stock Exchange (HKSE) to avoid repetition.

In China-listed companies, I find evidence of overseas activities in 9 companies' reports. With regard to companies listed abroad, 68 HK-listed subsidiaries distribute in China (18), Bermuda (18), the Cayman Islands (CI) (7) and HK (25). The main businesses of most offshore companies are recorded as investment holdings, which are used to control more subsidiaries. Some financial holdings also focus on bond securities investment, providing services of nominee, financial, leasing, administration, management and warehousing. Excluding those with investment holdings, 61 listed companies have 894 offshore holding subsidiaries, including direct and indirect holdings, dispersed in 45 countries and regions. Tax havens, like Hong Kong and Panama, are the top destinations. Despite this, the central enterprises set up subsidiaries in advanced economies like the US and Europe. Although half (1,353 out of 2,792) of subsidiaries are outside mainland China, only 30% (859 out of 2,792) participate in OFDI businesses.

Due to the complicated corporate structure of business groups, I have found conflicts between the information of parent groups and listed companies. Take CNPC⁷² for example. CNPC's website demonstrates that its HKSE-listed company Petrochina has a China-based non-listed subsidiary, namely, Petrochina International Co. Ltd. (Chinaoil). Chinaoil is responsible for the construction and management of international trade, overseas warehousing and global networks. It has 11 subsidiaries in China and 12 abroad, which distribute in the US, Kazakhstan, Japan, the UK, Russia, Indonesia, Hong Kong and Singapore. Nevertheless, Petrochina's annual report only shows a list of 5 subsidiaries, which do not mention Chinaoil. One reason for this situation is that the report will be lengthy, particularly when the parent group has dozens of subsidiaries. As it is noted in CNPC (Hong Kong)'s report, 'To give details of all the other subsidiaries would...result in particulars of excessive length.' (CNPC(HK), 2010) Another possible reason is that unrecorded companies are indirectly held by investment holding companies in their multi-level ownership. Accordingly, I have to take the information collected from the websites of parent groups into account, which does not appear in the financial reports of listed companies.

The detailed information of listed companies and main businesses and the role of their offshore holding companies are demonstrated in Appendix 1. I compile the names of groups and the listed companies. With regard to the listed companies, Appendix 1 shows their places of incorporation/listing, their main businesses, how many subsidiaries principally operated in China but were

⁷² CNPC refers to China National Petroleum Corporation, the holding company of its well-known listed subsidiary Petrochina.

registered as foreign-owned enterprises, and the roles, locations and numbers of their overseas subsidiaries. Appendix 2 demonstrates Chinese TNCs' cross-border M&As from 2003-2009, with regard to ultimately acquiring companies, target companies, the value of investment, and the stake obtained. This responds to questions of whether their overseas businesses comply with their domestic main businesses. This also considers whether establishing offshore holding companies is conducted on the purpose of 'round-tripping' investment, what the proportion is, and whether it is significant. Furthermore, this indicates the groups' strategic choices of target countries and sectors and the motivations of undertaking OFDI, and whether they are politically driven or business inclined.

In brief, I agree that, as latecomers to the global competition, Chinese TNCs use OFDI to address their competitive disadvantages, catch up with their competitors (Buckley, Cross *et al.*, 2008, Child and Rodrigues, 2005, Deng, 2004, 2007, Luo and Tung, 2007), and augment their assets (Sutherland and Matthews 2009). OFDI has reinforced Chinese TNCs with advanced technology, diverse products and professional personnel (Child and Rodrigues, 2005, Cui and Jiang, 2010, Rui and Yip, 2008).

There is evidence for 'round-tripping' investment, but it is not significant. These 'most internationalised' business groups, ranked by their overseas assets, operate in various industries abroad. Most of their overseas businesses are regarded as a support to the mother companies or a service to foreign customers. Morck, Yeung and Zhao argue that the government, however, may

use these SOEs to promote 'flagship' overseas projects, rather than investments with high economic returns (Morck *et al.*, 2008). Naughton (2008) also criticises that it is not beneficial for the long-term growth of central enterprises, because they receive resources and high level government attention. However, this research disagrees with their belief that OFDI undertaken by Chinese TNCs comes from the convergence of the nation and enterprises' interests. I hypothesise Chinese TNCs' responses to HCMs are 'conditional compliance', which cannot be well explained by Oliver's categories of firms' strategic responses (Oliver, 1991). The OFDI of these business groups is driven by the balance between political and institutional factors and business interests. Neither of them functions solely. This will be elaborated on in sections 7.2 to 7.5.

7.2 Natural resources seeking

7.2.1 Petrochemical industry

China's foreign oil dependence ratio has continuously increased from 6% in 1993 to 52% in 2009 (NBS, 2010). Domestic oil production was replaced by these imports in order to meet more than half of China's oil consumption. The growing reliance on imported oil and gas has forced China to enhance its energy security. Their 'going out' strategy encourages national oil enterprises to purchase quality oil and gas assets abroad, build transnational pipelines and sign long-term provision contracts to secure their supply.

CNPC, Sinopec and CNOOC are China's three major crude oil explorers and producers. The CNPC Group has 12 overseas branches in Iran, Iraq, Kazakhstan, South America and Asia to operate local oil and gas exploration and exploitation. Petrochina International Co. Ltd. (Chinaoil), a wholly-owned subsidiary of PetroChina Co. Ltd., is responsible for international trade, the establishment and management of overseas storage, and the construction of the global marketing network. For example, in 2009, through Chinaoil's Singapore subsidiary, Petrochina purchased 45.5% of the publicly listed Singapore Petroleum from the Keppel Corporation for \$1.02 billion (Petrochina, 2010). Similarly, Sinopec's wholly-owned subsidiary Sinopec International Exploration and Production Corporation (SIPC) specialises in overseas oil, and gas exploration and investment. In recent years, other Chinese central enterprises have also embarked on acquisitions of overseas sources. For instance, Sinochem paid \$879 million for Emerald Energy, which was recognised as 'another step in our strategy of building a global energy company' (Kavanagh, 2009). Thanks to these M&A deals, Chinese petroleum refining enterprises have broken through to the oil fields in South America, the Middle East and Africa.

In spite of the expansion in the upstream sector, CNOOC's subsidiary China Oilfield Services Ltd. (COSL) acquired Awilco Offshore ASA for \$2.5 billion (COSL, 2009). Awilco was a Norwegian company, providing offshore drilling services in Australia, Norway, Vietnam, Saudi Arabia and the Mediterranean region. In addition to growth opportunities in new markets, COSL would obtain Awilco's project contracts and drilling equipment, in particular, the

advanced technology in relation to its offshore drilling and management experience.

7.2.2 Iron and steel industry

China's crude steel imports amounted to 628 million tons, accounting for 69% of national steel consumption (NBS, 2010). Due to China's escalating dependence on foreign iron ore, Chinese steel-producing companies seek overseas opportunities in terms of long-term contracts, overseas iron development by participating in joint ventures, and the equity acquisition of foreign companies. For example, Sinosteel completed its purchase of Midwest (Anand, 2008). Shougang acquired 12.03% shares of Mount Gibson Iron Limited (Australia) (Jia, 2010). Baosteel acquired a 15% stake of Aquila Resources Limited, accessing Aquila's iron, coal and manganese in Australia and South Africa (Riseborough, 2009). The Valin Group acquired a 17.34% share of Fortescue Metals Group Ltd. (FMG) by AUD 1,270 (\$929) million (Tan, J., 2009). According to this transaction, FMG would multiply its iron ore supply to the Valin Group and its subsidiaries. These two parties would also cooperate on the new technology of developing low-class iron ore. Finally, Jiangsu Shagang acquired 90% of Australian Bulk Minerals (ABM), the holding company of Savage River iron ore (Gong, 2007).

Although the Chinese steel MNEs would obtain millions of tons of iron ore from such M&A deals, it is far from enough compared to their annual imports. The long-term strategy of the Chinese steel enterprises is to enhance the control

of resources via overseas M&As, diversify importing channels of raw materials, import crude steel at a lower price, as well as break the iron ore control by the world's mining giants, Vale, Rio Tinto, and BHP Billiton.

Offshore subsidiaries of a parent group may function differently from one another. Under the leadership of the parent group Shougang Corporation, the mainland-based subsidiaries of Shougang Concord International Enterprises Co. Ltd. (HK) and Shougang Concord Century Holdings Ltd. (HK) are mainly involved in manufacturing, while offshore holding companies undertake shipping and trading of metals and steel products.

Regarding the Baosteel Group, as the main platform of the parent group's OFDI activities, the Baosteel Australia Mining Company focuses on the development and production of steel ore. Baosteel Hong Kong Trading Company conducts businesses such as the trade, processing raw materials and ocean shipping. These subsidiaries work together to improve the efficiency and effectiveness of the parent group's overseas investment. The main purpose of the establishment of the sales subsidiaries appears to be related to trading, warehousing and shipping, after-sales service, as well as looking for further sales outlets.

SinoSteel has 23 overseas firms and branches in HK, Australia, South Africa, Germany, India, Brazil, Gabon, Indonesia, Cambodia, Turkey and Vietnam. Different from other firms, the HK-based SinoSteel International Holding Company Ltd. has nine subsidiaries in China, BVI and Macau, participating in

the parent group's core businesses, overseas resources development and international trade.

7.2.3 Nonferrous metal industry

By the end of 2009, Jinchuan had no listed subsidiaries. Most of its overseas assets are mineral resources. For example, after the deal with Tyler Resources for \$213.4 million, Jinchuan would acquire Bahuerachi, which is the largest unexplored copper and zinc ore source in Mexico (Cang, 2008). Jinchuan obtained Munali nickel ore in Zambia in a similar way. It also paid \$15.7 million for 11% of Fox Resources, a nickel and copper supplier of Jinchuan (Foxresources, 2008). In 2009, Jinchuan expanded its business to titanium and zirconium ore through purchasing 70% of Tiomin Kenya Ltd. (Chinadaily, 2009a).

China National Gold Group Hong Kong Ltd. was established in 2008 as the parent group's platform to achieve overseas strategies. Afterwards, through this 'window company', the Chinagold Group acquired 42% controlling interest in Jinshan Gold Mines Inc. for \$218 million, which was mainly engaged in exploring gold in China, and was previously held by Ivanhoe Mines Ltd. (Sina, 2011).

In 2004, CNMC, the parent group, established ORD River Resources Limited in Australia, jointly with its two subsidiaries, China Nonferrous Metals Int'l Mining Co. Ltd. (CNMIM) and China Nonferrous Metal Industry's Foreign

Engineering and Construction Co. Ltd. (NFC). CNMIM targets mineral resources including copper, lead, zinc, gold, nickel and cobalt, while NFC is ORD's partner in the Laos bauxite project. In 2009, after it completed buying around \$16 million worth of shares, CNMC became the largest shareholder of Chaarat Gold Holdings and Terramin Australia (Li, 2009). Terramin, an Australian zinc and lead miner, currently operates in Australia and Algeria. Chaarat Gold is a UK-listed gold exploration and development company, operating in the Kyrgyz Republic. CNMC also purchased an 80% stake of Zambia's Luanshya Copper Mine (Li, 2009). In addition, NFC also contracted international engineering projects in Kazakhstan, Iran, Italy, Zambia, Vietnam, and India.

7.2.4 Coal, power and electricity

Yanzhou Coal Mining established Yancoal Australia Ltd. in 2004 and introduced the Longwall Top Caving Coal Mining Technology. Afterwards, Yancoal Australia purchased Southland Coal Mine with \$230 million and formed a wholly-owned subsidiary called Astar Coal Mine Pty Ltd. to hold assets. This was the first time that China's coal enterprise acquired an overseas coalmine. Through the acquisition of Astar, Yanzhou Coal Mining accumulated experience of overseas acquisition and operation. The stock price of Australian coal companies crashed, due to the recession, the slump in coal prices, and the devaluation of the Australian dollar. In 2009, Yanzhou Coal Mining, through Astar, spent AUD 3.33 (\$2.78) billion on a 100% share of Felix Resources Ltd. (Scott and Duce, 2009). The amount of investment

accounted for 59% of the total assets of Yanzhou Coal Mining. The Bank of China's Sydney branch, the China Development Bank's HK branch, and the China Construction Bank's HK branch jointly provided a \$3 billion loan to support this transaction (Xing and Zhang, 2009). After acquiring Felix, Yanzhou Coal Mining's coal reserves grew by 23.8%. Coal produced by Felix's Ashton and Yarrabee is of strong profitability. Felix would also bring a large number of customers from Japan, Korea, and Taiwan. Furthermore, Yanzhou Coal Mining would benefit from Felix's cooperation with Austar in terms of exploration, transportation, distribution, and sales.

Compared to natural resources like oil, gas and metals, power projects are in the downstream industry, and have relatively small effects on the energy security in the host country. It is easier for the Chinese power companies to obtain approval from the local government. These Chinese power companies have been seeking a breakthrough in the Asian market. The State Grid holds a 40% share in the joint venture, the National Grid Corporation of the Philippines, which was the first time that a Chinese enterprise won the right to operate the national power grid in a foreign country. Also from the power generation sector, Huaneng acquired 50% shares of OzGen (Australia) (Wan, 2009) and 100% shares of Tuas Power (Singapore) (Lim, 2008), respectively. The transaction with Tuas also facilitated Huaneng to learn how to operate a web-based bidding and scheduling system, and how to use fuel and foreign exchange futures hedging for risk management. In addition, Huaneng purchased a 25.5% stake of the Australian Monto coal mine to guarantee the long-term supply to its China-based power plants (SASAC, 2005d). In spite of

cross-border M&As, Huaneng also developed the Ruili River Cascade 1 Hydropower Plant in Burma, China's largest international hydropower project, which was completed in the mode of build-operate-transfer. As such, 85% of the electricity would be sent to China from abroad to join the nation's 'West-to-East Electricity Transmission Project'.

7.3 Market seeking

The most common activities of the foreign subsidiaries are sales and trading. For example, Sinopec's two HK-based subsidiaries are all involved in the trading of crude oil, petroleum and petrochemical products. Sinochem has two subsidiaries (1 in HK and 1 in Macau) of fertiliser trading. China Minmetals's one subsidiary in CI is established to purchase and supply alumina, while two in HK trade in non-ferrous metals.

Evidence is also found in reference to Chinese telecommunication operators. After having gained rich experience in telecommunication and other information transmission services in the domestic market, China Mobile's key concern on overseas strategies was to increase profit and expand into new markets. Hong Kong was its first target to expand outside China. China Mobile paid \$436 million for Peoples Telephone Company (HK) in 2005, which had been previously held by another Chinese central enterprise, the China Resources Group (Liu, Y., 2005). Released by SASAC, the China Resources Group should focus on three main fields, namely, production and distribution of daily necessities, real estate and relevant industry, and infrastructure and

public utilities. Peoples is one of the major mobile communications service providers in Hong Kong, which was not included in the parent group's main businesses. This transaction complied with SASAC's requirements, such as 'separating auxiliary from main businesses' (主辅分离 *zhufu fenli*) and 'specialised operation' (专业化经营 *zhuanyehua jingying*).

After several failed attempts to enter Uzbekistan and Pakistan, China Mobile purchased Paktel in 2007, which was renamed China Mobile Pakistan (CMPak) (Gan, 2007). China Mobile had successful experience in attracting China's low-income customers, which would be advantageous during the expansion into emerging markets such as Asia, Africa and Latin America. Furthermore, China has a long-term friendly relationship with Pakistan. A number of Pakistan reconstruction projects are conducted by China so the two governments would be likely to assist in solving any problems that occurred after the transaction. In comparison to China Mobile targeting emerging markets, China's other two telecommunication operators offer different telecommunications services in developed countries, like China Unicom in HK, the US, the UK, and Japan and China Telecom in the US, HK and Macau. They seek opportunities to cooperate with leading global operators.

7.4 Strategic assets seeking

7.4.1 Equipment manufacture

Before the 'going out' policy, the development of China's equipment manufacture industry depended on low-cost materials and labour. Since 2003, especially after the outbreak of the financial crisis, Chinese manufacturers have deliberated on how to expand their overseas markets, as well as possess brands, distribution channels and advanced technology, in order to offset the impact brought by increasing costs of labour and resources. Among the 50 largest business groups, Changsha Zoomlion Heavy Industry Science & Technology Development Co. Ltd. and China International Marine Containers (Group) Ltd. (CIMC) are two examples.

Changsha Zoomlion is mainly engaged in manufacturing equipment for construction, energy engineering, transportation and other infrastructure projects. Hunan Province SASAC branch is the largest shareholder of Changsha Zoomlion, holding 24.99% shares. In 2008, Zoomlion paid 162.6 million Euros (\$253 million) for a 60% stake in an Italian construction machinery maker, Compagnia Italiana Forme Acciaio SpA (CIFA) (Zhang, Q., 2008). Goldman Sachs, Mandarin Capital and Hony Capital would jointly hold the remaining 40% (Zhang, Q., 2008). Thanks to the China Eximbank Hunan branch's financing guarantee, Zoomlion borrowed \$200 million from the Hong Kong branch of Barclays Bank to fund the transaction (Zhang, B., 2008). The remaining \$50 million would come from Zoomlion's internal funds.

Furthermore, three sponsors of Mandarin Capital are the China Development Bank, the China Exim Bank, and Intesa San Paolo, the second largest Italian bank. Mandarin Capital played an important role in the coordination between the Chinese and the Italian government and enterprises. Hony Capital, a

Chinese private equity firm under the control of Legend Holding, shared the experience it obtained from Lenovo's acquisition and integration of IBM (Zhang, B., 2008).

With regard to motivations, firstly, CIFA was the only company able to supply all types of concrete equipment, which made it a leading manufacturer of concrete equipment in Europe. It had seven factories in Italy and two sales centres in the US and Mexico. CIFA's products covered West Europe, Russia and Bulgaria, which was complementary to Zoomlion's existing market. Furthermore, CIFA was strong in R&D, distribution, brand, and particularly in design and technology. In contrast, Zoomlion is good at manufacturing, but weak at management and technology development. This transaction would help both parties to enter a new market, as well as enable Zoomlion to draw support from CIFA's advantages such as advanced technology and expertise.

CIMC is a state-controlled public listed company, dedicated to manufacturing and supplying containers, trailers, tank equipment and airport equipment. Its two biggest shareholders are China Merchants International (CIMC) Investment Co. Ltd. (24.82%) and COSCO Container Industries Ltd (21.8%), which are wholly-owned subsidiaries of China Merchants Holdings International Co. Ltd. and COSCO Pacific Ltd, respectively.

In 2003, CIMC purchased the semi-trailer manufacturer HPA-MONON with only \$4.22 million and established a product line in the US after restructure (Yue, 2006). In 2007, CIMC's subsidiary CIMC Tank Equipment Investment

Holdings of Hong Kong spent \$63.3 million on 80% shares of a joint venture Newco, which ultimately acquired 100% stake of Burg Industries B.V. (the Netherlands) for €108 million (Lv, 2006). As the Netherlands is Newco's place of incorporation, while Germany is the place where Burg Industries undertook its main business, the CIMC-Burg transaction did not constitute a connected transaction. Therefore, the merger did not need any consideration by the shareholders or the EU's approval. This arrangement has effectively simplified the approval procedures and avoided risks of laws and regulations on the way to internationalisation. Soon after that, CIMC acquired 42.18% shares of Enric Energy Equipment Holdings Limited (HK) for \$144 million (Sohu, 2007). In 2008, CIMC acquired a 60% stake in TGE Gas Investment SA for €20 million (around \$28.8 million) (Ma, 2008). By the end of 2009, 16 out of 38 offshore holding companies were operating in Australia, the Netherlands, Belgium, Denmark, the US and Germany, manufacturing and distributing transportation vehicles (CIMC, 2010).

CIMC's purchases focus on its energy, chemical equipment and food equipment businesses. Burg Industries was one of the world's largest makers of standard-size tank containers carrying liquid cargo. Enric Energy Equipment was a leading supplier of specialised storage and transportation equipment and integrated business services in China's gas apparatus industry. TGE, headquartered in Germany, is engaged in providing engineering, procurement and construction supervision services for the storage and processing of petrochemical gases. These deals enable CIMC to take advantage of advanced technology and expertise, as well as avoid competition within the same

industry. Furthermore, thanks to Burg and Enric's existing competitive advantages in local and global markets, CIMC has explored more mainstream products to enrich its product line, expand its production capacity, and further build up its global tank equipment business.

7.4.2 Telecommunication manufacture

ZTE and Huawei are two providers of communications equipment and networking solutions. ZTE is listed on the Shenzhen and HK stock exchanges. According to its 2009 financial report, ZTE had two principal overseas subsidiaries, respectively, in HK and India, operating information technology, and telecommunications and related equipment manufacturing. Additionally, ZTE has established a global network in over 140 countries to service the world's operators. As an unlisted private manufacturer, however, it is difficult to obtain reliable information from Huawei, which has no listed subsidiary or corporate reports. The only information I can find on the website states that Huawei has established more than 100 branches in 22 areas and 17 R&D centres in the US, India, Sweden, Russia and China. It is general description of overseas operations or assets, which is far from clear or comprehensive.

7.5 Round-tripping investment

Taking the available information of parent groups and subsidiaries into account, I find evidence for 'round-tripping' investment. All listed companies have 341 wholly foreign owned subsidiaries in total in mainland China.

Based on the evidence from the annual financial reports of the top 50 business groups (various years), 'round-tripping' investment can be traced as being undertaken through the following two approaches. First, a business group is registered in Hong Kong, whose main businesses are mostly or completely undertaken in mainland China. Shum Yip is owned by the Shenzhen city government and under the direct supervision of Shenzhen SASAC. Shum Yip has 13 principal subsidiaries, undertaking businesses in three main areas: real estate (5 subsidiaries), infrastructure (4 subsidiaries) and logistics and transportation (4 subsidiaries). Shenzhen Investment Ltd. is a HKSE listed company of Shum Yip, which has 100% of the controlling shares of 16 principal subsidiaries. These 16 subsidiaries are all incorporated and operating in PRC, 3 of which are registered as foreign owned companies.

Second, a business group is incorporated in mainland China and has overseas subsidiaries, most of which are registered in Hong Kong, BVI, CI or other tax havens. These overseas subsidiaries run businesses primarily in mainland China. Almost all of the business groups analysed have this type of 'round-tripping' OFDI, more or less. Shenzhen Investment, owned by SASAC of the Shenzhen municipal government, has the whole or controlling shares of 79 companies. The main responsibilities of Shenzhen Investment are property and assets management and capital operation, covering broad business areas like securities and insurance, packing, transportation and exhibitions. Shenzhen International Holdings Limited, a Bermuda-registered, HKSE-listed subsidiary, mainly performs in logistics through restructure and M&As. It has no overseas

subsidiaries. All of its subsidiaries are based in China, 5 of which are registered as foreign-owned enterprises.

Therefore, for the above two Chinese TNCs, Shum Yip and Shenzhen Investment, 'going global' is just talk, not reality. That means that they are supported by the government. No matter where their subsidiaries are, no commercial business is undertaken abroad. They merely take advantage of overseas stock exchanges to raise capital and then invest in China.

I also find similar evidence from central enterprises. One typical example is China Mobile Ltd. Except for one subsidiary providing mobile telecommunications and related services in HK, China Mobile has 39 subsidiaries operating in different provinces of China, 38 of which are registered as foreign owned companies. Each of these 38 companies is under control of an offshore investment holding company. For example, China Mobile Group Jiangsu Co. Ltd. (PRC) is held by Jiangsu Mobile (BVI) Limited.

In addition, for those HKSE-listed companies that do have offshore holding subsidiaries ('onward journey investment'), the offshore companies are not playing the roles that are as important as their Chinese cohorts. For example, China Resources Land, incorporated in CI and listed in HK, has 56 Chinese subsidiaries undertaking property management within PRC, which is also the vital business of China Resources Land. In contrast, China Resources Land has only one subsidiary in HK for decoration service. Similar issues can be found on China Mobile, China Merchants Holdings, Aluminum Corporation of China,

China Overseas Land & Investment, Sinofert Holdings, CITIC Pacific, and Shougang Concord Grand. There is no doubt that these round-tripping behaviours make the business groups look big and internationalised.

Before the launch of the new Enterprise Income Tax Law⁷³ by the State Administration of Taxation in 2008, foreign owned companies in China could enjoy a beneficial tax rate. The new Enterprise Income Tax law imposes a unified tax rate of 25% on both domestic and foreign enterprises. For old laws, both domestic enterprises and foreign companies were subject to a statutory rate of 33 percent. However, foreign enterprises operating some special businesses enjoyed 15 or 24 percent as their effective tax rates. Only domestic enterprises with a low annual income had access to preferential tax rates (table 7.1).

⁷³ Accessed at http://www.gov.cn/flfg/2007-03/19/content_554243.htm.

Table 7.1: Comparison of the new and old tax laws

	New EIT* law	Tax law for domestic enterprises	Tax law for foreign enterprises
All enterprises	25 %; 20% for non-residential enterprises	33 %	33 %
Preferential treatments	20% for small meagre-profit enterprises (Annual taxable income less than RMB 300,000)	25% if annual taxable income is between RMB 30,000 and 100,000	24% for enterprises in special economic zone and economic and technological development zone
	15% for important high-tech enterprises	18% if annual taxable income is less than RMB 30,000	15% for enterprises with encouraged projects
			10%, or 0, for enterprises with advanced technologies

Note: EIT= Enterprise Income Tax

Source: Enterprise Income Tax, 2007; Implementation Rules of the Enterprise Income Tax, 2007; Provisions of some policy issues regarding enterprise income tax, 1994; Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises, 1991.

The enterprise income tax of foreign owned companies engaged in the manufacturing sector was exemptible for the first two years and was a half rate reduction for the subsequent three years, calculated from the profit-making year. Take CIMC's subsidiaries for an example. CIMC has 122 subsidiaries, 84 within China and 38 abroad. 37 out of 84 are foreign owned companies under control of overseas investment holding enterprises. In 2007, 16 subsidiaries benefited from this preferential policy, paying 0, 7.5% or 12% tax rate, which was far less than the 33% standard tax rate. This provides an important incentive for the business groups that have undertaken round-tripping investment. This policy also reflected the government's emphasis on the manufacturing sector during the initial stage of open up and outward investment.

The new Enterprise Income Tax law may have negative effects on China's 'round-tripping' investment. After the launch of the new Enterprise Income

Tax law, according to the State Council's Notification on Carrying out the Transitional Preferential Policies concerning Enterprise Income Tax (关于实施企业所得税过渡优惠政策的通知⁷⁴ *Guanyu shishi qiye suodeshui guodu youhui zhengce de tongzhi*), foreign owned companies established after 16 March 2007 are not able to enjoy preferential tax rates. Furthermore, the new Enterprise Income Tax law only provides a preferential tax rate for high-tech enterprises, which indicates the Chinese government's focus on R&D and technology development.

7.6 Discussion

Since the 'reform and open up' policy in 1978, international leading corporations have embarked on large investment in China. Due to the government's previous over protection of national business, state-owned enterprises, in particular have faced rigorous competition from global giants. Compared to non SOEs, SOEs have expanded more widely both in geography and in industries in the global market, whether they are central enterprises or controlled by the other departments of the state. SOEs, particularly the central enterprises, take part in businesses in Asia, America, Europe, Australia and Africa. They are also the leading companies in petroleum refining, power and energy, iron and steel, nonferrous metals, telecommunications, transportation and construction of China.

⁷⁴ Accessed at http://www.gov.cn/zwgk/2007-12/29/content_847112.htm.

As the 'backbone' of the Chinese economy and the most important source of revenue for the central government, SOEs cannot use OFDI as an escape from domestic competition, which is one of the motivations of private companies' OFDI. However, Chinese officials expect more competitiveness of SOEs in both domestic and international markets. 'Round-tripping' investment by Chinese SOEs is designed to make the most of advantages including product diversity, advanced technology and expertise, which are obtained through overseas investment, in order to compete with foreign companies in the domestic market. Offshore holding companies, hence, play an important role in onward journey OFDI.

According to the disclosed information, I find that none of the OFDI examination results by Chinese approving institutions has been 'not approved' or 'failed'. For OFDI undertaken by SOEs, the negative effects of the central government's administration are not significant. Although I find the Chinese government give massive financial support in cross-border M&A deals, information like the amount of loans or the interest rate is not disclosed. Chinese TNCs may weaken the government's function as an 'invisible hand' on purpose, due to the host country's concerns on national security. In other words, the implementation of China's positive measures may result in disincentives. For example, in CNOOC's \$18.5 billion bid for Unocol, the state attempted to lend CNOOC \$13 billion, including \$6 billion from ICBC. The politically-inspired obstruction set by the US government blocked CNOOC's takeover. This 'failed' M&A deal reflects the host country government's worry about security threats brought by China's growing energy appetite.

I should also note that the Chinese government does not stand behind every overseas activity. The government left Chinese TNCs on their own to make decisions. The government also shows its support beyond business factors like dealing with the bilateral relationship with the host country and organising trade delegations to visit some target countries.

My results also show that, despite being registered as large outward investors, many of China's state-owned groups actually engage in significant amounts of 'round-tripping' OFDI, for example, Shum Yip and Shenzhen Investment, as discussed in section 7.5. What this means is that they move capital offshore, which is often registered as outward foreign direct investment, before returning it onshore. Often this is done with the incorporation of further capital raised on the Hong Kong stock exchange, as well as through the developed financial markets that are present in Hong Kong. In reality, therefore, these SOEs are not necessarily 'going global'. Their officially registered outward investments, going primarily to Hong Kong, actually return to the mainland. And, in fact, when they do look to make real outward direct investments, these are actually carried out through Hong Kong-based subsidiaries. This OFDI, of course, is not registered in official Chinese statistics. As such, it is very difficult to ascertain the full extent of Chinese outward investment. Further, the official rankings of business groups according to OFDI are most likely to be quite misleading.

Our analysis leads us to some interesting conclusions. China's HCMs may be targeted at domestic business groups. But in reality many of these groups are not 'going global' or may be active outward investors through their offshore subsidiaries. These subsidiaries lay outside the jurisdiction of Chinese authorities and, as such, it may be difficult for Chinese HCMs to specifically target these groups. This raises the question of whether Chinese HCMs are simply window dressing, with little real bite or effectiveness. Once Chinese companies have established offshore subsidiaries, theoretically they are free of the potential restraints a complicated bureaucracy may demand of its domestic corporations. Moreover, once offshore, the access to further capital markets may dramatically increase domestic as well as international expansion.

7.7 Conclusion

This chapter addresses the enterprises' motivations and their responses to government measures. The Chinese government has made significant efforts to encourage Chinese corporations, especially its biggest business groups to go abroad. Most academic research, however, has not discussed the role that the Chinese government plays in helping its groups to undertake OFDI in much detail. This research investigates China's so-called 'home country measures'. It is based on detailed research into China's 50 largest business groups (by foreign assets), as their overseas activities must be significant. In particular, I use annual reports (of the groups' listed subsidiaries) and other sources to investigate China's home country measures. Our results show that Chinese SOEs invest abroad to fulfil the ambitions of the Chinese state at various levels.

Motivations of Chinese TNCs' outward investment are diverse. Overseas subsidiaries play different roles in conglomerates. 19 TNCs are involved in natural resources development like oil, gas and metals, and power projects. The chief purpose of OFDI is to diversify resource supply channels and further improve the nation's energy security. Their subsidiaries also process trading with suppliers and customers. Chinese TNCs, providing various sorts of services, like telecommunications and shipping, develop business opportunities in international markets. Enterprises in the manufacturing sector, lack of strategic assets like technology, R&D capability, distribution networks, and capital markets, seek reinforcement for their competitive disadvantages. However, I should note that most Chinese enterprises' overseas businesses are located in Hong Kong, excluding tax havens-based investment holding companies. Most subsidiaries are set up in advanced countries, such as Australia, the US, and Singapore. In spite of the evidence for natural resource and market seeking OFDI, strategic asset seeking is a crucial driver of OFDI in Chinese SOEs.

In their overseas expansion, Chinese TNCs are still the main actor. Like their global competitors, the primary objective of the Chinese enterprises engaging in Greenfield investment and cross-border M&As is to make a profit and augment assets. I hypothesise that the Chinese TNCs' responses to HCMs are 'conditional compliance'. It is difficult to gain profits in short time, but, if the corporate interests converge towards the national interests, Chinese TNCs would make the investment. For example, exploiting overseas natural resources

is crucial for both firms' strategies and the nation's energy security. If firms feel unconfident or risky in investing abroad, but they have to respond actively to the government's 'going out' policy, the divergence may result in round-tripping investment, which strategically allows enterprises to grow in domestic markets, but also allows for window dressing with 'going global' achievements.

Chapter 8 Chinalco and Geely: two examples for in-depth analysis

The previous chapter applies the multiple case studies to China's 50 largest business groups, from different industries and holding different motivations. As most of the sample corporations are SOEs, the understanding of HCMs effects on and motivations of OFDI undertaken by China's private companies still remains limited (Deng, 2007, 2009, 2010, Li, P.P., 2007, Rui and Yip, 2008, Sutherland, 2010, Wu and Ding, 2009). Derived from the discussion in Chapter 7, most of China's large-scale investments have been undertaken particularly since 2008. Meanwhile, the global financial crisis has extensively affected the world's various industries. As such, the global leading enterprises struggling with financial problems have to sell some assets to survive the crisis. Chinese TNCs, as well as the Chinese government, believe that this may be an opportunity to expand internationally through cross-border M&As.

Two cases are selected for a detailed and in-depth analysis: Chinalco's investment in Rio Tinto and Geely's acquisition of Volvo. This chapter firstly considers the background to two M&As, including global consolidation and the domestic market with regard to the metals mining and auto industries. Sections 8.1 and 8.2 summarise the history of Chinalco's bid for Rio Tinto and Geely's purchase of Volvo. In detail, these two sections present chronological events, highlighting the role of the Chinese government and their home country measures. Two investors' motivations and HCMs effects are also discussed. The third section compares the two cases, especially the government's failed

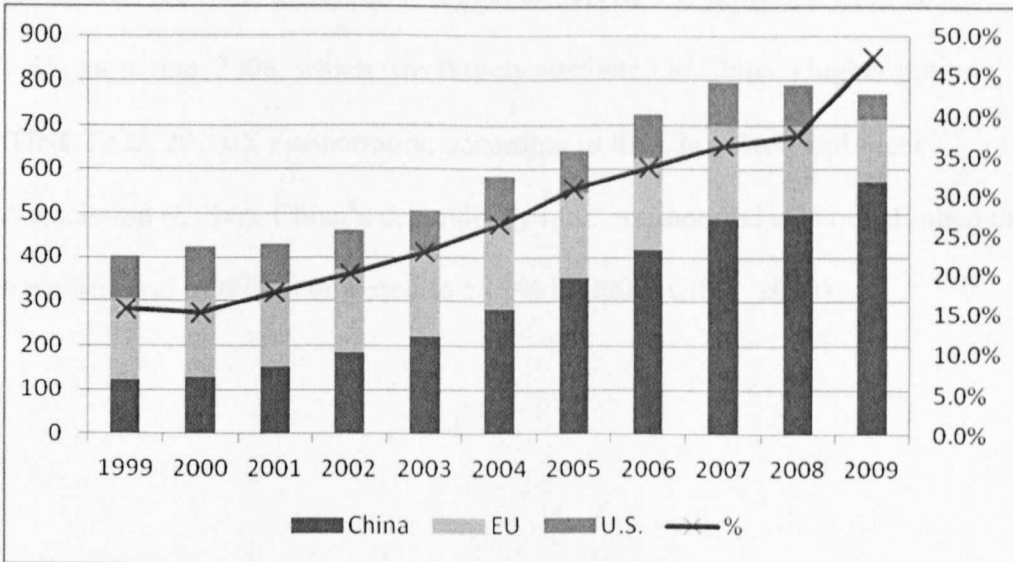
intervention in the Chinalco case and their limited but effective support in Geely case, before reaching a conclusion.

8.1 The metals mining industry: Chinalco-Rio Tinto case

8.1.1 The financial crisis and China's metals mining industry

Along with its rapid economic development, China's iron and steel industry has strongly interacted with other industries such as mechanical and auto manufacturing, house building, and construction and transportation. In 2009, China's crude steel output of 573 million tons saw it ranked as the world's largest steel producer, accounting for 47.3% of the global total production (figure 8.1).

Figure 8.1: global production of crude steel and China's percentage (million tons and %)



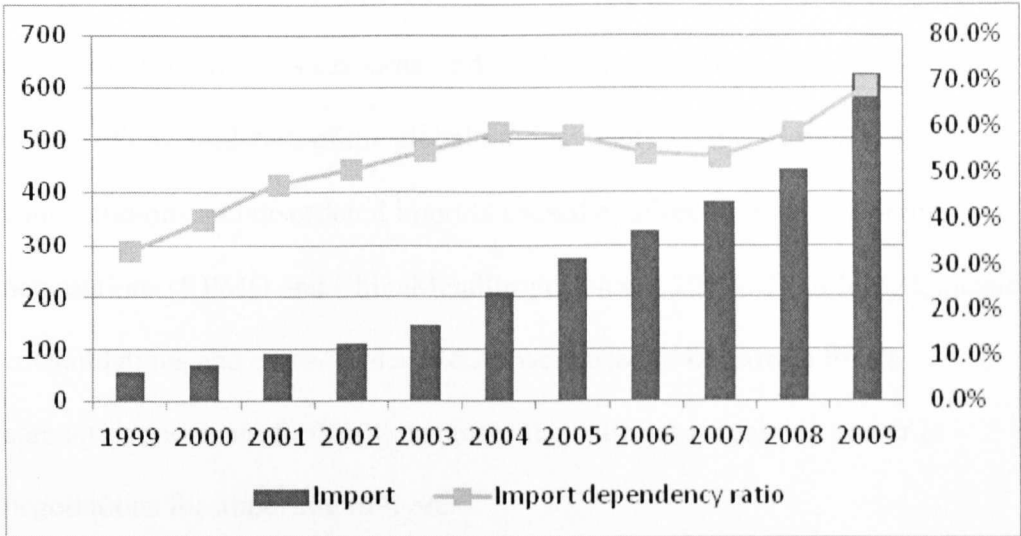
Note: EU refers to the 27 member countries of the European Union.

Source: World Steel Association (2010)

As the key raw material of the metals mining industry, China's demand for iron ore keeps increasing. According to a U.S. Geological Survey (USGS), China resources are estimated to be about 22 billion tons of crude ore, accounting for around 14% of the world's total of 160 billion tons of reserves (USGS, 2011). Due to the global economic downturn, the production of iron ore in 2009 decreased to 1.6 billion tons, 6.2% less than that of the previous year (UNCTAD, 2010a). China was the world's largest producer for years, but only produced 234 million tons of iron ore in 2009, following Australia, Brazil and India. The fall in Chinese domestic production was the result of widespread mine closures.

Due to the long mining cycle and the lack of initial investment, China's iron and steel industry has been increasingly dependent on imported iron ore (figure 8.2). China imported 627.78 million tons of iron ore, 41.6% year-on-year growth and accounted for 66% of the global trade (ChinaCustoms, 2010). The global iron ore trade increased to a record level of 955 million tons in 2009, 7.4% more than 2008, which was largely attributed to China's higher imports (UNCTAD, 2010a). Furthermore, according to the China Iron and Steel Association (CISA), China's dependency ratio on imported iron ore climbed to a record level of 69%, compared to 58.9% in 2008 (CISA, 2010).

Figure 8.2: China’s iron ore imports and dependency ratio 1999-2009 (million tons and %)



Source: 1999-2008 data from the World Steel Association (2009), 2009 data from China Customs (2010) and CISA (2010)

However, despite China’s positioning as the largest iron ore consumer and crude steel producer, China has little influence on the pricing of iron ore, as well as other upstream resources like copper, aluminium, nickel and zinc. The average price of iron ore imports before 2003 was maintained at around \$30 per ton. Since 2004, the price has increased from \$60 in 2004 to \$88 in 2007. In 2008, the price rose 65% in the first half of 2008 and peaked at \$154 in August (China Customs, various years).

The soaring iron ore price is largely attributed to the high degree of consolidation of the metals mining industries. Between 1995 and 2006 there were 15 mega-mergers exceeding USD one billion in the metals mining industries (UNCTAD, 2007b). These deals were dominated by large TNCs from the UK, Australia, Canada and the US (table 8.1). This merger wave was caused by numerous factors and has been referred to as a ‘global big business revolution’ (Nolan, 2001a). As a result, in 2009, the three largest iron-ore

companies, Brazil-based Vale, UK-based Rio Tinto and Australia-headquartered BHP Billiton, controlled 35.4 % of global iron ore production and 61% of the world's seaborne trade (UNCTAD, 2010a). Despite the high degree of consolidation of the global mining giants, China's low industrial concentrations and disordered imports caused a failure in iron ore pricing negotiations (KPMG and ChinaMetallurgicalNews, 2009). Therefore, domestic consolidations and cross-border M&As were used to improve a firm's competitiveness and further to reinforce the cluster's bargaining power in negotiations for importing iron ore.

Regarding the domestic consolidation, NDRC promulgated 'the development policy of the iron and steel industry' (钢铁产业发展政策⁷⁵ *Gangtie chanye fazhan zhengce*) in 2005. It specifies that 'through the structural adjustment, mergers and restructuring, [China will] expand the key business groups with competitive strengths, and further to reach a higher degree of consolidation'. In addition, up to 2010, the aggregate output of China's top ten steel producers would account for more than 50% of the national production, and will account for over 70% by 2020. To improve the industry concentration was re-emphasised in the State Council's 'Iron and Steel Industry Adjustment and Revitalisation Plans'. For example, in 2008, Baosteel restructured the Guangdong Shaoguan Iron and Steel Group. The Wuhan Iron and Steel Group reorganised Liuzhou Iron and Steel to found the Guangxi Iron and Steel Group. Tangshan and Handan Iron and Steel merged into the Hebei Iron and Steel Group.

⁷⁵ Accessed at http://www.ndrc.gov.cn/zcfb/zcfbl/zcfbl2005/t20050719_52618.htm.

As discussed in Chapter 7, China's mining and metal TNCs started to be involved in global M&As especially after the financial crisis, for example, Sinosteel's takeover of Midwest for \$1.04 billion in 2008 (appendix 2). The global credit crunch resulted in the decreasing market value of the world's mining and metal companies, which was regarded as a great chance for Chinese firms to catch up with the global giants (Zhen, 2009).

Table 8.1: mining mega-mergers 1995-2006

Acquiring company (home country)	Acquired company (host country)	Target industry	Year	Value (\$mil.)	Share (%)
Xstrata (Switzerland)	Falconbridge (Canada)	Nickel and base metals	2006	17,396	80.2
CVRD (Brazil)	Inco (Canada)	Nickel and base metals	2006	17,150	86.6
BHP Billiton (Australia)	Billiton (UK)	Miscellaneous metal ores, nec	2001	11,511	100
Goldcorp (Canada)	Glamis Gold (US)	Gold	2006	8,670	100
Alcan Aluminium (Canada)	Pechiney (France)	Primary production of aluminum	2003	5,302	100
Rio Tinto (UK)	CRA Ltd-Assets (Australia)	Iron ores	1995	4,653	100
Alcan Aluminium (Canada)	Aluisse Group (Switzerland)	Primary production of aluminum	2000	4,400	100
Norsk Hydro (US)	Franco-Nevada Mining Corp. (Canada)	Gold	2002	2,822	100
Gazprom, Ruhrgas and GdF (Norway)	VAW Aluminium AG (VIAG) (Germany)	Primary production of aluminum	2002	2,765	100
BHP (Australia)	Magma Copper (US)	Copper	1996	2,432	100
Barrick Gold (Canada)	Homestake Mining (US)	Gold	2001	2,295	100
Grupo México (Mexico)	Asarco Inc (US)	Miscellaneous metal ores, nec	1999	2,200	100
Newmont Mining (US)	Normandy Mining (Australia)	Gold	2002	2,215	100
Battle Mountain Gold Co (US)	Hemlo Gold (Noranda) (Canada)	Gold	1996	2,100	100
Rio Tinto (UK)	North Ltd. (Australia)	Gold	2000	2,090	100

Source: (UNCTAD, 2007b)

8.1.2 Chinalco's investment in Rio Tinto

The Aluminum Corporation of China (Chinalco), one of the central enterprises owned and controlled by SASAC, is engaged in the development of mineral resources, non-ferrous metal smelting and processing, and trade and related engineering services. It is now the world's second largest supplier of alumina and the third largest aluminium supplier (www.chalco.com.cn). Chinalco focuses on the strategic positioning of its international multi-metal mining company. Based on the integration of domestic resources and the exploration of its global business, Chinalco aspires to become a world-class competitive TNC.

By contrast, Rio Tinto is a leading global mining giant, combining a UK company and an Australian one (www.riotinto.com). Its interests are diverse in products, including aluminium, copper, diamonds and minerals, energy and iron ore, most of which are in Australia and North America. Table 8.2 demonstrates the comparison between the world's leading metals mining companies and China's TNCs. Although data on Chinalco's overseas business is not available, Chinalco is relatively smaller than Rio Tinto in terms of revenue and total assets. Moreover, the Chinese mining groups still remained considerably less internationalised than their developed country counterparts.

Table 8.2: global mining giants listed by UNCTAD's top 100 TNCs 2008 (\$ million)

Name	Origin	TNI rank	Assets		Sales		Employment		TNI
			Foreign	Total	Foreign	Total	Foreign	Total	
Largest developed country TNCs									
Xstrata PLC	United Kingdom	1	52,227	55,314	25,215	27,952	37,883	39,940	93.2
Rio Tinto Plc	United Kingdom	85	47,064	89,616	21,649	58,065	54,156	105,785	47.0
Anglo American	United Kingdom	9	44,413	49,738	21,766	26,311	95,000	105,000	87.5
BHP Billiton Group	Australia	61	34,393	78,770	34,784	50,211	24,730	40,990	57.8
Largest LDC TNCs									
Vale S.A	Brazil	67	19,635	79,931	30,939	37,426	4,725	62,490	38.3
Shougang Concord International	HK, China	6	2,630	2,713	1,783	2,243	3,546	3,900	89.1
China Minmetals	China	96	2,269	13,484	4,318	26,668	798	44,425	11.6
China's largest TNC mining groups									
Baosteel	China	259	...	48,794.9	...	29,938.7	...	110,804	...
Chinalco	China	476	...	27,840.1	...	17,576.9	...	202,89	...
China Metallurgical Group	China	480	...	21,300.5	...	17,514.7	...	167,448	...

Notes: data are available on the international operations of China's largest mining TNCs. The TNI is the trans-nationality index, an average composite index of sales, assets and employment.

Sources: UNCTAD (2010b), CNNMoney (2008)

Table 8.3 shows the timeline of Chinalco's two investments in Rio Tinto. In 2008, Chinalco played a leading role in the joint acquisition with the US Alcoa of 9% of Rio Tinto. In this first investment, Chinalco bought the stake at close to the peak of the market and paid \$14 billion together with Alcoa. However, due to the financial crisis, the global stock markets were to suffer their biggest falls since 2001. Along with the subsequent drop in metal prices in the world market, the share price of Rio Tinto dropped from over £70/share in late 2007 to less than £10/share by February 2009 (Yao *et al.*, 2010). In other words, Chinalco's first investment in Rio Tinto lost more than 70% of its value on paper. After that, Chinalco made a second proposed investment of \$19.5 billion in February 2009, hoping to recoup some of the losses incurred by the first investment (Yao *et al.*, 2010).

Table 8.3: Chinalco, Rio Tinto and BHP Billiton's struggle for control

<i>Important dates</i>	<i>Events</i>
Oct 2007	Rio Tinto bought Alcan for \$38.6bn, but did so incurring \$34bn of debts towards the very peak of the long commodity boom.
Nov 2007	BHP attempted to buy Rio on a 3:1 all-share swap
Feb 2008	Chinalco, along with the US's Alcoa as a strategic partner, invested \$14bn to buy 9% of Rio's shares.
Aug 2008	Chinalco raised its stake in Rio to 11%
Nov 2008	BHP abandoned its plans to buy Rio due to Chinalco's intervention, which was therefore hailed as a success at the time
Feb 2009	Chinalco agreed to invest another \$19.5bn in Rio: \$12.3bn for minority stakes in iron ore, copper and aluminium assets and \$7.2bn for convertible bonds to take its equity stake in Rio to 18% and two non-executive seats on Rio's board.
5 Jun 2009	Rio unilaterally abandoned its deal with Chinalco and proposed an alternative, to raise \$15.2bn through right issues and \$5.8bn from BHP Billiton by forming a joint venture with the latter in western Australia.

Source: Yao and Sutherland (2009), Yao *et al.* (2010)

Out of \$19.5 billion, \$7.2 billion was proposed to purchase subordinated convertible bonds in two tranches with conversion prices of \$45/share and \$60/share in each of Rio Tinto Plc. (UK) and Rio Tinto Limited (Australia), respectively. This might eventually increase Chinalco's shareholding to 19% in Rio Tinto Plc. and 14.9% in Rio Tinto Limited. The other \$12.3 billion was planned to be used in a number of copper, aluminium, and iron ore joint ventures.

If the deal had been successfully completed, Chinalco would have secured access to some of Rio Tinto's best mining assets, mineral resources, and technology. Chinalco, and even other Chinese iron and steel companies, would be less dependent on other global iron ore suppliers BHP Billiton and Vale. They also expected a better position in future negotiation on iron ore prices. With regard to Rio Tinto, the most important benefit would have been to obtain an adequate amount of capital to pay off its debts caused by the takeover of Alcan.

However, during the long review process of Australia's Federal Investment Review Board (FIRB), the share price of Rio Tinto recovered. Existing shareholders started to be concerned with their diluted ownership rights of many important mines. As the commodity, equities and credit markets improved dramatically, Chinalco's initial offer was less attractive to shareholders. Moreover, the Australian government questioned the possible damage to national interest by a foreign government. Finally, Rio Tinto rejected Chinalco's bid and paid Chinalco \$195 million for breaking the

agreement. Instead, Rio Tinto proposed to form a joint venture with BHP Billiton to consolidate their iron ore assets in Western Australia.

As reported (Jun, 2009), Xiong Weiping, the chairman of Chinalco, summarised the three main reasons that resulted in the failed investment: the fast-changing commodity markets, the changing attitudes and requirements of Rio Tinto shareholders, and their preference of BHP Billiton as a partner. Rather than addressing the failure in the Australian political context, Xiong Weiping agreed that Australia welcomed foreign investment and expected to undertake future development when maintaining a good relationship with the Australian government.

Similarly, Yao *et al.* believed that Chinalco's failure was driven by private interests, rather than national ones (2010). Furthermore, the failed deal appeared to be primarily the result of shareholders drive for better returns (Yao *et al.*, 2010). Concerning the conflict of interest, Rio Tinto shareholders saw that a tie up with BHP Billiton in an iron ore joint venture would make more sense than one with Chinalco. If Chinalco had the rights to speak for customers, it would harm the interests of Rio Tinto's other shareholders. Chinalco also failed to fight Australian public relations perceptions, having launched two other resources bids at the same time (Minmetal's bid for Oz Minerals and Valin Steel's investment in FMG), entering into insufficient communications with each important shareholder, and not lobbying enough (Garnaut, 2010, Sonali, 2010).

8.1.3 Discussion

Although the Chinalco-Rio Tinto deal failed, China's other metals mining TNCs like Minmetals, CNMC, Hunan Valin and Jinchuan did not slow down the pace of overseas acquisitions (see discussion in section 7.2). According to MOFCOM statistics, China's investment in the mining sector amounted to \$13.34 billion in 2009, twice more than that in 2008 (MOFCOM *et al.*, 2010). According to the FIRB, China invested \$26.6 billion in Australia⁷⁶, three times more than that in 2008, following the U.S. as the second largest investor (FIRB, 2010). As such, \$26.3 billion, accounting for 99% of the total investment, flew to the mineral exploration and development sector, dominated by Chinalco's proposed investment of \$19.5 billion.

- ***Government intervention***

Among all OFDI undertaken by Chinese SOEs, the government drive is a sensitive topic and one that is frequently questioned, especially in terms of being used by other potential bidders or the host government as a tool to raise the rebellious emotions of the public, like BHP Billiton in the Chinalco-Rio Tinto deal and the US Congress in the CNOOC bid for Unocal. Due to the host country's potential concerns about national security, the Chinese government tends to dilute its political impacts on China's outward investment. For example, when bidding for Unocol, CNOOC denied that the acquisition was one that acted on behalf of China's government or on national security grounds.

⁷⁶ This includes all proposed and completed investment.

However, the denial could not effectively dispel the doubts of the protectionists. Rather than denying the institutional effects like CNOOC, Chinalco honestly faced the question and highlighted that they would pursue a better position to serve their customers in China and globally with their portfolio of global assets.

As a result, I cannot ignore the government intervention in the process of Chinalco's purchase. As iron ore holds an extremely important position in national economic development, governments have to treat foreign investment in iron ore or related projects very carefully. Chinalco seemed quite ambitious as it attempted to gain a bigger equity stake and raw materials assets in one deal. Moreover, if the deal was completed, two Chinese members would be nominated as directors to Rio Tinto's board. As a SASAC-owned central enterprise, Chinalco was questioned whether the deal was driven by the Chinese government.

To financially support Chinalco's purchase of Rio Tinto, four national banks, including two policy banks (CDB and China Exim Bank) and two state-controlled commercial banks (Bank of China and Agricultural Bank of China) would jointly provide Chinalco with loans of \$21 billion. Charging at preferential interest rates, Chinalco would pay 94.5 basis points (Yao *et al.*, 2010), which is less than a 1% point over the six-month London inter-bank offered rate (LIBOR). This is considerably competitive compared to BHP Billiton's 345-point to pay on a five-year bond and the 390-point on a 10-year bond (Zhen, 2009). As discussed in Chapter 6, the financial support provided by the Chinese banks can be regarded as the active response to the

government's call for domestic companies to 'go global', and further to achieve the nation's long-term development objectives (Yao, 2009). On the other hand, this caused the increasing question of Beijing's influence as an 'invisible hand' and whether Rio Tinto would be affected or even controlled by a foreign country.

The governmental influence is also reflected by the nomination of SOEs' directors and senior management. Soon after Chinalco announced its agreement with Rio Tinto in 2009, Xiao Yaqing, the former president of Chinalco, was promoted to deputy secretary general of the State Council, which is a core position from which to assist China's deputy Prime Minister. It is a reward for what Xiao has done in his tenure to make Chinalco expand successfully within and outside China. Furthermore, the Chinese government tried to encourage other Chinese TNCs to follow the 'go global' strategy. However, foreign media recognised it as the illustration of China's politics enmeshing with SOEs (Garnaut, 2009), which was believed to be a key problem to the failed deal, although this was not officially mentioned (Garnaut, 2010).

- *Natural resources seeking*

Based on the discussion of all the relevant government measures (chapters 5 and 6), the resource development projects are repeatedly underlined regarding administrative management and support. For example, NDRC's 'Examination and Approval Measures' required the projects of resource development, with

its investment of over \$200 million, to be audited by NDRC and then reported to the State Council. The State Council's Adjustment and Revitalisation Plans of the iron and steel industry and the nonferrous metal industry both highlighted overseas exploration through wholly-owned or joint venture mining operations. MOFCOM also provides online services for developing overseas mineral resources. In compliance with these measures, China's policy banks and state-owned commercial banks back up resource development with low-interest loans and guarantee services.

Chinese enterprises to undertake overseas mineral exploration should have strengths in corporate governance, financing and risk management. SOEs, growing under the shield of the government, are more capable of acquiring overseas mineral assets. Among the top 50 business groups conducting cross-border M&As in the mining sector, Jiangsu Shagang is the only private company. As a leader in the nation's aluminium mining and trade industry, there is little room for Chinalco to reduce their energy consumption and expand their production capacity. Chinalco has to look for other opportunities to achieve its strategic goal of becoming an international multi-metal mining company. Assured by SASAC, the main businesses of Chinalco include bauxite, aluminium and rare earth metal metallurgy, processing and trade, and technical service for relevant projects (SASAC, 2007b). Despite this, Chinalco also endeavours to seek other overseas resources. The investment in Rio Tinto mirrors Chinalco's intention in iron and non-ferrous metals, which is expected to bring big profit potential. After the failure to hold a controlling share of Rio Tinto, in 2010 Chinalco decided to cooperate with Rio Tinto as a joint venture

in exploring iron ore in Africa. To summarise, overseas mineral assets seeking is crucial for Chinalco's future growth.

Regarding their motivation, despite the Chinese government encouraging Chinese TNCs to go global, Chinalco's intention to develop overseas resources is consistent with the government's strategy. This is the main reason why Beijing backed the Chinalco-Rio Tinto deal, although such government support may have unfavourable consequences.

8.2 The automotive industry: Geely-Volvo case

8.2.1 The energy crisis and the downturn of global auto giants

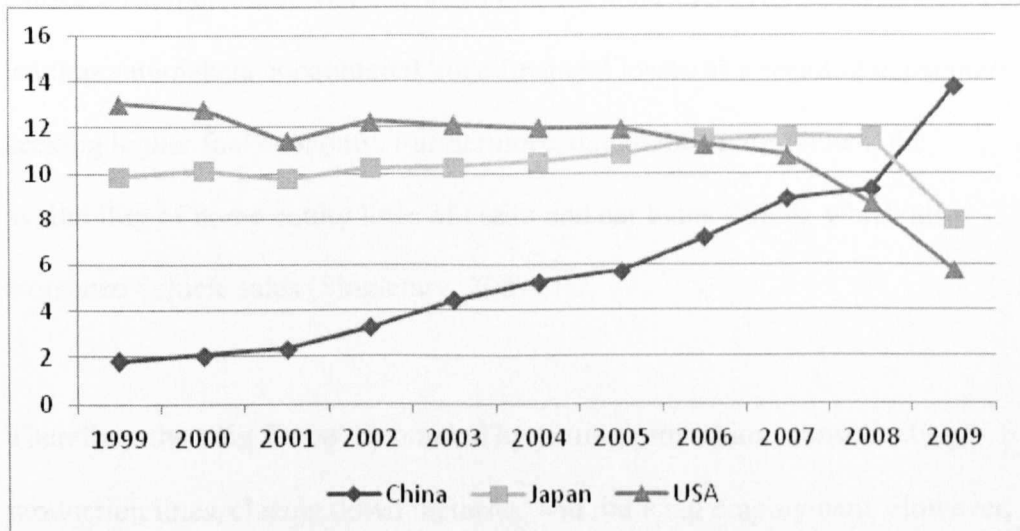
The 2000s energy crisis and the 2008 financial crisis critically affected global automotive manufacturers. Table 8.4 showed that the year 2007 was the turning point in the auto industry recession. In contrast to the downturn of their famous counterparts from the US, Europe and Japan, China became the world's largest auto market and manufacturer in 2009, surpassing the US and Japan and leading the globe in automobile sales and production (figure 8.3). According to the International Organisation of Motor Vehicle Manufacturers (OICA), global auto production in 2009 fell by around 12.5% (OICA, 2011). Meanwhile, according to China's Ministry of Industry and Information Technology (MIIT) (MIIT, 2010), China oversaw an increase of 46.15% in selling vehicles and 48% in output, which accounted for 22.4% of the world's car manufacture (table 8.4).

Table 8.4: global auto production and China's percentage 1999-2009 (million)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
World	56.3	58.4	56.3	59.0	60.7	64.5	66.5	69.2	73.3	70.5	61.7
China	1.8	2.1	2.3	3.3	4.4	5.2	5.7	7.2	8.9	9.3	13.8
%	3.3%	3.5%	4.1%	5.6%	7.3%	8.1%	8.6%	10.4%	12.1%	13.2%	22.4%

Source: OICA statistics, various years

Figure 8.3: auto production by China, the US and Japan 1999-2009 (million)



Source: OICA statistics, various years

Considering the energy crisis, according to the statistics of the Energy Information Administration (EIA), before 2003, the price of a barrel of crude oil was generally below USD 30 per barrel (EIA, 2011). Since 2003, the crude oil price has kept increasing and peaked at USD 133.88 in June 2008 (EIA, 2011). This resulted in a dramatic increase in the price of automotive fuels in the global market. For example, in the U.S. the average price of gasoline (all types) reached its highest point of USD 3.317 per gallon in 2008, more than twice the price in 2002 (EIA, 2010).

The U.S. motor industry was primarily affected, in particular, the ‘Big Three’ automakers, namely, General Motors, Ford, and Chrysler. In the past 30 years, American automakers’ profit margins relied heavily on high-profit sport utility vehicles (SUVs) and trucks, rather than compact cars. (Burtless and Ikenson, 2008, Romney, 2008, Schoenberger, 2008). However, soaring fuel prices caused customers to move to vehicles that are more fuel-efficient. The world’s leading automakers encountered huge financial losses as a result of consumers’ seeking higher fuel economy. Furthermore, due to the credit crunch, the availability of home equity lines of credit and car loans shrank, which also worsened vehicle sales (Singletary, 2007).

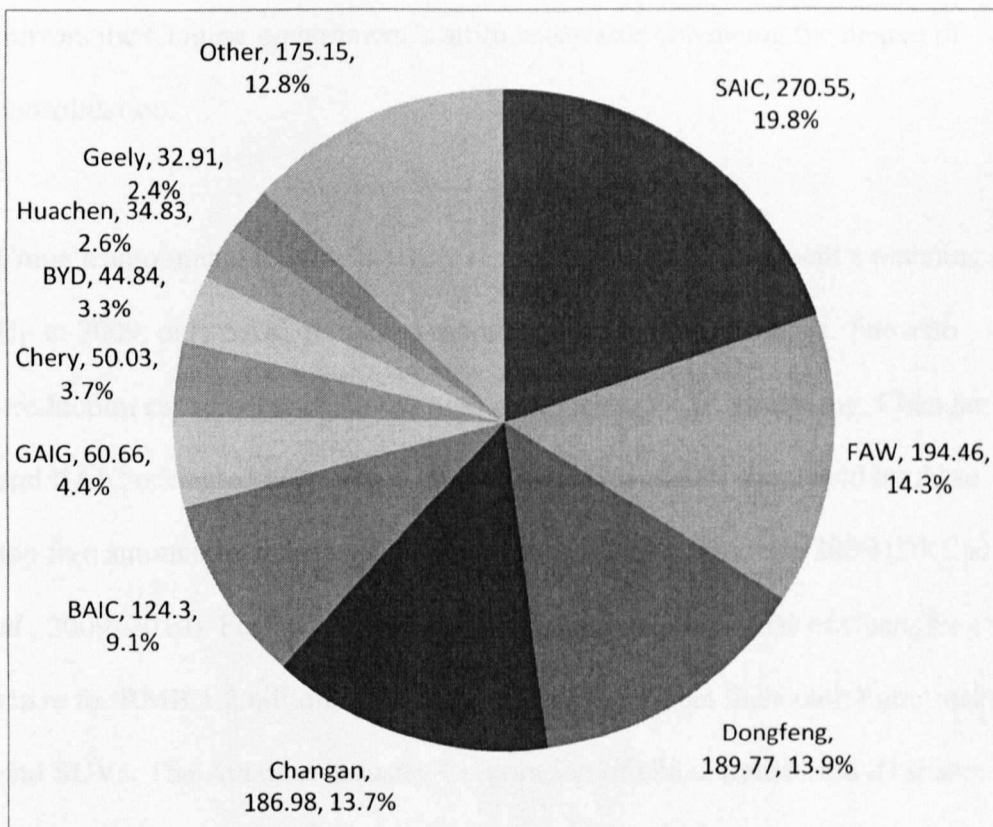
Therefore, the ‘Big Three’ responded by cutting production, consolidating production lines, closing down factories, and reducing employment. However, regardless of how much they struggled, GM and Chrysler finally went bankrupt. Afterwards, the United States Treasury purchased most of GM and Chrysler’s assets and reorganised the companies into ‘new GM’ and ‘new Chrysler’. Thanks to a large line of credit obtained earlier, Ford survived without bankruptcy, reducing its interest in Mazda (Japan), and then selling its brands: Aston Martin, Volvo, Jaguar, and Land Rover.

8.2.2 China’s auto industry

In 2009, China’s total auto sales increased to 13.64 million (MIIT, 2010). China’s biggest 5 auto manufacturers, namely, SAIC, FAW, Dongfeng, Changan and the Beijing Automotive Industry Holding Co Ltd (BAIC),

together sold 9.66 million units, accounting for 71% of the total sales (MIIT, 2010). Figure 8.4 illustrates the market share of the ten largest Chinese automakers in 2009. Geely, my case sample, held a 2.41% market share and ranked 10th. Although Geely was surpassed by Anhui Jianghuai Automobile (JAC) in 2010, during the first half of 2011, Geely’s market share increased to 4.3% with the sales of 215,500 cars, based on information provided by China Association of Automobile Manufacturers (CAAM) (2010, 2011).

Figure 8.4: Market share of China’s top 10 automakers (value: 10,000 units)



Notes: FAW= First Automotive Works, BAIC= Beijing Automotive Industry Holding Co Ltd, GAIG= Guangzhou Automobile Industry Group
 Source: DRC (Development Research Centre of the State Council), SAE (Society of Automotive Engineers) and SAIC (2010)

- *Domestic consolidation*

According to the State Council's Automotive Industry Adjustment and Revitalisation Plans (the Auto Plans hereinafter), which were released in 2009, after further mergers and restructuring there would be 2 or 3 large-scale auto business groups, with annual vehicle production capacity exceeding 2 million. Four to five would be able to produce one million units per year. The number of automakers that hold a 90% market share would reduce to 10 or less. The Auto Plans also encouraged FAW, Dongfeng, SAIC and Changan to undertake nationwide consolidation, as well as BAIC, Guangzhou Auto, Chery and the China National Heavy Duty Truck Group to implement regional mergers. This mirrors the Chinese government's attitude towards enhancing the degree of consolidation.

China's auto manufacturers actively responded to the government's planning. Up to 2009, only SAIC produced more than two million vehicles. The auto production capacity of 4 Chinese auto companies, FAW, Dongfeng, Changan and BAIC exceeded one million (figure 8.4). The market share held by these top five automakers increased from 66.1% in 2008 to 70.8% in 2009 (DRC *et al.*, 2009, 2010). Furthermore, Guangzhou Auto acquired 29% of Changfeng share for RMB 1.2 billion, which enriched their product lines with light trucks and SUVs. The Aviation Industry Corporation of China transferred its shares of several auto brands to Changan, which enabled 'new Changan' to manufacture in 9 provinces, holding 21 vehicle factories and 27 subsidiaries in China, as well as overseas branches in Malaysia, Vietnam, Iran and the Ukraine.

Regarding R&D and technology development, the Chinese government attempted to invest RMB 10 billion in the following three years to support the product upgrade and improve technology in terms of energy saving, environmental protection and safety. The average ratio of R&D/sales in 2008 was 2.07%, compared to around 1.5% in 2001 (DRC *et al.*, 2010). In addition, regarding three types of patents, in terms of design, utility models and invention, China's main domestic automakers applied for 2,812 patents, a 12% increase year over year (DRC *et al.*, 2010).

- ***The catch-up of China's auto TNCs***

On the other hand, compared to their globally developed country counterparts, the internationalisation degree of auto companies from developing countries is not significant. As none of the Chinese automakers are in the UNCTAD's top 100 TNCs list, I can assume they are not as transnational as their competitors from South Korea or India. Furthermore, according to the list of the top 1,000 global companies by R&D investment collected by the UK's Department for Business, Innovation and Skills (BIS), although most of the world's leading auto manufacturers cut their R&D costs due to the financial crisis, they still spent more than GBP 1 billion on R&D in 2009, which generally accounted for over 4% of sales (BIS, 2010). By contrast, expenditure on R&D by China's automakers was far less. The three Chinese auto companies listed were Dongfeng, SAIC and BYD, all of which spent less than 200 million pounds.

8.2.3 Geely's acquisition of Volvo cars

Before acquiring Volvo, Geely was hardly known outside China, although it has been one of China's top ten automakers for six years and among the nation's largest 500 firms for eight years. It initially manufactured refrigerator parts when it was founded in 1986 and launched its auto manufacturing business in 1997. Nowadays, Geely, headquartered in Zhejiang province, operates six car assembly and power-train manufacturing plants within China. In 2005, Geely Automobile Holdings Ltd was listed on the Hong Kong Stock Exchange. According to its 2010 annual report, Li Shufu and Geely Holding Group ('Geely' in short) held 50.4% shares of this Hong Kong listed company.

As 'the only Chinese car manufacturer to have developed its own range of engines' (www.geely.com), Geely is described as an 'innovation-oriented enterprise' and a 'national automobile export base'. Li Shufu, Geely's chairman, ambitiously leads the company to concentrate on independent R&D and overseas expansion. According to its development planning, by 2015 Geely will establish 5 new platforms, 42 new models, and 15 domestic and overseas production bases. Its production capacity will expand to 2 million units, and two thirds of its vehicles will be exported. However, it remains in question whether these challenging goals are achievable.

Compared to Volvo, Geely is rather small in size and weak in production and R&D. Before the acquisition happened, Geely's assets and sales were only 3% and 1.4% of Volvo (table 8.8). Table 8.9 compares Geely and Volvo regarding

their finances, market positioning and technology development. Volvo sold 373,525 cars globally in 2009 (Volvocars, 2010), bringing in revenue of \$12.4 billion and a pre-tax loss of \$934 million. Geely generated a sixth of Volvo's revenue by selling 329,100 units largely in China, but posted a net profit of \$175 million.

Geely and Volvo's choices of market positioning strategy are significantly different. Most Geely cars are sold within China and marketed below RMB 100,000, which means that Geely mainly targets China's low-end market. By contrast, Volvo adopts premium pricing due to its substantial competitive advantage in driving safety, which is 6-8 times more than that of Geely. Regarding R&D, although Geely recognises itself as an 'independently innovative' enterprise, its development and investment in R&D is still limited, compared to Volvo's long history and massive efforts in advancing technology.

Table 8.5: global auto giants listed by UNCTAD's top 100 TNCs 2008 (\$ million)

Name	Origin	TNI rank	Assets		Sales		Employment		TNI
			Foreign assets	Total assets	Foreign	Total	Foreign	Total	
<i>Largest developed country TNCs</i>									
Toyota Motor Corporation	Japan	74	169,569	296,249	129,724	203,955	121,755	320,808	52.9
Volkswagen Group	Germany	53	123,677	233,708	126,007	166,508	195,586	369,928	60.5
Ford Motor Company	United States	71	102,588	222,977	85,901	146,277	124,000	213,000	54.3
Honda Motor Co Ltd	Japan	37	89,204	120,478	80,861	99,458	111,581	181,876	72.2
Daimler AG	Germany	70	87,927	184,021	108,348	140,268	105,463	273,216	54.5
BMW AG	Germany	78	63,201	140,690	62,119	77,830	26,125	100,041	50.3
Nissan Motor Co Ltd	Japan	56	57,080	104,379	60,693	83,819	81,249	160,422	59.2
Fiat Spa	Italy	52	40,851	85,974	65,931	86,876	115,977	198,348	60.6
General Motors	United States	84	40,532	91,047	73,597	148,979	127,000	243,000	48.7
Volvo AB	Sweden	17	37,582	47,472	43,946	46,047	73,190	101,380	82.3
<i>Largest LDC TNCs</i>									
Hyundai Motor Company	South Korea	71	28,359	82,072	33,874	72,523	22,066	78,270	36.5
Tata Motors	India	48	6,767	14,359	9,869	15,635	17,998	49,473	48.9
<i>China's largest TNC auto groups</i>									
Dongfeng Motor	China	13	...	25,711.5	...	39,402	...	143,792	...
Shanghai Automotive	China	17	...	29,766.3	...	33,628.9	...	69,931	...
China FAW Group	China	22	...	19,260.4	...	30,236.8	...	83,133	...
<i>China's private auto firms</i>									
Geely auto	China	n/a	...	1,487	...	628	...	9,945	...
BYD Company	China	n/a	...	4,820	...	3,926	...	130,000	...

Notes: No data is available on the international operations of China's largest mining TNCs. The TNI is the trans-nationality index, an average composite index of sales, assets and employment.

Sources: CNN Money, Global 500, 2010; UNCTAD, 2010; firms' financial reports

Table 8.6: comparison between Geely and Volvo

	Geely	Volvo
Degree of internationalisation	Very low	High
Finance (\$ million)		
Revenue	2,061	12,442
Profits	175	-934
Assets	2,754	46,683
Market positioning		
Target market	Around 94% in China and the rest for export (to developing countries)	Global market (including the US, Europe and China)
Brand	Only known in China	Luxury brand, well known around the globe
Unit price range	RMB 33,800-103,800	RMB 258,000-661,000
Segment	Low cost and low quality segment	Premium segment
Technology development		
Number of models	7	11 (7 in China)
Production plants	6 in China	Sweden (7), Belgium (1), Malaysia (1) and China (a joint venture)
R&D expenditure (\$ million)	9.58	1,853
R&D as % of sales	0.5%	6%

Notes: The unit price range refers to cars sold in China.

Source: Geely and Volvo 2009 financial reports; Geely website, www.geely.com; Volvo (China) website, <http://www.volvocars.com/zh-CN/Pages/default.aspx>

- **Geely-Volvo deal**

The Chinese media called this acquisition ‘snake eats elephant’, as there was a large gap between the acquiring and the acquired company, with regard to the degree of globalisation, production capacity and technology development. As most auto M&A deals have resulted in disappointments, such as the Daimler-Chrysler alliance, Ford’s purchase of Volvo and SAIC’s takeover of Ssangyong, this move, which was China’s biggest overseas auto purchase, triggered people’s worries, questions and even criticisms, as well as

expectations in regard to the catch-up of Chinese auto TNCs and the boost to the nation's auto industry.

Accordingly, both parties struggled for a long time when discussing and negotiating the ownership of Volvo's intellectual property rights. People worried about technology leaking out after Geely's takeover (Economist, 2010). In particular, Volvo and Ford have worked closely on design and production for years since Ford's acquisition, for example, by sharing engine platforms and components. It is not easy to unleash this type of integration. As such an agreed 'safeguard' was announced by Volvo to avoid leaks. Meanwhile, Ford promised to support Volvo by providing engine and powertrain technology. On the other hand, some global giants recognised leaking as 'a part of the price for doing business in, and with, China', which may be worth paying, as the Chinese market is fast-growing and has great potential (Economist, 2010).

During the period of getting control of Volvo, Geely seemed cautious rather than ambitious (table 8.10). Before Ford announced Geely as the preferred bidder for Volvo, Geely had denied several times that it had been in negotiation with Ford. Despite this, as a privately-owned company with a lack of technology competency and experience outside China, Geely was not the preferred bidder from the view of former Volvo directors (Roberts, 2009).

Table 8.7: Timeline of Geely getting control of Volvo

Important dates	Events
25 Mar 2009	Ford confirmed it was in talks with 'a number of parties' with regard to the sale of Volvo, including China's Chery, Dongfeng, and Changan. Geely's name was not revealed at that time.
Feb-Sep 2009	Geely denied its interest in purchasing Volvo a number of times.
28 Oct 2009	Ford chose Geely as the preferred bidder for Volvo.
23 Dec 2009	All substantive commercial terms for the Volvo sale were settled, said Ford.
31 Dec 2009	As Geely said, the Chinese government strongly supported its acquisition of Volvo.
28 March 2010	Geely paid \$1.8 billion for 100% of Volvo's shares and relevant assets, in particular including their intellectual property rights.
26 July 2010	Geely's takeover of Volvo obtained the approval of MOFCOM.
2 Aug 2010	Geely completed the acquisition of Volvo, which was the country's biggest overseas auto purchase.

Furthermore, Geely faced resistance from Volvo's powerful labour unions, which worried that Geely might move production to China and cut jobs in Sweden and Belgium (Krolicki *et al.*, 2010). Labour unions additionally complained about a lack of information about the company's future (Klesty, 2010) and questioned Geely on financing issues (People'sDaily, 2009). Yuan Xiaolin, Geely's spokesman for the Volvo deal, subsequently announced that 'Geely has a principle that the final agreement should serve the interest of all relevant parties, including the labor unions.' (People'sDaily, 2009) After receiving reassurances about job security, Volvo's labour unions backed the deal (Krolicki *et al.*, 2010).

Geely also faced competition from other potential bidders to some extent, including BAIC, the US Crown consortium and the Swedish Jakob consortium. The Crown consortium is led by former Ford executives Michael Dingman and

Shamel Rushwin. The Jakob consortium, in particular, is led by Magnus Sundemo, head of Volvo's engineers' union, and won support from labour unions. Both of them, however, failed to obtain enough financing to keep Volvo from its Chinese buyer (Ward and Reed, 2009).

8.2.4 Discussion

As the Geely-Volvo case is relatively new (completed in March 2010), there is little study on this profound cross-border deal. To the best of our knowledge, only Wang (2011) investigated this acquisition, targeting the threats and opportunities brought to Geely. Other scholars just used Geely-Volvo as an example in their research, concerning the development of China's auto market (Wang, Q., 2011), synergistic effects (Ding *et al.*, 2011, Zhou and Zhang, 2011), enterprise culture integration (Chen and Liao, 2011), partner selection (Wu and Yang, 2010) and social responsibility (Peng *et al.*, 2011). None of these scholars comprehensively investigated this deal or considered the catch-up of the Chinese auto TNCs with their global counterparts in the background of the financial crisis.

- ***Government support***

The State Council's Auto Plan indicates that the Chinese government will implement relevant policies with regard to technology development, government procurement and financing, in order to guide auto manufacturers to develop their own brands as a corporate strategic focus, and through

independent development, joint development, and domestic and international M&As. The Auto Plan shows the government's determination to build large and strong auto giants through consolidation and restructuring. Geely taking over Volvo cars, the biggest deal in China's auto industry, attracted the government's attention without a doubt.

Regarding administrative support, Li Yizhong, the Minister of Industry and Information Technology, attended the agreement signing ceremony in Sweden on 28 March 2010. This is regarded as 'a strong show of (government) support for a non-state-owned enterprise' (Economist, 2010). After that, MOFCOM confirmed the approval of Geely's takeover on 26 July 2010 (Sun, 2010).

Unlike other Chinese automakers involved in the M&A deals, like SAIC and BAIC, Geely is a private firm. Given Geely's financial conditions, there were some doubts about whether it would obtain enough funds to complete the deal and further operate Volvo cars. At the press conference, after signing the agreement, Yin Daqing, Geely's vice chairman, announced that Geely had raised \$1.8 billion to purchase Volvo cars, and another \$900 million as floating capital for future operations, which amounted to \$2.7 billion in total (Ifeng, 2010, Qi, 2010). Half of the funds came from domestic sources, including Geely's own capital and M&A Loans provided by the Bank of China and the China Exim Bank (Ifeng, 2010, Qi, 2010). The other half was supported by overseas investment groups from the US, Europe and Hong Kong (Ifeng, 2010, Qi, 2010). However, no further details were available, such as what those

foreign investment groups were, what percentage or how much funds each of them contributed.

There is not much difference between the support for SOEs and private companies with regard to administration and financing. As it is privately owned, Geely did not face much questioning by the host government and foreign media whether the acquisition was driven by Beijing or used as a vehicle. In this particular case, people even expected the central government to back the deal to ensure its completion. The government and state-owned banks participation undoubtedly built confidence for Ford as a seller, the market, and the staff in the target company.

- *New energy technology development*

As private auto companies, why did the Chinese government show significantly different attitudes to the Geely-Volvo deal from Sichuan Tengzhong's intention to GM's Hummer (details in section 5.1.1)? One important reason is that Geely's acquisition complies with the government's new energy vehicle strategy. Apart from the boosting cost of crude oil, the global concern on reducing pollution caused by vehicles also drives a change toward the electrification of automobiles. China's Auto Plan expects the development of electric and plug-in hybrid vehicles. It also requires Chinese auto companies to improve design, their production process and the cost control of engines and power modules for new energy vehicles.

In addition, MOF and the Ministry of Science and Technology (MOST) issued a 'Notice regarding the pilots of demonstrating and promoting energy saving and new energy vehicles' (关于开展节能与新能源汽车示范推广试点工作的通知⁷⁷ *Guanyu kaizhan jieneng yu xinnengyuan qiche shifan tuiguang shidian gongzuo de tongzhi*) in January 2009. From then on, the Chinese government initiated the 'ten cities, thousand vehicles' program. This program intended to promote electric vehicle development by using financial subsidies, in 10 or more of China's big cities in three continuous years, achieving the manufacture of 10,000 new energy cars in 2010. For example, the central government introduced RMB 60,000 per car for purchasing battery electric vehicles and RMB 50,000 for plug-in hybrid electric vehicles (Worldbank and PRTM, 2011). Currently, China is still in the early stages of new energy vehicle development, which is strongly backed by central and local government. In the future, China may take advantage of its economies of scale, low-cost labour and strong manufacturing capability to make a profit in this fast-growing industry.

Correspondingly, Volvo cars are well known because of their premium quality, safety and environmental concerns. Take Volvo's 2012 plan for the European market as an example. Their pure electric power vehicles will have a high efficiency rating and consume about one-fifth as much energy as a corresponding engine running on fossil fuel (Volvocars, 2009). Geely sees an opportunity in Volvo's advanced green energy technology and may adopt it when operating new manufacturing plants in China.

⁷⁷ Accessed at http://www.gov.cn/zwggk/2009-02/05/content_1222338.htm.

- ***Motivation***

Targeting China's low-end and low-cost segment, Geely lacks competitiveness in brand, technology, R&D, and service systems. Through 100% ownership of Volvo, Geely obtained 9 series of vehicles, 3 latest production platforms, a production capacity of 600,000 units, as well as a worldwide sales network of over 2,000 dealers. Additionally, Volvo is a well-known brand, famous for its advances in safety design and environment technology, which Geely not only needs badly, but also complies with China's push for a new energy vehicle program. Furthermore, after acquiring Volvo, Geely may be channelled to the global market, which is the ambition of both the company and the government. The Geely-Volvo deal reflects the Chinese automakers' will to catch up with the global giants. It is also interesting that I can see Geely's comprehensive motivations, rather than only one, namely, market seeking, technology seeking, and strategic asset seeking.

8.3 Conclusion

As the credit crunch significantly hit the global economy, global giants of various industries struggled under heavy debt loads. Due to the lack of capital, these leading TNCs had to sell some assets to raise money. The Chinese government and enterprises believed that the financial crisis presented an opportunity to acquire overseas resources, technology and expertise, and further strengthen Chinese TNCs' competitiveness. It also had potential for

companies to catch up with their global counterparts in a shorter time and for China to improve its international status.

This chapter investigates two OFDI undertaken by Chinese TNCs of different industries: the Chinalco-Rio Tinto deal in the metals mining industry and the Geely-Volvo deal in the automotive industry. These two acquiring companies are both relatively small in size and weak in competitiveness compared to their targets. Without the Chinese government's backing, it would be difficult or even impossible for investors to complete overseas acquisitions. Both cases, as well as China's other OFDI, cannot be well explained by existing theories concerning OFDI. Rather than possessing competitive advantages over the acquired company, Chinalco and Geely tried to strengthen their competitiveness through overseas investment. As China's OFDI is still at the preliminary stage, currently, most of the SOEs' large-scale cross-border M&As depends on government support. Beside the administrative approval and financial incentives, the government may show its attitude to overseas investment in an intangible way, such as the promotion of Xiao Yaqing and Li Yizhong's attendance at the Geely-Volvo agreement signing ceremony.

The failure of the Chinalco-Rio Tinto deal also reflects existing discussion on the negative impact of institutional factors. Beyond the point that Chinese TNCs are sent to fight for what the national objectives are, regardless of what the government wants, it has to be in compliance with the enterprise's business strategy. If not, enterprises may implement OFDI with little effectiveness or round-tripping investment as window dressing (discussed in chapter 7). In

other words, Chinese SOEs do not follow government guidance without thinking of their own needs.

Some scholars believe that Chinese TNCs adopt OFDI as an escape from the current government constraints. In particular, this may happen to private companies. However, the in-depth study on Geely acquiring Volvo does not provide evidence for this idea. I find that even private companies call for and appreciate government support. The central government also contends to back up OFDI by private companies, as long as the acquisitions comply with relevant home country measures.

As a result, the Chinese government encourages enterprises to go global for the purpose of using these global resources to better serve the world, although the home country measures may bring disincentives during the process of OFDI development due to misunderstandings by target companies and host governments.

Chapter 9 Conclusion, Policy Implications and Further Research Directions

9.1 Summary of findings

In the triangular relationship in the OFDI activities, most studies concentrate on the interrelationship between the host country and TNCs. They look, for example, at a host country's efforts to attract FDI and the motivations of an enterprise to make outward investments. The effects of home country measures have not yet been comprehensively studied. This thesis discusses the effects of the Chinese government's policies and regulations as well as their influence on Chinese TNCs overseas expansion.

This research makes a number of contributions to our current understanding of China's OFDI. Firstly, this research provides an expanded vision on international business theory with a cross-sectional study of China's OFDI, concerning political and institutional factors. Secondly, this research contributes to the overall understanding of HCMs effects on OFDI. I analyse China's HCMs in terms of administration, policies to encourage OFDI, financial support, extraterritorial controls and information service. The research on HCMs effects is not only limited, but also concentrates on developed countries. Our third contribution is that I study the behaviour of the Chinese government and the relation between the government and Chinese TNCs, which is often mentioned, though sometimes not further deeply investigated. Fourthly, I provide a detailed description and reasonable explanation to the

motivations of China's OFDI, as well as China's 'round-tripping' investment, which has not been widely studied in extant literature.

In the past thirty years, China's outward FDI has been growing rapidly. SOEs are always recognised as pioneers of China's OFDI. In the state enterprise sector, more than 42% of the assets of all SOEs were taken by central enterprises under SASAC's supervision at the end of 2006 (Naughton, 2008). After the establishment of SASAC, central enterprises started consolidation and restructure. Regarding the central government's intention, the number of central enterprises will be around 80-100 in 2010. Amongst these central enterprises, 30-50 will be big business groups with high competitiveness. As singled out as 'national champions', these TNCs are crucial to achieve the nation's long-term strategic planning through overseas expansion.

To date, very little research, if any at all, has properly explained the types of policies China has employed (Luo *et al.*, 2010, Voss *et al.*, 2008). Here I identify the key bodies and the key policies that have been used. To study the HCMs effects, I look at some of the Chinese government's key policies and regulations from 2003 to 2009 with regard to supervising and encouraging OFDI, as well as some historic and abolished documents to understand the evolutionary development of home country measures. Chapters 5 and 6 draw from extensive use of officially published source materials. At present, the Chinese government has played dual roles: as a supervisor but also as a promoter. I agree that the more liberal measures and government support result in the considerable growth of Chinese OFDI (Luo *et al.*, 2010, Voss *et al.*,

2008, Voss *et al.*, 2009). To further analyse enterprises' responses to HCMs, I target China's 50 largest business groups and investigate the secondary data mainly collected from their websites and financial reports.

Chapter 5 studied the government's performance as a supervisor. Before the reform of the OFDI examination system, the main political considerations focused on the potential threat brought by OFDI, capital flight, and the loss of state-owned assets and foreign exchange. Nowadays, these concerns still exist. Behind changes of attitudes towards OFDI, the Chinese government's control intention remains the same, but the control over the approval of overseas projects has been significantly relaxed and shifted to post-investment monitoring. The key findings are as follows.

First, before the relaxation, projects more than one million US dollars had to be examined by relevant national authorities. According to new measures, the value has been updated to USD 30 million for resource development projects and USD 10 million for large-scale projects. In addition to the simplification of administration procedures, SAFE has also increased the foreign exchange quotas for OFDI, from USD 3.3 billion to 5 billion, and finally abolished the restrictions on the scale of foreign exchange for overseas investment.

Second, the approval process has been simplified. Enterprises no longer need to prepare the feasibility study reports. The government has focused primarily on identifying investors, investment direction and review of compliance. The project's economic viability and technical feasibility are no longer under

consideration. For each step there is stringent specification for the response time. This will prevent the inefficiency of overseas investment caused by the approving system.

Third, due to the short-term implementation and results not disclosed, it is difficult to assess the effects of annual inspection. I assume that the annual inspection reflects problems like a lack of risk prevention and effective management. Therefore, Chinese government still has a long way to go.

Fourth, regarding extraterritorial controls, this research has found evidence of the loss of state-owned assets. Based on the study of Shougang, Tianlong and China Aviation Oil cases, three important reasons for the loss of state-owned assets are insufficient experience in the international market, internal corruption and the lack of effective administration. Although the Chinese government launched the overseas property rights registration, I doubt that this registration is a superficial procedure, as the efforts to prevent loss are limited and the punitive measures on the loss are weak.

Fifth, this research finds evidence on SOEs' escape from the government administration, for example, GITIC and Yuxing's listing on the Hong Kong stock exchange. SOEs' escape may be due to the lack of confidence in the enforcement of regulations and regulatory certainty. However, the government administration and supervision are also important to strengthen SOEs' international competitiveness, as Chinese SOEs lack in experience and expertise in the global market.

In chapter 6, I showed how financial support from Chinese government has dramatically increased, which has been broadly mentioned but without in-depth discussion. None of the prior research has looked beyond what is literal or supported their conclusions with examples.

First, among all the facilitating measures, the most important way to sponsor OFDI is through the financial supports including the special funds and preferential loans. The State's ministries like MOFCOM, MOF and NDRC have worked together with policy banks to provide special funds for foreign economic and technical cooperation, capital support for projects that supplement domestic resources and stimulate the export of technology, products, equipment and labour, and a credit support mechanism for overseas investment projects.

Second, according to Adjustment and Revitalisation Plans of the top ten industries, equipment manufacture and electronics and information would benefit from extra government support as well. However, China's uncertain commitment to the duration of OFDI promotional assistance may even diminish the beneficial impact and cause confusion and misunderstanding.

Third, for information services, Country/Region Report of China's Outward Investment Promotion and Outward Investment Cooperation Countries (Regions) Directory provide political, economic and cultural information of the main target countries. These measures concentrate on the existing situations in

key countries and industries and summarise lessons learned from past investments. However, the international market keeps changing, in particular the financial crisis influencing the work economy. These official reports cannot update information swiftly and effectively. ‘Foreign Market Access Report’, for example, the Chinese government publishes one report each year, which summarises changes from selected countries (e.g. 16 countries in 2008) in the previous year. I know little about what has taken place in other countries. The information services also function as a supplementary approach to financial support. The government provides preferential measures for overseas projects that comply with Countries and Industries for Overseas Investment Guidance Catalogues, which list the attractive target countries and encouraged industries. In addition, the annual statistic reports can help the government understand what Chinese TNCs have done and can pay attention to potential problems in future policy formulation and implementation. The development of commercial and non-commercial organisations has the potential to facilitate the official publications.

Unlike the UNCTAD and other scholars’ negative views on the government intervention, China’s institutional context for OFDI development is generally conducive, considering the dual force of institutional constraints and incentives. The Chinese government has transformed from a pure administrator and strict controller to a guide and support. In particular, the globalisation of SOEs may be more strongly prone to the simulative measures than private companies.

In chapter 7, I employ data of the top 50 Chinese TNCs ranked by their foreign assets in 2009 as our sample. In addition to the study of parent groups, I look into their listed companies' annual reports to find evidence of offshore holding subsidiaries and cross-border M&As. First, the results find that the government can be directly involved, via ownership or controlling shares. The administration and supervision may have negative effects on private companies. The hindrance on SOEs is not significant. On the contrary, state-owned business groups even expect that the government provides more effective resolutions to eliminate competition between Chinese competitors in seizing foreign resources. I find evidence of the government's financial support, including policy banks and state-owned commercial banks providing special funds, loans and/or a credit guarantee.

Second, concerning the motivation, one significant motive of central enterprises' OFDI is natural resource seeking. To comply with the nation's long-term objectives, the investment may focus on national strategic value rather than profits. Other industries like manufacturing, however, do not put national strategies or policy considerations in front of the profit maximisation. The Chinese manufacturers are profit driven rather than policy driven. Companies like telecommunication operators, are still in the preliminary stage of internationalisation. Most of them undertake businesses with the Asian market, not even beyond Hong Kong.

Third, I also find evidence of 'round-tripping' investment. They may be attracted by preferential tax rates provided by the government to foreign-owned

enterprises before the launch of the new taxation law. Furthermore, after being reinforced with advanced technology, diverse products and professional personnel, these companies may go back to domestic markets to compete with the world's leading giants.

Fourth, this research hypothesises Chinese TNCs' responses to HCMs as being of 'conditional compliance'. If firms' business interests are in compliance with the State's institutional guidance and encouragement, Chinese TNCs will undertake OFDI, even with the government's massive administrative and financial support. By contrast, if firms' strategies conflict with the government's planning, the investment of Chinese enterprises may round-trip to the home country to avoid losses, as well as to comply with Beijing's requirements superficially.

Chapter 8 investigates the Chinalco-Rio Tinto and Geely-Volvo cases. Under the background of the global economic downturn, both of the acquired companies suffered from financial problems. Rio Tinto's purchase of Alcan resulted in insufficient cash flow to service its debts. Volvo was hit dramatically by the soaring crude oil prices. Therefore, the global leading giants had to sell some of their assets to raise capital. Backed by the government, Chinese TNCs attempt to strengthen their competitive advantages through the acquisition of resources and strategic assets from their counterparts in advanced economies.

First, in terms of the administration and support, I find that the Chinese government has different concerns on industries, rather than the ownership of enterprises. According to China's HCMs analysed in previous chapters, overseas resource exploration has been emphasised more times than the automobile industry. Four national banks provided all the money Chinalco needed for the acquisition. As long as Geely's takeover of Volvo complied with the government's new energy technology development, it also obtained preferential loans from a state-owned bank and a policy bank, regardless of it being a private company.

Second, the Chinese government influence received different treatment by shareholders and staff of the acquired company, the host country, and foreign media. Despite that the Chinalco-Rio Tinto deal failed due to business interests, Chinalco's tangle with the government also raised questions in the motivation in the host country. By contrast, the government intervention was more welcomed in the Geely-Volvo case. In addition to the administrative approval and financial support, the Chinese government's backup may also have profound effects for Geely and Volvo's future development.

Third, the same as the multiple cases investigated in Chapter 7, the investment undertaken by Chinalco and Geely cannot be well explained by mainstream international business theories concerning OFDI. Most Chinese TNCs possess no competitive advantages over the acquired companies. Their ambition is to strengthen their competitiveness through acquiring resources and advanced technology during the financial crisis.

Fourth, rather than fully compromising to the government's national planning, during the OFDI progress, Chinese enterprises take their corporate interests as priority, rather than the government guidance. I believe that the convergence between the nation and enterprises' interests drives China's 'effective OFDI', excluding round-tripping investment and projects failed to be approved by the government departments.

9.2 Policy Implications

The outward investment undertaken by Chinese SOEs is hardly recognised as a wholly business behaviour. This research, based on the analysis of China's home country measures on OFDI and the enterprises' responses, indicates that China's OFDI is driven by the convergence between the nation and enterprises' interests. First, there is a potential for the government to take a role as a coordinator instead of administrator. The government should give the enterprises more of a right to decide which country and sector to invest in and when to invest. This would reduce the conflict between the State and enterprises' interests as well as make the OFDI more effective. With regard to the government's worries on the losses of state-owned assets, it would be better if the government provided consulting services to enterprises in terms of domestic regulatory restrictions, the institutional and cultural environment of the host country like the labour relations, and how to deal with the host country's media. The government should also encourage the enterprises to

consult independent and specialised agents and companies for financial advice and information services.

Second, the government should back up and provide more support to the outward investment undertaken by private companies. This would raise the host country's confidence in the Chinese private companies, which seem to lack in competency to complete the mergers and acquisitions or bring in profits in the future. In regards to SOEs, it may not be a good idea for the government or enterprise to deny that they are linked in countless ways. The government may step back. When supporting the overseas M&As, the government may allow Chinese SOEs to involve some foreign banks for advices or even loans, rather than issuing loans completely from state-owned policy or commercial banks. This may be more convincing that the Chinese SOEs take OFDI as a business activity, not working as a government agent.

9.3 Further Research Directions

The study on the Chinese government's effects on OFDI has only begun. The institutional approach will attract more attention as China's OFDI grows and TNCs expand. Our study is the first to study comprehensive policies and regulations in detail and to investigate Chinese TNCs' overseas businesses based on their overseas listing companies and offshore holding subsidiaries. Although China has made great contributions to the design and execution of measures on supervising and supporting OFDI, China's input into these measures is yet limited. The policy, though set out with clear objectives, did

not pay attention to implementation. I am still, however, a long way from fully understanding the nature of China's political factors. In particular, more work on the nature of policies implemented by provincial and local governments to promote the internationalisation of business groups will no doubt greatly contribute to our understanding of the institutional effects. There is also much work to be done on the Chinese outward investment from each industry in each country. I still know relatively little about the nature of 'round-tripping' investment. I assume, at the current stage, that the Chinese government expects more competitiveness of Chinese TNCs in the global market rather than going back to the domestic market. This needs further investigation based on the observation of the effects brought by the new taxation law and the government's future publications.

Reference

ABC (2006) 2005 Annual Report.

ADBC (2005) *Overview*,
http://www.adbc.com.cn/templates/T_second/index.aspx?nodeid=5
(accessed).

Aggarwal, R. & Agmon, T. (1990) The International Success of Developing Country Firms: Role of Government-Directed Comparative Advantage. *Management International Review*, 30, 163-180.

Ahmad, S.Z. & Kitchen, P.J. (2008) Transnational Corporations from Asian Developing Countries: The Internationalization Characteristics and Business Strategies of Sime Darby Berhad. *International Journal of Business Science and Applied Management*, 3, 22-36.

Alcácer, J. & Chung, W. (2007) Location Strategies and Knowledge Spillovers. *Management Science*, 53, 760.

Amit, R. & Schoemaker, P.J.H. (1993) Strategic Assets and Organizational Rent. *Strategic Management Journal*, 14, 33-46.

Anand, S. (2008) Sinosteel's \$1.32 Billion Takeover of Midwest Succeeds, *Bloomberg Businessweek*, July 14, 2008

Andersen, O. (1993) On the Internationalization Process of Firms: A Critical Analysis. *Journal of International Business Studies*, 24, 209-231.

Ansteel (2009) *Ansteel Corporation Sustainable Development Report (鞍钢集团 2008 年可持续发展报告)*,
<http://www.ansteelgroup.com/cxbg/web/3-3.html> (accessed 25/05/2010).

Babbie, E.R. (2007) *The Practice of Social Research*, Belmont, CA, Wadsworth Pub Co.

Baker, T., Gedajlovic, E. & Lubatkin, M. (2005) A Framework for Comparing Entrepreneurship Processes across Nations. *Journal of International Business Studies*, 36, 492-504.

Barney, J.B. (1991) Firm Resources and Sustained Competitive Advantage. *Journal of management*, 17, 99-120.

Benderson, M. (2008) An Assessment of Chinese Outward Foreign Direct Investments as an Innovation Strategy. *Lund University, School of Economics and Management*,
<http://biblioteket.ehl.lu.se/olle/papers/0003200.pdf> (accessed 06/08/2010)

- Berger, B. & Berkofsky, A. (2008) Chinese Outward Investments: Agencies, Motives and Decision-Making. *CASCC Briefing Paper*, 172.
- BIS (2010) *The Top 1,000 UK and 1,000 Global Companies by R&D Investment (Company Data)*, http://webarchive.nationalarchives.gov.uk/20101208170217/http://www.innovation.gov.uk/rd_scoreboard/?p=31 (accessed 13/06/2011).
- Blackstone (2007) *History*, <http://www.blackstone.com/the-firm/history> (accessed 25/09/2009).
- Blomstrom, M. & Kokko, A. (2000) Outward Investment, Employment, and Wages in Swedish Multinationals. *Oxford Review of Economic Policy*, 16, 76.
- Boateng, A., Qian, W. & Tianle, Y. (2008) Cross-Border M&As by Chinese Firms: An Analysis of Strategic Motives and Performance. *Thunderbird International Business Review*, 50, 259-270.
- BOC (2006) 2005 Annual Report.
- Boddeyn, J.J. & Brewer, T.L. (1994) International-Business Political Behavior: New Theoretical Directions. *Academy of Management Review*, 19, 119-143.
- Boisot, M. (2004) *Notes on the Internationalization of Chinese Firms*, Barcelona, Spain, Open University of Catalonia.
- Boisot, M. & Child, J. (1996) From Fiefs to Clans and Network Capitalism: Explaining China's Emerging Economic Order. *Administrative Science Quarterly*, 41.
- Boisot, M. & Meyer, M. (2008) Which Way through the Open Door? Reflections on the Internationalization of Chinese Firms. *Management and Organization Review*, 4, 349-65.
- Buckley, P.J. (2004) The Role of China in the Global Strategy of Multinational Enterprises. *Journal of Chinese Economic and Business Studies*, 2, 1-25.
- Buckley, P.J. & Casson, M.C. (1976) *The Future of the Multinational Enterprise*, London, Macmillan.
- Buckley, P.J., Clegg, J.L., Cross, A.R., Voss, H., Rhodes, M. & Zheng, P. (2008) Explaining China's Outward FDI: An Institutional Perspective. IN Sauvart, K.P. (Ed.) *The Rise of Transnational Corporations from Emerging Markets*. Northampton, MA, Edward Elgar Publishing.

- Buckley, P.J., Clegg, L.J., Cross, A.R., Liu, X., Voss, H. & Zheng, P. (2007) The Determinants of Chinese Outward Foreign Direct Investment. *Journal of International Business Studies*, 38, 499-518.
- Buckley, P.J., Cross, A.R., Hui, T., Liu, X. & Voss, H. (2006) *An Examination of Recent Trends in China's Outward Direct Investment Position*,
- Buckley, P.J., Cross, A.R., Tan, H., Xin, L. & Voss, H. (2008) Historic and Emergent Trends in Chinese Outward Direct Investment. *Management International Review*, 48, 715-748.
- Bulatov, A.S. (2001) Russian Direct Investment Abroad: History, Motives, Finance, Control and Planning. *Economics of Planning*, 34, 179-194.
- Burtless, G. & Ikenson, D.J. (2008) Is Big Labor Killing the Big Three?, *Los Angeles Times*, 4 December 2008
- CAAM (2010) 2010 年 12 月 (含全年) 前十名汽车生产企业销量排名(Top Ten Carmakers' Sales in 2010), <http://www.caam.org.cn/zhengche/20110119/1105051446.html> (accessed 14/07/2011)
- CAAM (2011) 2011 年上半年前十名轿车生产企业销量排名(Top Ten Carmakers' Sales in the First Half of 2011), <http://www.caam.org.cn/zhengche/20110711/0905058276.html> (accessed 14/07/2011)
- Cai, B. (2007) An Empirical Study of Modern Enterprises' M&A Effects: A Synthetic Score Model Test Analysis. *Journal of Finance and Economics*, 7.
- Cai, K.G. (1999) Outward Foreign Direct Investment: A Novel Dimension of China's Integration into the Regional and Global Economy. *The China Quarterly*, 160, 856-880.
- Cang, A. (2008) China's Jinchuan to Buy Tyler Resources at C\$214 Mln, *Reuters*, Jan 7, 2008
- Cantwell, J. & Tolentino, P.E. (1990) Technological Accumulation and Third World Multinationals. *International Investment and Business Studies*, No. 139.
- Casson, M.C. (1997) Entrepreneurial Networks in International Business. *Business and Economic History*, 26, 811-823.
- Caves, R.E. (2007) *Multinational Enterprise and Economic Analysis*, Cambridge., Cambridge University Press.
- CBRC (2006) 2005 Annual Report.

- CBRC (2010) *银监会主要职责*(*the Main Functions of the Cbrc*), <http://www.cbrc.gov.cn/chinese/info/yjhjj/index.jsp> (accessed 04/06/2010).
- CCB (2006) 2005 Annual Report.
- CDB (2005) *Missions*, <http://www.cdb.com.cn/web/Column.asp?ColumnId=49> (accessed 20/05/2010).
- Che, H. (1996) The Lesson Learned from Shougang's Acquisition of Hierro Peru (首钢收购秘鲁铁矿的启示). *Management Comments (管理评论)*, 4.
- Chen, H. & Chen, T.J. (1998) Network Linkages and Location Choice in Foreign Direct Investment. *Journal of International Business Studies*, 29, 445-467.
- Chen, T.J. (2003) Network Resources for Internationalization: The Case of Taiwan's Electronics Firms. *Journal of Management Studies*, 40, 1107-1130.
- Chen, X. & Liao, H. (2011) Study on Enterprise Cultural Integration after Geely's Acquisition of Volvo. *the 7th International Conference on Innovation & Management*.
- Chen, X., Xie, L., Liu, Y. & Hu, Y. (2005) 中航油（新加坡）事件：市场失败还是制度失败 (China Aviation Oil (Singapore) Events: Market Failure or System Failure). *财会通讯 (Communication of Finance and Accounting)*, 6.
- Chen, Y.Y. & Young, M.N. (2010) Cross-Border Mergers and Acquisitions by Chinese Listed Companies: A Principal-Principal Perspective. *Asia Pacific Journal of Management*, 27, 523-539.
- Cheng, L.K. & Ma, Z. (2007) *China's Outward FDI: Past and Future*, China's Growing Role in World Trade
- Cheung, Y.W. & Qian, X. (2010) Capital Flight: China's Experience. *Review of Development Economics*, 14, 227-247.
- Child, J. & Rodrigues, S.B. (2005) The Internationalization of Chinese Firms: A Case for Theoretical Extension? *Management and Organization Review*, 1, 381-410.
- ChinaCustoms (2010) *全国进口重点商品量值表 (Values of Imports of the National Key Commodities)*, <http://www.customs.gov.cn/publish/portal0/tab400/module15677/info207143.htm> (accessed 28/06/2011).

- Chinadaily (2009a) *Chinese Miner Jinchuan Buys 70% Stake in Tiomin Kenya*, http://www.chinadaily.com.cn/bizchina/2009-09/02/content_8647520.htm (accessed 30/04/2010).
- ChinaDaily (2009b) *Four Chinese Banks to Lend Chinalco \$21b to Fund Rio Tinto Deal*, http://www.chinadaily.com.cn/bizchina/2009-03/28/content_7626231.htm (accessed 10/04/2010).
- Chung, W. & Alcacer, J. (2002) Knowledge Seeking and Location Choice of Foreign Direct Investment in the United States. *Management Science*, 48, 1534-1554.
- CIC (2008) *Overview*, http://www.china-inv.cn/about_cic/aboutcic_overview.html (accessed 25/09/2009).
- CIC (2010) *2009 年度报告(2009 Annual Report)*, <http://www.china-inv.cn/include/resources/CIC2009annualreport.pdf> (accessed 24/01/2011).
- CIMC (2010) 2009 Annual Report.
- CISA (2010) *中国钢铁统计 2010 (the Statistics of China's Steel Industry)*, Beijing, China Iron and Steel Association.
- Clarke, D.C. (2003) Corporate Governance in China: An Overview. *China Economic Review*, 14, 494-507.
- CNN (2001) *Cnooc More Attractive in the Long Term*, <http://articles.cnn.com/keyword/cnooc> (accessed 30/10/2009).
- CNNMoney (2008) *Global 500*, <http://money.cnn.com/magazines/fortune/global500/2008/countries/China.html> (accessed 02/07/2011).
- CNPC (2009) *Cnpc Signing a Long-Term Strategic Cooperation Agreement with Cdb (中国石油与开发银行签署长期战略合作协议)*, <http://news.cnpc.com.cn/system/2009/09/09/001257486.shtml> (accessed 10/05/2010).
- CNPC(HK) (2010) Cnpc (Hong Kong) Limited Annual Report 2009.
- Coase, R. (1937) The Nature of the Firm. *Economica*, No.4, 386-405.
- COSL (2009) 2008 Annual Report.
- Coviello, N.E. & McAuley, A. (1999) Internationalisation and the Smaller Firm: A Review of Contemporary Empirical Research. *Management International Review*, 39, 223-256.

- Cox, C. (2007) *The Role of Government in Markets*, <http://www.sec.gov/news/speech/2007/spch102407cc.htm> (accessed 05/05/2011).
- CPC (2001) *国民经济和社会发展第十个五年计划纲要(the Tenth Five-Year Plan for National Economic and Social Development)*, the Fourth Session of the Ninth National People's Congress (March 2001), Beijing, <http://www.people.com.cn/GB/shizheng/16/20010318/419582.html>
- CPC (2003) *中共中央关于完善社会主义市场经济体制若干问题的决定 (Cpc Central Committee's Decision of a Number of Issues on Improving the Socialist Market Economic System)*, The Third Plenary Session of the 16th Central Committee (21st October 2003), Beijing, http://news.xinhuanet.com/newscenter/2003-10/21/content_1135402.htm
- CSRC (2009) *境外上市公司名录及融资情况(Company Name Lists and Financing on Overseas Stock Exchanges)*, <http://www.csrc.gov.cn/pub/newsite/gjb/jwss/> (accessed 20/01/2011)
- Cui, L. & Jiang, F. (2009) FDI Entry Mode Choice of Chinese Firms: A Strategic Behavior Perspective. *Journal of World Business*, 44, 434-444.
- Cui, L. & Jiang, F. (2010) Behind Ownership Decision of Chinese Outward FDI: Resources and Institutions. *Asia Pacific Journal of Management*, 27, 751-774.
- Dantas, L. & Blount, J. (2009) Petrobras Gets \$10 Billion China Loan, Sinopec Deal (Update1) *Bloomberg Businessweek*, February 19, 2009
- Davidson, A. (2007) U.S. Watches Nervously as Oil-Rich Nations Invest, *Morning Edition*, November 30, 2007
- Deng, P. (2004) Outward Investment by Chinese Mncs: Motivations and Implications. *Business Horizons*, 47, 8-16.
- Deng, P. (2007) Investing for Strategic Resources and Its Rationale: The Case of Outward FDI from Chinese Companies. *Business Horizons*, 50, 71-81.
- Deng, P. (2009) Why Do Chinese Firms Tend to Acquire Strategic Assets in International Expansion? *Journal of World Business*, 44, 74-84.
- Deng, P. (2010) What Determines Performance of Cross-Border M&A by Chinese Companies? An Absorptive Capacity Perspective. *Thunderbird International Business Review*, December.
- Deng, Y. (2010) *Shougang's 20 Years Struggle with Peruvians' Strikes (罢工别动队潜伏首钢秘鲁铁矿困扰近20年)*,

<http://finance.sina.com.cn/roll/20100326/03057635159.shtml> (accessed 25/05/2010).

- Dharwadkar, R., George, G. & Brandes, P. (2000) Privatization in Emerging Economies: An Agency Theory Perspective. *Academy of Management Review*, 25, 650-669.
- Ding, M., Wang, Y. & Wang, S. (2011) An Analysis of Causes and Countermeasures for Reconstruction and Integration of Automobile Industry in China. *Asian Social Science* 7, 215-218.
- Dollar, D. & Wei, S. (2007) Das (Wasted) Kapital: Firm Ownership and Investment Efficiency in China. *NBER Working Paper No. 13103*, <http://www.imf.org/external/pubs/ft/wp/2007/wp0709.pdf> (accessed 06/12/2010)
- Dong, B. & Huang, J. (2007) 海外上市：规则变迁折射新阶段 (Overseas Listings: Rules Change in the New Stage). *国际融资 (International Financing)*, 4, 30-33.
- Dore, R. (1973) *British Factory - Japanese Factory*, London, Allen & Unwin.
- DRC, SAE & SAIC (2009) *2009 Annual Report on Automotive Industry in China (2010 中国汽车产业发展报告)*, Beijing, Social Science Academic Press (China).
- DRC, SAE & SAIC (2010) *2010 Annual Report on Automotive Industry in China (2010 中国汽车产业发展报告)*, Beijing, Social Science Academic Press (China).
- Dunning, J. & Lundan, S. (2008) *Multinational Enterprises and the Global Economy*, Cheltenham, UK, Edward Elgar.
- Dunning, J.H. (1981) *International Production and the Multinational Enterprises*, London, Allen and Unwin.
- Dunning, J.H. (1986) The Investment Development Cycle and Third World Multinationals. IN Khan, K.M. (Ed.) *Multinationals of the South: New Actors in the International Economy*. New York, St. Martin's Press.
- Dunning, J.H. (1996) *Multinational Enterprises and the Global Economy*, Reading, MA, Addison-Wesley.
- Dunning, J.H. (2001) The Eclectic (Oli) Paradigm of International Production: Past, Present and Future. *International Journal of the economics of business*, 8, 173-190.
- Dunning, J.H. (2006) Comment on Dragon Multinationals: New Players in 21 St Century Globalization. *Asia Pacific Journal of Management*, 23, 139-141.

- Dunning, J.H. & Narula, R. (1996) The Investment Development Path Revisited: Some Emerging Issues. IN Dunning, J.H. & Narula, R. (Eds.) *Foreign Direct Investment and Governments: Catalysts for Economic Restructuring*. London, Routledge.
- Dunning, J.H. & Rugman, A.M. (1985) The Influence of Hymer's Dissertation on the Theory of Foreign Direct Investment. *American Economic Review*, 75, 228.
- Dunning, J.H., Van Hoesel, R. & Narula, R. (1996) *Explaining the 'New' Wave of Outward FDI for Developing Countries: The Case of Taiwan and Korea*, Innovation and International Business, 22nd Annual EIBA Conference Proceedings Institute of International Business, Stockholm.
- Economist (2010) Ford Sells Volvo to Geely: Devolving Volvo *Economist*, 28 March 2010
- EIA (2010) *Table 9.4 Motor Gasoline Retail Prices, U.S. City Average, Total Energy*. <http://www.eia.gov/totalenergy/data/monthly/#prices> (accessed 08/06/2011)
- EIA (2011) *Spot Price for Crude Oil and Petroleum Products, Petroleum & Other Liquids*. http://www.eia.gov/dnav/pet/pet_pri_spt_s1_d.htm (accessed 08/06/2011)
- Eisenhardt, K.M. (1989) Building Theories from Case Study Research. *Academy of Management Review*, 14, 532-550.
- Evans, P.C. & Downs, E.S. (2006) Untangling China's Quest for Oil through State-Backed Financial Deals. *The Brookings Institution Policy Brief*, 154.
- Eximbank (2008) *Loans for Overseas Investment*, http://www.eximbank.gov.cn/yewuarticle/yewu/expmfxd/200811/7636_1.html (accessed 20/05/2010).
- Eximbank (2009) *Overview*, <http://www.eximbank.gov.cn/yhgk/yhjj.shtml> (accessed 20/05/2010).
- FIRB (2010) Foreign Investment Review Board Report 2008-09.
- Fortune (2010) *Global 500-China*, <http://money.cnn.com/magazines/fortune/global500/2010/> (accessed 08/11/2011).
- Foxresources (2008) *Jinchuan Secures Equity Stake in Fox Resources*, <http://www.foxresources.com.au/documents/342.pdf> (accessed 30/04/2010).

- Francis, D.R. (2007) Will Sovereign Wealth Funds Rule the World?, *The Christian Science Monitor*, November 26, 2007
- Freemant, D. (2008) China's Outward Investment: One Country, Many Strategies?" *ECAN paper*.
- Gan, L. (2007) 中国移动收购巴基斯坦第五大移动运营商(China Mobile Acquired Pakistan 5th Tele Operator), <http://tech.sina.com.cn/t/2007-01-22/07241345959.shtml> (accessed 30/07/2009).
- Garelli, S. (2009) Competitiveness of Nations: The Fundamentals. *Imd World Competitiveness Yearbook*.
- Garnaut, J. (2009) Why Canberra Must Not Meddle in the Rio-Chinalco Deal, *WA today*, 15 February 2009
- Garnaut, J. (2010) Chinese Don't Blame It on Rio, *The Sydney Morning Herald (SMH)*, 15 March 2010
- Gill, B. & Reilly, J. (2007) The Tenuous Hold of China Inc. In Africa. *Washington Quarterly*, 30, 37-52.
- Globerman, S. & Shapiro, D. (2009) Economic and Strategic Considerations Surrounding Chinese FDI in the United States. *Asia Pacific Journal of Management*, 26, 163-183.
- Globerman, S. & Shapiro, D.M. (1999) The Impact of Government Policies on Foreign Direct Investment: The Canadian Experience. *Journal of International Business Studies*, 30, 513-515.
- Goh, M.L., Sikorski, D. & Wong, W.K. (2001) Government Policy for Outward Investment by Domestic Firms: The Case of Singapore's Regionalisation Strategy. *Singapore Management Review*, 23, 23-44.
- Gong, J. (2007) *Shagang Won Iron Ore Mine in Australia*, <http://english.caijing.com.cn/2008-12-30/110043762.html> (accessed 30/04/2010).
- Gordon, R.H. & Hines, J.R. (2002) International Taxation. *Handbook of public economics*, 4, 1935-1995.
- Gou, X. (2005) *Shougang's Struggling Experience in Peru for 13 Years (秘鲁买矿风雨13年 首钢进退维谷)*, <http://finance.sina.com.cn/chanjing/b/20050710/19131780303.shtml> (accessed 20/04/2010).
- Gu, L. & Reed, W.R. (2010) Chinese Overseas M&A Performance and the Go Global Policy. *Working Papers in Economics*,

http://www.nzae.org.nz/conferences/2010/Papers/Session5/Gu_Chinese_Overseas_M_A_Performance.pdf (accessed 02/12/2010)

- Gulati, R., Nohria, N. & Zaheer, A. (2006) Strategic Networks. *Strategische Unternehmensplanung 奎 strategische Unternehmensf 蕻 rung*, 293-309.
- Gunter, F.R. (1996) Capital Flight from the People's Republic of China: 1984-1994. *China Economic Review*, 7, 77-96.
- Hamel, G., Doz, Y.L. & Prahalad, C.K. (1989) Collaborate with Your Competitors and Win. *Harvard Business Review*, 67, 133-139.
- Harrold, P. & Lall, R. (1993) China: Reform and Development in 1992-93. *World Bank-Discussion Papers*.
- He, X. (2006) *Cao Passed the Restructuring Plan (中航油重组方案高票通过)*, <http://finance.sina.com.cn/stock/t/20060304/13472391369.shtml> (accessed 30/10/2009).
- Helpman, E. & Krugman, P. (1985) *Market Structure and Foreign Trade: Increasing Returns, Imperfect Competition and the International Economy*, Cambridge, MA, MIT Press.
- Henisz, W.J. (2004) The Institutional Environment for International Business. *What is international business*, 85-109.
- Hennart, J.F. (1988) A Transaction Cost Theory of Equity Joint Ventures. *Strategic Management Journal*, 9, 361-374.
- Hill, C. (2005) *International Business: Competing in the Global Marketplace*, New York, McGraw-Hill.
- Hitt, M.A., Lee, H.U. & Yucel, E. (2002) The Importance of Social Capital to the Management of Multinational Enterprises: Relational Networks among Asian and Western Firms. *Asia Pacific Journal of Management*, 19, 353-372.
- HKSE (2010) *Listing Requirements*, http://www.hkex.com.hk/eng/listing/listreq_pro/listreq/listing_requirements.htm (accessed 20/01/2011).
- Holz, C.A. (2004) China's Statistical System in Transition: Challenges, Data Problems, and Institutional Innovations. *Review of Income and Wealth*, 50, 381-409.
- Hu, S. (2005) *中国国有资产监督管理委员会的角色定位遭受质疑 (Questioning the Roles of Sasac)*, http://www.rfa.org/cantonese/commentaries/commentary_econ-20050520.html (accessed 18 August 2009).

- Hu, Y. (2004) 关于我国海外投资保障制度的若干问题 (Some Problems in Guarantee System of Our FDI). *东南大学学报(哲学社会科学版)*(*Journal of Southeast University (philosophy and social science)*).
- Huang, S. & Xiong, X. (2004) 韩国海外投资保障制度的研究及对我国的启示 (Research on South Korean Guarantee System of Overseas Investment and Enlightenment to China). *亚太经济(Asia-pacific Economic Review)*, 4, 36-39.
- Hunan (2010) 2009 年度湖南省境外投资企业联合年检情况 (*the Outcome of Joint Annual Inspection of Hunan Enterprises Investing Abroad 2009*), <http://zdqy.hunancom.gov.cn/Modules/xinxi.aspx?GUID=976030e0-a199-4cdd-8289-d8dab862a162&WaiWangLanMulD1> (accessed 03/03/2011).
- Hymer, S. (1960) *The International Operations of National Firms: A Study of Direct Foreign Investment*, MIT.
- ICBC (2006) 2005 Annual Report.
- Ifeng (2010) 吉利收购沃尔沃耗资近 27 亿美元 一半是来自国外 (*Geely Spent Nearly \$ 2.7 Billion on Purchasing Volvo, Half Are from Abroad*), <http://auto.ifeng.com/news/special/shougou/20100330/251641.shtml> (accessed 02/06/2011).
- Jia, N. (2010) 金融危机下中国企业的海外并购(Chinese Enterprises' Overseas Acquisitions During the Financial Crisis). *管理与财富 (Management and Fortune)*, 6.
- Jiang, Z. (1997) 高举邓小平理论伟大旗帜, 把建设有中国特色社会主义事业全面推向二十一世纪 (*Hold High the Great Banner of Deng Xiaoping Theory for All-Round Advancement of the Cause of Building Socialism with Chinese Characteristics into the 21st Century*), The 15th National People's Congress of the Communist Party of China (12 September 1997), Beijing, <http://cpc.people.com.cn/GB/64162/64168/64568/65445/4526288.html>
- Jiang, Z. (2002) 全面建设小康社会, 开创中国特色社会主义事业新局面 (*Build a Well-Off Society in an All-Round Way and Create a New Situation in Building Socialism with Chinese Characteristics*), 16th National People's Congress of the Communist Party of China (8th November 2002), Beijing, http://news.xinhuanet.com/ziliao/2002-11/17/content_693542.htm
- Jin, Y., Li, R. & Xu, M. (2005) Coso 报告下的内部控制新发展——从中航油事件看企业风险管理 (*the New Development of Coso Report*

- Analysis the Event of China Aviation Oil (Singapore) on Enterprise Risk Management). *会计研究 (Accounting Research)*, 2.
- Johanson, J. & Vahlne, J.E. (2003) Business Relationship Learning and Commitment in the Internationalization Process. *Journal of International Entrepreneurship*, 1, 83-101.
- Johanson, J. & Vahlne, J.E. (2006) Commitment and Opportunity Development in the Internationalization Process: A Note on the Uppsala Internationalization Process Model. *Management International Review*, 46, 165-178.
- Jun, P. (2009) 熊维平否认和力拓交易失败主因是政治因素 (Xiong Weiping Denied That the Main Reason Causing the Failure Is Political Factor), *Sina Finance*, 11 June 2009
- Kavanagh, M. (2009) Sinochem to Buy Emerald Energy, *Financial Times*, August 13, 2009
- Klesty, V. (2010) Geely Signs \$1.8 Billion Deal for Ford's Volvo Car Unit, *Reuters*, 28 March 2010
- Kojima, K. (1978) *Direct Foreign Investment: A Japanese Model of Multinational Business Operations*, Imprint unknown.
- Korniyenko, Y. & Sakatsume, T. (2009) *Chinese Investment in the Transition Countries*, <http://www.ebrd.com/downloads/research/economics/workingpapers/wp0107.pdf> (accessed 21/04/2011).
- KPMG & ChinaMetallurgicalNews (2009) *金融危机下的中国钢铁工业 (China's Iron and Steel Industry Amid the Financial Crisis)*, http://www.kpmg.com.cn/sc/virtual_library/Industrial_markets/IronSteelChina.pdf (accessed 28/06/2011).
- Krolicki, K., Pollard, N. & Yan, F. (2010) Special Report: Saving Volvo - Geely Buys Brand, Management Test, *Reuters*, 22 July 2010
- Krugman, P. (1979) Increasing Returns, Monopolistic Competition, and International Trade. *Journal of International Economics*, 9, 469-79.
- Laffont, J.-J. & Martimort, D. (2002) *The Theory of Incentives: The Principal-Agent Model*, Princeton, N.J., Princeton University Press.
- Lall, S. (1983) *The New Multinationals*, New York, Chichester and New York, John Wiley.
- Lardy, N.R. (1995) The Role of Foreign Trade and Investment in China's Economic Transformation. *The china Quarterly*, 144, 1065-1082.

- Le, Q.V. & Zak, P.J. (2006) Political Risk and Capital Flight. *Journal of International Money and Finance*, 25, 308-329.
- Lecraw, D.J. (1977) Direct Investment by Firms from Less Developed Countries. *Oxford Economic Papers*, 29, 442-457.
- Lecraw, D.J. (1993) Outward Direct Investment by Indonesian Firms: Motivation and Effects. *Journal of International Business Studies* 24, 589-600.
- Li, C. (2009) 中国有色: 夺宝奇兵(Cnmc's Overseas Acquisitions), <http://finance.sina.com.cn/chanjing/gsnews/20090805/17436575753.shtml> (accessed 30/04/2010).
- Li, J. & Shi, B. (2004) 国有企业跨国经营中的公司治理结构问题(Corporate Governance in State-Owned Multinational Enterprises). *当代经济研究 (Contemporary Economic Research)*, 3.
- Li, M. (2007) Empirical Research on the Wealth Effect of Chinese Listed Companies' Cross-Border M&A. *International Business*, 3.
- Li, P. & Xu, D. (2008) '走出去'战略: 制度形成与改革展望 ('Going out' Strategy: Regime Formation and Reform Prospect). *国际经济合作 (International Economic Cooperation)*, 5.
- Li, P.P. (2003) Toward a Geocentric Theory of Multinational Evolution: The Implications from the Asian MNEs as Latecomers. *Asia Pacific Journal of Management*, 20, 217-242.
- Li, P.P. (2007) Toward an Integrated Theory of Multinational Evolution: The Evidence of Chinese Multinational Enterprises as Latecomers. *Journal of International Management*, 13, 296-318.
- Li, R. (2007) 以科学发展观为统领 加快推进中央企业改革和发展—在中央企业负责人会议上的讲话 (*Speech to Conference of Central Enterprises Executives: Guided by Scientific Concept of Development, Accelerate the Reform and Development of Central Enterprises*) 5 January, 2007, <http://www.sasac.gov.cn/gzjg/xcgz/200701080037.htm> (accessed 20 July 2009).
- Li, S. & Zhu, T. (2005) Long Run M&A Performance of Chinese Listed Companies. *Journal of Sun Yatsen University (Social Science Edition)*, 5.
- Lim, K. (2008) Huaneng Buys Singapore's Tuas Power for \$3 Billion, *Reuters*, Mar 14, 2008
- Liu, C. (2005) *Be Aware of the Labour Relations When Going out* (“走出去”莫陷劳资陷阱),

- <http://www.people.com.cn/GB/paper2515/14227/1266879.html>
(accessed 10/04/2010).
- Liu, J. (2005) 海外投资者保护基金制度及借鉴(Overseas Investor Protection Funds and Implications). *证券市场导报(Securities Market Herald)*, 8, 17.
- Liu, J. & Martinez, A.R. (2009) China, Brazil Agree to \$10 Billion Loan, Exploration (Update3), *Bloomberg Businessweek*, May 19, 2009
- Liu, X., Buck, T. & Shu, C. (2005) Chinese Economic Development, the Next Stage: Outward FDI? *International Business Review*, 14, 97-115.
- Liu, X. & Zou, H. (2008) The Impact of Greenfield FDI and Mergers and Acquisitions on Innovation in Chinese High-Tech Industries. *Journal of World Business*, 43, 352-364.
- Liu, Y. (1992) *跨国公司与中国企业国际化 (Multinational Corporation and Internationalization of Chinese Enterprises)*, Beijing, China Trust Press.
- Liu, Y. (2005) 中移动收购香港华润万众: 潜藏国资委意志? (China Mobile Acquired Hk Peoples: Is It Driven by Sasac?), <http://it.people.com.cn/GB/1068/42899/3747737.html> (accessed 30/04/2009).
- Lu, J., Liu, X. & Wang, H. (2010) *Motives for Chinese Outward FDI: Firm Resources, Industry Dynamics, and Government Policies*, Global Competitiveness of Chinese Industries and Internationalisation of Chinese Firms, Special Section of the 2nd CEA Annual Conference Oxford University,
- Luo, Y. & Peng, M.W. (1999) Learning to Compete in a Transition Economy: Experience, Environment, and Performance. *Journal of International Business Studies*, 30, 269-271.
- Luo, Y. & Tung, R.L. (2007) International Expansion of Emerging Market Enterprises: A Springboard Perspective. *Journal of International Business Studies*, 38, 481-498.
- Luo, Y., Xue, Q. & Han, B. (2010) How Emerging Market Governments Promote Outward FDI: Experience from China. *Journal of World Business*, 45.
- Lv, D. (2006) 中集集团 4800 万欧元间接控股荷兰博格(Cimc Indirectly Controlled Holland Burg by 48 Million Euro), <http://finance.sina.com.cn/stock/s/20061208/11423147767.shtml>
(accessed 15/06/2010).

- Ma, Y. (2008) 中集集团收购 tge 公司(*Cimc Acquired Tge*), <http://business.sohu.com/20080624/n257688344.shtml> (accessed 15/06/2009).
- Markusen, A. (2003) Fuzzy Concepts, Scanty Evidence, Policy Distance: The Case for Rigour and Policy Relevance in Critical Regional Studies. *Regional Studies*, 37, 701-717.
- Martin, M.F. (2008) China's Sovereign Wealth Fund. *CRS Report for Congress*. Congressional Research Service.
- Mathews, J. (2006) Dragon Multinationals: New Players in 21st Century Globalization. *Asia Pacific Journal of Management*, 23, 5-27.
- Meyer, K.E. & Nguyen, H.V. (2005) Foreign Investment Strategies and Sub National Institutions in Emerging Markets: Evidence from Vietnam. *Journal of Management Studies*, 42, 63-93.
- Meyer, K.E. & Peng, M.W. (2005) Probing Theoretically into Central and Eastern Europe: Transactions, Resources, and Institutions. *Journal of International Business Studies*, 36, 600-621.
- MIIT (2010) 2009 Automotive Industry Economic Operation Report (2009 年汽车工业经济运行报告), <http://www.miit.gov.cn/n11293472/n11293832/n11294132/n12858387/12982395.html> (accessed 10/06/2011).
- MOF & MOFCOM (2005) Measures Governing Special Funds for Foreign Economic and Technical Cooperation.
- MOF & MOFCOM (2006) Notice of 2006 Declaring Special Funds for Foreign Economic and Technical Cooperation.
- MOF & MOFCOM (2007) Notice of 2007 Declaring Special Funds for Foreign Economic and Technical Cooperation.
- MOF & MOFCOM (2008) Notice of 2008 Declaring Special Funds for Foreign Economic and Technical Cooperation.
- MOFCOM & NBS (2004) 2003 Statistical Bulletin of China's Outward Foreign Direct Investment.
- MOFCOM, NBS & SAFE (2006) 2005 Statistical Bulletin of China's Outward Foreign Direct Investment.
- MOFCOM, NBS & SAFE (2009) 2008 Statistical Bulletin of China's Outward Foreign Direct Investment, Beijing, MOFCOM.
- MOFCOM, NBS & SAFE (2010) 2009 Statistical Bulletin of China's Outward Foreign Direct Investment.

- Moon, H.-C. & Roehl, T.W. (2001) Unconventional Foreign Direct Investment and the Imbalance Theory. *International Business Review*, 10, 197-215.
- Morck, R., Yeung, B. & Zhao, M. (2008) Perspectives on Chinas Outward Foreign Direct Investment. *Journal of International Business Studies*, 39, 337-350.
- Naughton, B. (2007) *The Chinese Economy: Transitions and Growth*, Cambridge, MA, MIT Press.
- Naughton, B. (2008) *State-Owned Business: Adapting to the Market Economy and Nurturing National Champions*, The International Colloquium (October 2008), Bocconi University, Milan, Italy,
- NBS (2006) 中国大企业集团经济实力继续增强 竞争力水平提升 (*China's Large Enterprise Groups: Economic Strength Continues to Increase, the Level of Competitiveness Enhances*), http://www.stats.gov.cn/tjfx/fxbg/t20060920_402353804.htm (accessed 12/03/2009).
- NBS (2010) China Statistical Yearbook 2009.
- NDRC & Eximbank (2004) Notice on Providing Credit Support Policy for Key Overseas Investment Projects Encouraged by the State
- Nolan, P. (2001a) *China and the Global Business Revolution*, Basingstoke, Palgrave.
- Nolan, P. (2001b) *China and the Global Economy: National Champions, Industrial Policy, and the Big Business Revolution*, Basingstoke, UK, Palgrave Macmillan.
- Nolan, P. (2002) China and the Global Business Revolution. *Cambridge Journal of Economics*, 26, 119-137.
- Nolan, P. (2004) *Transforming China: Globalization, Transition and Development*, London, Anthem Press.
- Nolan, P. (2005) China at the Crossroads. *Journal of Chinese Economic and Business Studies*, 3, 1-22.
- Nolan, P. & Rui, H. (2004) Industrial Policy and Global Big Business Revolution: The Case of the Chinese Coal Industry. *Journal of Chinese Economic and Business Studies*, 2, 97-113.
- Nolan, P., Shipman, A. & Rui, H. (2004) Coal Liquefaction, Shenhua Group, and China's Energy Security. *European Management Journal*, 22, 150-164.

- Nolan, P. & Yeung, G. (2001a) Big Business with Chinese Characteristics: Two Paths to Growth of the Firm in China under Reform. *Cambridge Journal of Economics*, 25, 443-465.
- Nolan, P. & Yeung, G. (2001b) Large Firms and Catch-up in a Transitional Economy: The Case of Shougang Group in China. *Economics of Planning*, 34, 159-178.
- Nolan, P. & Zhang, J. (2002) The Challenge of Globalization for Large Chinese Firms. *World Development*, 30, 2089-2107.
- Nolan, P. & Zhang, J. (2003) Globalization Challenge for Large Firms from Developing Countries: China's Oil and Aerospace Industries. *European Management Journal*, 21, 285-299.
- North, D.C. (1990) *Institutions, Institutional Change and Economic Performance* Cambridge, Cambridge University Press.
- North, D.C. (1991) Institutions. *The Journal of Economic Perspectives*, 5, 97-112.
- North, D.C. (1994) Economic Performance through Time. *The American Economic Review*, 84, 359-368.
- NPC (2006) *国民经济和社会发展第十一个五年计划纲要 (the Outline of the Eleventh Five-Year Plan for National Economic and Social Development)*, The Tenth National People's Congress (16th March 2006), Beijing, http://news.xinhuanet.com/misc/2006-03/16/content_4309517.htm
- Numagami, T. (1998) The Infeasibility of Invariant Laws in Management Studies: A Reflective Dialogue in Defense of Case Studies. *Organization Science*, 9, 2-15.
- NYSE (2009) Nyse Regulation. <http://www.nyse.com/regulation/nyse/1145313073247.html> (accessed 20/05/2010)
- OECD (2002) *Foreign Direct Investment for Development: Maximising Benefits, Minimising* Paris, OECD Publishing.
- OECD (2008) *Oecd Investment Policy Reviews: China 2008*, http://www.oecd.org/document/40/0,3746,en_2649_34893_41735656_1_1_1_1,00.html (accessed 15/11/10).
- OICA (2011) *2009 Production Statistics*, <http://oica.net/category/production-statistics/2009-statistics/> (accessed 09/06/2011).
- Oliver, C. (1991) Strategic Responses to Institutional Processes. *Academy of Management Review*, 16, 145-179.

- Pan, E. (2006) *China, Africa, and Oil*, www.cfr.org/publication/9557 (accessed 01/12/2010).
- Pearson, M.M. (2005) The Business of Governing Business in China: Institutions and Norms of the Emerging Regulatory State. *World Politics*, 57, 296-322.
- Peng, J. (2007) *韩国企业对外投资的经验与启示(Experience and Revelation from Outward FDI by Korean Enterprises)*, http://www.china.com.cn/aboutchina/data/node_7005718.htm (accessed 21 July 2009).
- Peng, M.W. (2003) Institutional Transitions and Strategic Choices. *Academy of Management Review*, 28, 275-296.
- Peng, M.W. (2008) *Global Strategy*, Cincinnati, South-Western.
- Peng, M.W. & Luo, Y. (2000) Managerial Ties and Firm Performance in a Transition Economy: The Nature of a Micro-Macro Link. *Academy of Management Journal*, 43, 486-501.
- Peng, M.W., Sun, S.L. & Blevins, D.P. (2011) The Social Responsibility of International Business Scholars. *Multinational Business Review*, March.
- Peng, M.W., Wang, D.Y.L. & Jiang, Y. (2008) An Institution-Based View of International Business Strategy: A Focus on Emerging Economies. *Journal of International Business Studies*, 39, 920-936.
- Peng, Y. & Gu, Z. (2011) The Discussion on the Different Functions of Policy Banks and Commercial Banks (论政策性银行及其与商业银行作用的区别). *Legal System and Society (法制与社会)*, 24.
- People'sDaily (2009) Geely's Bid for Volvo Faces Labor Unions' Challenge, 4 December 2009
- Petrochina (2010) 2009 Annual Report.
- Porter, M.E. (1990) *The Competitive Advantage of Nations*, London, Macmillan.
- Porter, M.E. (1998) *Competitive Strategy*, New York, Free Press.
- Portman, C. (2008) The Economic Significance of Sovereign Wealth Funds ? *Economic Outlook*, 32, 24-33.
- Pradhan, J.P. (2004) The Determinants of Outward Foreign Direct Investment: A Firm-Level Analysis of Indian Manufacturing. *Oxford Development Studies*, 32, 619-639.

- Qi, L. (2010) *The Fund Source of Geely's Acquisition of Volvo (吉利收购资金来源揭秘 沃尔沃盈利将是必然)*,
http://auto.china.com/zh_cn/dongtai/yejie/11012724/20100330/15877207.html (accessed 20/05/2011).
- Rauch, J.E. (2001) Business and Social Networks in International Trade. *Journal of Economic Literature*, 39, 1177-1203.
- Rawski, T.G. (2001a) China by the Numbers: How Reform Affected Chinese Economic Statistics. *China Perspectives*, 33, 25-34.
- Rawski, T.G. (2001b) What Is Happening to China's Gdp Statistics? *China Economic Review*, 12, 347-354.
- Ren, B., Liang, H. & Zheng, Y. (2010) *Chinese Multinationals' Outward Foreign Direct Investment: An Institutional Perspective and the Role of the State*, 4th China Goes Global Conference Harvard University,
- Ren, H. (2001) *中国资本外逃的规模测算和规模分析(Scale Estimation and Analysis of China's Capital Flight)*, Shanghai, China, Fudan University Press.
- Riseborough, J. (2009) Baosteel Buys 15% Stake in Iron Ore Company Aquila, *Bloomberg*, August 28, 2009
- Roberts, S. (2009) Former Volvo Directors Oppose Chinese Sale, *The Local (Sweden's news in English)*, 12 December 2009
- Romney, M. (2008) Let Detroit Go Bankrupt *The New York Times*, 18 November 2008
- Rugman, A.M. (1981) *Inside the Multinationals: The Economics of Internal Markets*, New York, Columbia University Press.
- Rugman, A.M. & Verbeke, A. (1998) Multinational Enterprises and Public Policy. *Journal of International Business Studies*, 29, 115-136.
- Rui, H. & Yip, G. (2008) Foreign Acquisitions by Chinese Firms: A Strategic Intent Perspective. *Journal of World Business*, 43, 213-26.
- SAFE (2010) *中国历年外汇储备(China's Foreign Exchange Reserves over the Years)*,
http://www.safe.gov.cn/model_safe/tjsj/tjsj_list.jsp?id=5&ID=110400000000000000 (accessed 20/05/2010).
- SASAC (2005a) *Ansteel and Cdb Signed a Long-Term Strategic Cooperation Agreement of Development Financing (鞍钢与国家开发银行签订开发性金融长期战略合作协议)*,

<http://www.sasac.gov.cn/n1180/n1226/n2410/n314304/1314978.html>
(accessed 15/05/2010).

SASAC (2005b) *Sinosteel and Abc Signed a Strategic Cooperation Agreement* (中钢集团与中国农业银行签署战略合作协议),
<http://www.sasac.gov.cn/n1180/n1226/n2410/n314304/1332269.html>
(accessed 15/05/2010).

SASAC (2005c) *Sinosteel and Cdb Signed Cooperate Agreements of Development Financing* (中钢集团与国家开发银行签订开发性金融合作协议),
<http://www.sasac.gov.cn/n1180/n1226/n2410/n314304/1254858.html>
(accessed 15/05/2010).

SASAC (2005d) *华能 2940 万美元获得澳采矿企业 25.5% 股权* (Huaneng Acquired 25.5% Stake of an Australian Company for \$29.4 Million),
<http://www.sasac.gov.cn/n1180/n1226/n2410/n314274/1292465.html>
(accessed 30/04/2009).

SASAC (2006) *Sinosteel and Boc Signed a Strategic Cooperation Agreement* (中钢集团与中国银行签署战略合作协议),
<http://www.sasac.gov.cn/n1180/n1226/n2410/n314304/1391525.html>
(accessed 15/05/2010).

SASAC (2007a) *Ansteel and Icbc Signed a Cooperation Agreement and Financing Service Agreement* (鞍钢与工银签银企合作协议及投资银行服务协议),
<http://www.sasac.gov.cn/n1180/n1226/n2410/n314304/1525794.html>
(accessed 25/05/2010).

SASAC (2007b) *中央企业主业* (the Main Business Industry of Central Enterprises), <http://www.sasac.gov.cn/n1180/n1226/n2440/index.html>
(accessed 20/04/2009).

SASAC (2008) *中央企业经营业绩* (Operating Performance of Central Enterprises),
<http://www.sasac.gov.cn/n1180/n4175042/n5405123/n5576790/5576866.html> (accessed 20 August 2009).

SASAC (2009a) *Ansteel Obtained Boc's Rmb 20 Billion Financing Service* (鞍钢获中国银行 200 亿元人民币融资服务),
<http://www.sasac.gov.cn/n1180/n1226/n2410/n314304/6100740.html>
(accessed 25/05/2010).

SASAC (2009b) *Sinosteel and Cdb Signed a Financing Cooperation Agreement* (中钢股份与国开行签署金融合作协议),
<http://www.sasac.gov.cn/n1180/n1226/n2410/n314304/6453680.html>
(accessed 15/05/2010).

- SASAC (2010) *Baosteel and Cdb Signed a Development Financing Cooperation* (宝钢集团与国开行签订开发性金融合作). <http://www.sasac.gov.cn/n1180/n1226/n2410/n314304/11763064.html> (accessed 15/05/2010).
- Sauvant, K. (2005) New Sources of FDI: The BRICs. Outward FDI from Brazil, Russia, India and China. *Journal of World Investment & Trade*, 6, 639-709.
- Saxenian, A.L. (2002) The Silicon Valley Connection: Transnational Networks and Regional Development in Taiwan, China and India. *Science Technology & Society*, 7, 117.
- Schoenberger, R. (2008) As Buyers Shun Suvs, Expect to Pay More for That Small Car, *Cleveland*, 6 June 2008
- Schoppa, L.J. (2006) *Race for the Exits: The Unraveling of Japan's System of Social Protection*, Ithaca, NY, Cornell University Press.
- Schüler-Zhou, Y. & Schüller, M. (2009) The Internationalization of Chinese Companies: What Do Official Statistics Tell Us About Chinese Outward Foreign Direct Investment? *Chinese Management Studies*, 3, 25-42.
- Schüller, M. & Turner, A. (2005) Global Ambitions: Chinese Companies Spread Their Wings. *China aktuell*, 4, 3-14.
- Scott, J. & Duce, J. (2009) Yanzhou Coal to Acquire Felix for About a\$3.5 Billion, *Bloomberg*, August 13, 2009
- Scott, W.R. (2001) *Institutions and Organizations*, California, Sage Publications, Inc.
- Scott, W.R. (2002) The Changing World of Chinese Enterprise: An Institutional Perspective. IN Tsui, A.S. & Lau, C.-M. (Eds.) *The Management of Enterprises in the People's Republic of China*. Boston, Kluwer Academic Press.
- SGX (2010) *Listing Requirements*, http://www.sgx.com/wps/portal/corporate/cp-en/listing_on_sgx/listing_companies/listing_requirements (accessed 20/01/2011).
- Shen, Z. (2010) Six Traps in Overseas Mergers and Acquisitions (海外并购六大陷阱). *Manager* (经理人内参), 1, 43-44.
- Shenkar, O. (1996) The Firm as a Total Institution: Reflections on the Chinese State Enterprise *Organization Studies* 17, 885-907.

- Shirai, S. (2002) Bank's Lending Behaviour and Firm's Corporate Financing Pattern in the People's Republic of China. *ADB Institute Research Paper Series No 43*, <http://www.adbi.org/research%20paper/2002/09/01/95.lending.behavior/> (accessed 05/12/2010)
- Sicular, T. (1998) Capital Flight and Foreign Investment: Two Tales from China and Russia. *The World Economy*, 21, 589-602.
- Sim, A.B. & Pandian, J.R. (2002) Internationalization Strategies of Emerging Asian MNEs: Cases Study Evidence on Taiwanese Firms. *Journal of Asian Business*, 18, 67-80.
- Sina (2011) 中国黄金去年利润约 32 亿加快海外收购(China Gold Earned About 3.2 Billion Last Year and Will Accelerate Overseas Acquisition), <http://finance.sina.com.cn/g/20110109/21029224370.shtml> (accessed 30/04/2011).
- Singletary, M. (2007) Home Equity Car Loan Bad Idea, *Seattle P.I.*, 23 March 2007
- Sinosteel (2008) *Sinosteel and China Everbright Bank Signed Rmb 10 Billion Strategic Cooperation Agreement (中钢集团与中国光大银行签署 100 亿元《战略合作协议》)*, <http://www.sinosteel.com/xwzx/zgdt/2008-05-20/4808.shtml> (accessed 15/05/2010).
- Sohu (2007) 中集集团: 通过子公司收购安瑞科股权(Cimc Acquired Enric through Its Subsidiary), <http://business.sohu.com/20070806/n251437363.shtml> (accessed 15/06/2009).
- Sonali, P. (2010) China Clears Rio, Australia in Failed Chinalco Deal: Report, *Reuters*, 14 March 2010
- Song, G., Wang, X. & Qin, Q. (2010) 国有跨国公司境外企业公司治理研究—基于双重型、叠加式委托代理的视角(Corporate Governance of Overseas Companies of State-Owned Multinational Enterprises - Based on the Principal-Agent Perspective). *财经研究 (Journal of Finance and Economics)*, 11.
- Song, J. (2009) *Wisco Signed a Financial Cooperation Agreement with Cdb (武钢与国家开发银行签订金融合作协议)*, http://www.wisco.com.cn/wisco/news/wisco_news/2009news/30852.shtml (accessed 15/04/2010).
- Song, J. (2010) *Wisco and China Eximbank Signed a Strategic Cooperation Agreement (武钢和中国进出口银行签订战略合作协议)*, http://www.wisco.com.cn/wisco/news/wisco_news/2010news/33589.shtml (accessed 15/04/2010).

- Song, W. (1999) 中国资本外逃问题的研究(the Analysis of China's Capital Flight) 1987-1997. *经济研究(Economic research)*, 5.
- Su, Y., Xu, D. & Phan, P.H. (2008) Principal-Principal Conflict in the Governance of the Chinese Public Corporation. *Management and Organization Review*, 4, 17-38.
- Sun, S. (2010) 吉利收购沃尔沃已完成全部审批 (All Approval Has Been Completed), *经济参考报 (Economic Information)*, 30 July 2010
- Surowiecki, J. (2007) Sovereign Wealth World, *The New Yorker*, November 26, 2007
- Sutherland, D. (2007) China's 'National Team' of Enterprise Groups: How Has It Performed? Discussion Paper 23 <http://www.nottingham.ac.uk/cpi/documents/discussion-papers/discussion-paper-23-china-national-team-groups.pdf> (accessed 20/02/2008)
- Sutherland, D. (2009) Do China's "National Team" Business Groups Undertake Strategic-Asset-Seeking OFDI? . *Chinese Management Studies*, 3, 11-24.
- Sutherland, D. (2010) *An Investigation of OFDI Strategies in China's Private Businesses: 'Round-Tripping' or 'Onward-Journeying'?*, Global Competitiveness of Chinese Industries and Internationalisation of Chinese Firms, Special Section of the 2nd CEA Annual Conference Oxford University,
- Sutherland, D. & Matthews, B. (2009) *"Round Tripping" Or "Capital Augmenting" OFDI? Chinese Outward Investment and the Caribbean Tax Havens*, Globalisation and Economic Policy (GEP) University of Nottingham,
- Tallman, S.B. (1988) Home Country Political Risk and Foreign Direct Investment in the United States. *Journal of International Business Studies*, 19, 219-234.
- Tan, H. (2009) 中组部国资委就中央企业领导人员管理暂行规定答问 (the Q&a by Organisation Department of the Cpc Central Committee and Sasac to the Interim Provisions Concerning the Administration of Central Enterprise Leaders), http://www.gov.cn/jrzg/2009-12/30/content_1500249.htm (accessed 26/04/2011).
- Tan, J. (2009) 湖南华菱集团与澳大利亚 fmg 签署全面合作基础协议(Hunan Valin Signed Cooperation Agreement with Australia Fmg), http://news.xinhuanet.com/fortune/2009-05/09/content_11342385.htm (accessed 30/04/2010).

- Taylor, R. (2002) Globalization Strategies of Chinese Companies: Current Developments and Future Prospects. *Asian Business and Management*, 1, 209-225.
- te Velde, D.W. (2007) Research Note Understanding Developed Country Efforts to Promote Foreign Direct Investment to Developing Countries: The Example of the United Kingdom. *Transnational Corporations*, 16.
- te Velde, D.W. & Messages, K. (2003) Oecd (Uk and Eu) Home Country Measures and FDI in Developing Countries: A Preliminary Analysis. mimeo, Department for International Development, London.
- Teece, D.J., Pisano, G. & Shuen, A. (1997) Dynamic Capabilities and Strategic Management. *Strategic Management Journal*, 18, 509-533.
- Tsai, K.S. (2004) *Back-Alley Banking: Private Entrepreneurs in China*, New York, Cornell University Press.
- UNCTAD (1996) *Sharing Asia's Dynamism: Asian Direct Investment in the European Union*, New York and Geneva, United Nations.
- UNCTAD (2001) Home Country Measures. *Issues in International Investment Agreements*. New York and Geneva.
- UNCTAD (2007a) *Rising FDI into China: The Facts Behind the Numbers*, http://www.unctad.org/en/docs/iteiiamic20075_en.pdf (accessed 1/3/2011).
- UNCTAD (2007b) World Investment Report 2007: Transnational Corporations, Extractive Industries and Development
- UNCTAD (2009) World Investment Report. *Transnational Corporations, Agricultural Production and Development*.
- UNCTAD (2010a) *The Iron Ore Market 2009-2011*, <http://www.unctad.org/infocomm/Iron/covmar08.htm> (accessed 28/06/2011).
- UNCTAD (2010b) *World Investment Report: Investing in a Low-Carbon Economy*.
- USGS (2011) *Mineral Commodity Summaries*, <http://minerals.usgs.gov/minerals/pubs/mcs/> (accessed 28/06/2011).
- Van Hoesel, R. (1999) *New Multinational Enterprises from Korea and Taiwan: Beyond Export-Led Growth*, Florence, KY, USA, Routledge.
- Vermeulen, F. & Barkema, H. (2001) Learning through Acquisitions. *Academy of Management Journal*, 44, 457-476.

- Vernon, R. (1966) International Investment and International Trade in the Product Cycle. *Quarterly Journal of Economics*, 80, 190-227.
- Vernon, R. (1974) Location of Economic Activity. IN Dunning, J.H. (Ed.) *Economic Analysis and the Multinational Enterprises*. London, Allen&Unwin.
- Vernon, R. (1998) *In the Hurricane's Eye: The Troubled Prospects of Multinational Enterprises*, Harvard Univ Pr.
- Volvocars (2009) *Volvo Car Corporation to Introduce Plug-in Hybrids in 2012*, <http://www.volvocars.com/uk/top/about/news-events/pages/default.aspx?itemid=8> (accessed 22/06/2011).
- Volvocars (2010) *Sustainability Scorecard*, <http://www.volvocars.com/intl/top/about/corporate/volvo-sustainability/pages/sustainability-scorecard.aspx> (accessed 18/06/2011).
- Voss, H., Buckley, P. & Cross, A. (2008) *Thirty Years of Chinese Outward Foreign Direct Investment*, CEA Conference Cambridge, UK,
- Voss, H., Buckley, P.J. & Cross, A.R. (2009) *The Impact of Domestic Institutions and International Networks on the Internationalisation Strategies of Chinese Firms*, China Goes Global Conference (30th Sept. to Oct. 2nd 2009), Harvard University,
- Wall, D. (1997) Outflows of Capital from China. *OECD Development Centre Technical Paper No. 123*, www.oecd.org/pdf/M00006000/M00006211.pdf (accessed 04/06/2009)
- Wall, D. (1999) China's Overseas Investment. IN Daniel, S., Arestis, P. & Grahl, J. (Eds.) *Regulation Strategies and Economic Policies*. Cheltenham., Edward Elgar.
- Wan, W.P. & Hoskisson, R.E. (2003) Home Country Environments, Corporate Diversification Strategies, and Firm Performance. *Academy of Management Journal*, 46, 27-45.
- Wan, Z. (2009) Huaneng Power Gets Local Bank Funding for Buy, *China Daily*, September 22, 2009
- Wang, J. & Wang, B. (2008) 关于国有企业集团投资链条冗长衍生问题的初步研究 (the Preliminary Study on the Lengthy Investment Chain of State-Owned Groups). *会计研究 (Accounting Research)*, 1, 63-70.
- Wang, L. (2011) *A Case Study of the Acquisition of Swedish Volvo by Chinese Geely*, MBA. Sweden, Blekinge Tekniska Hogskola (BTH).

- Wang, M.Y. (2002) The Motivations Behind China's Government-Initiated Industrial Investments Overseas. *Pacific Affairs*, 75, 187-206.
- Wang, Q. (2001) 对民营企业境外间接发行上市监管的域外效力 (the Effects of Supervising the Overseas Indirect Listings of Private Companies). *深圳大学学报 (Journal of Shenzhen University)*, 18.
- Wang, Q. (2004) 中国企业对外直接投资: 优势、特点与问题 (Outward Investment by Chinese Enterprises: Advantages, Characteristics and Problems). *国际经济合作 (International Economic Cooperation)*, 3.
- Wang, Q. (2011) Development and Trends of China's Automobile Market: Evidence from Urban Household Ownership of Cars, Bicycles, Motorcycles and Motorbikes. *International Journal of Automotive Technology and Management*, 11, 99-113.
- Ward, A. & Reed, J. (2009) Geely Faces Us-Led Rivals in Volvo Battle, *Financial Times*, 4 October 2009
- Wells, L.T. (1977) The Internationalisation of Firms from Developing Countries. IN Agmon, T. & Kindleberger, C.P. (Eds.) *Multinationals from Small Countries*. Cambridge, MA, MIT Press.
- Wells, L.T. (1983) *Third World Multinationals: The Rise of Foreign Investment from Developing Countries*, Cambridge, MIT Press.
- Wen, Z. & Tan, J. (2009) 国资改革的依法推进及其分类管理 (Legal Promotion and Classification of the Reform of State-Owned Assets), http://www.sasacrc.com/in_new1-3-477.html (accessed 1 September 2009).
- Wesson, T. (1999) A Model of Asset-Seeking Foreign Direct Investment Driven by Demand Conditions. *Canadian Journal of Administrative Sciences*, 16, 1-10.
- Williamson, O.E. (1975) *Markets and Hierarchies: Analysis and Antitrust Implications: A Study in the Economics of Internal Organisation*, New York, Free Press.
- Williamson, O.E. (1979) Transaction Cost Economics: The Governance of Contractual Relations. *Journal of Law and Economics*, 22.
- Williamson, O.E. (2000) The New Institutional Economics: Taking Stock, Looking Ahead. *Journal of Economic Literature*, 38, 595-613.
- Winning, D., Oster, S. & Wilson, A. (2009) China, Russia Strike \$25 Billion Oil Pact *The Wall Street Journal*, February 18, 2009

- Witt, M.A. & Lewin, A.Y. (2007) Outward Foreign Direct Investment as Escape Response to Home Country Institutional Constraints. *Journal of International Business Studies*, 38, 579-594.
- Wong, J. & Chan, S. (2003) China's Outward Direct Investment: Expanding Worldwide. *China: An International Journal*, 1-2, 273-301.
- Woo, Y.P. & Zhang, K. (2005) China Goes Global: The Implication of Chinese Outward Foreign Direct Investment for Canada. Asia Pacific Foundation of Canada.
- Worldbank & PRTM (2011) The China New Energy Vehicles Program: Challenges and Opportunities.
- WorldSteelAssociation (2009) Steel Statistical Yearbook 2009.
- WorldSteelAssociation (2010) Steel Statistical Yearbook 2010.
- Wright, M., Filatotchev, I., Hoskisson, R.E. & Peng, M.W. (2005) Strategy Research in Emerging Economies: Challenging the Conventional Wisdom. *Journal of Management Studies*, 42, 1-33.
- Wu, F. (2005) Corporate China Goes Global. *World Economics Journal*, 6.
- Wu, F. & Keong, P.K. (2002) Foreign Direct Investment to China and Southeast Asia: Has Asean Been Losing Out? *Journal of Asian Business*, 18, 45-58.
- Wu, F. & Sia, Y.H. (2002) China's Rising Investment in Southeast Asia: Trends and Outlook. *Journal of Asian Business*, 18, 41-61.
- Wu, F. & Tang, L. (2000) China's Capital Flight, 1990-999: Estimates and Implications. *Review of Pacific Basin Financial Markets and Policies*, 3, 59-75.
- Wu, H.L. & Chen, C.H. (2001) An Assessment of Outward Foreign Direct Investment from China's Transitional Economy. *Europe-Asia Studies*, 53, 1235-1254.
- Wu, X. & Ding, W. (2009) Chinese Firms' Internationalization Paths by Strategic Asset-Seeking Outward Foreign Direct Investment. *Management of Engineering & Technology, PICMET*
http://ieeexplore.ieee.org/xpl/freeabs_all.jsp?tp=&arnumber=5262225
 (accessed 30/08/2010)
- Wu, X. & Yang, X. (2010) Partner Selection of Chinese Firms' in Cross-Boarder M&A: Perspectives from Complementary Assets and Global Value Chain. *2010 IEEE International Conference*. Macao.

- Xiao, G. (2004) People's Republic of China's Round-Tripping FDI: Scale, Causes and Implications. *Asia Development Bank Institute Discussion Paper*, 7.
- Xing, B. & Zhang, Y. (2009) 兖煤 189 亿元收购澳矿 *Yanzhou Coal Acquired Felix with 18.9 Billion*, http://www.china.com.cn/economic/txt/2009-08/14/content_18336470.htm (accessed 10/04/2010).
- Xinhuanet (2009) 商务部将发布《境外投资管理办法》(MOFCOM Will Delegate the Approval Authority). http://news.xinhuanet.com/fortune/2009-03/16/content_11021218.htm (accessed 17/06/2010)
- Xu, Y. (2008) Chinalco Financed \$2 Billion to Develop Peru Copper Mine (中铝融资 20 亿美元开发秘鲁铜矿), *Shanghai Securities News (上海证券报)*, 2 December 2008
- Yamakawa, Y., Peng, M.W. & Deeds, D.L. (2008) What Drives New Ventures to Internationalize from Emerging to Developed Economies. *Entrepreneurship Theory and Practice*, 32, 59-82.
- Yang, D. (2003) *Foreign Direct Investment from Developing Countries: A Case Study of China's Outward Investment*, PhD Thesis. Australia, Victoria University.
- Yang, H. & Gunter, F.R. (2002) 中国资本外逃与外国直接投资关系的实证分析 (1984-1999) (Empirical Study of the Relationship between China's Capital Flight and FDI). *经济学(China economic quarterly)*, 1, 715-722.
- Yang, S. & Liu, Z. (2000) 资本外逃与中国的现实选择(Capital Flight and China's Choice). *金融研究(Journal of Financial Research)*, 2, 73-79.
- Yang, X., Jiang, Y., Kang, R. & Ke, Y. (2009) A Comparative Analysis of the Internationalization of Chinese and Japanese Firms *Asia Pacific Journal of Management*, 26, 141-162.
- Yang, X., Lim, Y.-t., Sakurai, Y. & Seo, S.-y. (2009) Internationalization of Chinese and Korean Firms. *Thunderbird International Business Review*, 51, 37-51.
- Yao, S. (2009) China Will Learn from Chinalco's Failed Deal with Rio Tinto, *Financial Times*, 8 June 2009
- Yao, S. & Sutherland, D. (2009) Chinalco and Rio Tinto: A Long March for China's National Champions. *The China Quarterly*, 199, 829-836.

- Yao, S., Sutherland, D. & Chen, J. (2010) China's Outward FDI and Resource Seeking Strategy: A Case Study on Chinalco and Rio Tinto. *Asia-Pacific Journal of Accounting & Economics*, 17, 313-326.
- Ye, G. (1992) Chinese Transnational Corporations. *Transnational Corporations*, 1, 125-133.
- Yeung, H.W. (2002) Entrepreneurship in International Business: An Institutional Perspective. *Asia Pacific Journal of Management*, 19, 29-61.
- Yeung, H.W. & Liu, W. (2008) Globalizing China: The Rise of Mainland Firms in the Global Economy. *Eurasian Geography and Economics*, 49, 57-86.
- Yin, R.K. (2009) *Case Study Research: Design and Methods*, Thousand Oaks, CA, Sage Publications.
- Yiu, D.W., Lau, C.M. & Bruton, G.D. (2007) International Venturing by Emerging Economy Firms: The Effects of Firm Capabilities, Home Country Networks, and Corporate Entrepreneurship. *Journal of International Business Studies*, 38, 519-540.
- Young, M.N., Peng, M.W., Ahlstrom, D., Bruton, G.D. & Jiang, Y. (2008) Corporate Governance in Emerging Economies: A Review of the Principal-Principal Perspective. *Journal of Management Studies*, 45, 196-220.
- Young, S., Huang, C.H. & McDermott, M. (1996) Internationalization and Competitive Catch-up Processes: Case Study Evidence on Chinese Multinational Enterprises. *MIR: Management International Review*, 295-314.
- Yu, L. & Liu, Y. (2004) An Empirical Analysis on M&A Performance of China's Listed Companies. *Modern Economic Science*, 4.
- Yue, Z. (2006) 中集集团从箱厂到车厂(Cimc's Development), <http://finance.sina.com.cn/leadership/mscyx/20060705/15232707729.shtml> (accessed 30/07/2010).
- Zaby, A.M. (1996) Comparative Analysis of Export-Oriented and Foreign Production-Oriented Firms' Foreign Market Entry Decisions: A Comment. *MIR: Management International Review*, 281-284.
- Zhan, J. (1995) Transnationalization of Outward Investment: The Case of Chinese Firms. *Transnational Corporations*, 4, 61-93.
- Zhang, B. (2008) 中联重科技露收购 cifa 细节 (Zoomlion Declared the Details of Acquiring Cifa), <http://www.caijing.com.cn/2008-06-25/100071512.html> (accessed 30/07/2009).

- Zhang, H. & Van Den Bulcke, D. (1996) International Management Strategies of Chinese Multinational Firms. IN Child, J. & Lu, Y. (Eds.) *Management Issues in China: International Enterprises*. London, Routledge.
- Zhang, J. & Ebbers, H. (2010) Why Half of China's Overseas Acquisitions Could Not Be Completed. *Journal of Current Chinese Affairs*, 39, 101-131.
- Zhang, M. (2009) *Cdb Issued the Initial M&A Loan (国开行发放首笔并购贷款)*, <http://www.caijing.com.cn/2009-01-21/110050452.html> (accessed 20/05/2010).
- Zhang, Q. (2008) Zoomlion Wraps up Cifa Purchase, *China Daily*, September 24, 2008
- Zhang, W. (2009a) *实践与理论的偏差 国资委角色定位模糊遭遇尴尬 (Deviation of Practice and Theory, the Ambiguity of Sasac's Role Suffered Embarrassment)*, http://www.yqgz.gov.cn/Article_Show.asp?ArticleID=1015 (accessed 10 July 2009).
- Zhang, Y. (2003) *China's Emerging Global Businesses: Political Economy and Institutional Investigations*, Basingstoke:, Palgrave Macmillan.
- Zhen, Y. (2009) Easier Loans Lead to More M&As, *China Daily*, 20 April 2009
- Zhou, X. & Zhang, X. (2011) Strategic Analysis of Synergistic Effect on M&A of Volvo Car Corporation by Geely Automobile. *Scientific Research*, 3, 5-15.
- Zhou, Y. (1996) Inter-Firm Linkages, Ethnic Networks, and Territorial Agglomeration: Chinese Computer Firms in Los Angeles. *Papers in Regional Science*, 75, 265-291.
- Zhu, Y. (2004) 论建立我国海外投资保险制度的必要性(Necessity to Establish China's Overseas Investmetn Insurance System). *内蒙古社会科学(Inner Mongolia social sciences)*, 25, 113-116.
- Zhuang, R. (2000) 试析中国的资本外逃(a Preliminary Analysis of the Outflow of the Chinese Capital). *世界经济研究(World economy study)*, 4, 15-19.

Appendix

Appendix 1: listed companies and their subsidiaries (excluding investment holding companies)

Group	A	B	Main business	C	D	Source
CNPC	PetroChina Co. Ltd	China/China, HK, USA	Exploration, development and production of crude oil and natural gas; refining, transportation, storage and marketing of crude oil and petroleum products; production and sale of chemicals; transmission, marketing and sale of natural gas.	2	E: exploration, production and sale of crude oil and natural gas outside the China (Canada)	P.203
China Resources	China Resources Land Ltd	CI/HK	Property development, investment and management and construction and decoration services.	79(41)	Decoration service (HK)	p.162-173
	China Resources Enterprise, Ltd	HK/HK	Retail, beverage, food processing and distribution, textile and property investment businesses.	23(12)	Retail business, Supermarket operations, Wharf & godown services, Food Processing and Distribution (HK 5); Fishery (BVI); Property investment (HK 3); Financing (HK, CI)	p.183-189
	China Resources Microelectronics Ltd	CI/HK	IC and discrete device design, manufacturing, testing and packaging.	7(6)	Design and sales of integrated circuit design (HK)	p.188-189
Sinopec	China Resources Cement Holdings Ltd	CI/HK	Production and sale of cement, concrete and related products and services	50	Property holding, Concrete testing and consultancy services, trading of fly ash and cements, manufacture and sale of concrete (HK 11)	p.158-163
	China Petroleum & Chemical Corporation	China/HK	Explore, develop & produce crude oil and natural gas; transporting crude oil and natural gas by pipelines; refining, marketing crude oil, natural gas and refined petroleum products, manufacture and marketing chemicals for industrial uses in China	16	Trading of crude oil, petroleum and petrochemical products (Bermuda, HK)	p.186
	Sinopec Kantons Holdings Ltd	Bermuda/HK	Trading of crude oil, petroleum and petrochemical products, and the operating of crude oil jetty and its ancillary facilities	1(1)	Trading of crude oil, petroleum and petrochemical products (HK)	p.61
CNOOC	CNOOC	HK/HK, USA	Exploration, development, production and sales of crude oil and natural gas and other petroleum products	1	Sale and marketing of petroleum products outside the China (Singapore); Petroleum exploration, development and production in Indonesia (Bermuda 2, Malaysia 4, Isle of Man); Offshore petroleum exploration, development and production in Australia (Singapore); Petroleum exploration, development and production in Africa (Nigeria)	p.82-83

Group	A	B	Main business	C	D	Source
	China Oilfield Services Ltd	China/HK	Provide oilfield services, including drilling services, well services, marine support and transportation services, and geophysical services offshore China	1	Sale of logging equipment (USA); Provision of drilling services in Indonesia (Malaysia); Provision of drilling services in Australia (Australia); Provision of drilling services (Norway); Management of jack-up drilling rigs (Singapore, Malaysia)	p.247-248
China Merchants	China Merchants Energy Shipping Co., Ltd.	China/China	Energy investment; sales of marine equipment, ship spare parts, electronic communication equipment, other machinery and equipment; ship leasing		Maritime oil transport (Liberia 26); Investment in oil tankers (Liberia 2); Tanker management (Liberia, HK); Bulk shipping (Liberia 15, HK 10)	p.89-92
	China Merchants Bank Co., Ltd	PRC/HK	Provide a broad range of corporate and retail banking products, services and conduct treasury operations.	1	Investment advisory Services, Banking (HK 2)	p.177
	China Merchants Holdings (International) Co. Ltd	HK/HK	Ports operation, manufacturing of paint and container, toll road operation, property development and investment, and dealing in securities.	22(10)	Provision of container terminal services and port transportation, and Sales of paint products and Property holding (HK 2)	p.142-145
COSCO	COSCO Shipping Co., Ltd.	China/China	Ocean transport and coastal transport	2	Ocean shipping (HK)	p.108
	China COSCO Holdings Co. Ltd*	PRC/HK	Provide container shipping, dry bulk cargo shipping, logistics, terminals and container leasing businesses.	18	Shipping agency, Vessel owning and chartering, Marine services (HK 92); Shipping agency and freight forwarding (Singapore); Vessel owning and chartering (Panama 97, Liberia 5, CI 16, BVI 2, Australia); Marine services (Japan); Shipping agency (Korea, USA 2, Brazil); Shipping agency, Vessel chartering, Logistics (Germany 3)	p.303-315
	COSCO Pacific Ltd.	Bermuda/HK	Managing and operating container terminals, container leasing, management and sale, logistics, container manufacturing and their related businesses.	14(3)	Container handling, storage and stevedoring, Property investment, Transportation of containers (HK 3); Financing, provision of treasury services, Property holding (BVI 3); Sale of containers and administration of marine shipping container activities (Macau); Container leasing (Bermuda 2, Panama); Container leasing, Information technology development and software maintenance, Leasing of generator sets, and Sale of old containers (USA 7); Provision of container management services (HK, Australia, Germany, Italy, Japan, UK, Macau)	p.189-195
China Mobile	COSCO International Holdings Ltd	Bermuda/HK	Shipping services, general trading and property investment	8(5)	Provision of insurance brokerages and related services, provision of agency services on ship trading business, trading of marine equipment and spare parts (HK 5); Trading of marine fuel and other related products (Singapore)	p.189-191
	China Mobile Ltd.	HK/HK, USA	Provision of mobile communications and related services in the China	39(38)	Provision of mobile telecommunications and related services (HK)	p.113-118
CSCEC	CSCEC	China/China	Public and civil housing construction, installation, and consulting; infrastructure projects investment and construction; domestic and foreign real estate investment and development	14	Real estate investment and development; Construction and installation (HK 2)	

Group	A	B	Main business	C	D	Source
	China Overseas Land & Investment Ltd	HK/HK	Property development and investment, infrastructure project investments, generation and supply of heat and electricity, real estate agency and management, and treasury operations	100(20)	Property investment (HK 4); Real estate management (HK 3); Issuance of guaranteed notes (C1); Provision of security services (HK); Property development (Macau 2, HK 9); Property trading (HK 2); Provision of building cleaning, maintenance and security services (HK)	p.202-209
	China State Construction International Holdings Ltd	C/HK	Construction activities, generation and supply of heat and electricity, provision of connection services, infrastructure project investment.	7(4)	Insurance business and brokerage services (HK 2); Building construction, engineering works and project management (HK 7, UK); Lease of plant and machinery (HK 2); Mechanical and electrical engineering works; Foundation engineering works (Macau 3); Building construction and road construction (UAE)	p.152-155
Chalco	Aluminum Corporation of China Ltd	China/China, HK, USA	Production and sales of alumina, primary aluminum and aluminum fabricated products and related research activities	17	Overseas investments and alumina import and export activities (HK)	p.173-181
Sinochem	Sinochem International Corporation	China/China	Chemicals trading and relevant services	16(5)	Cargo and oil transportation (UAE); Production of agricultural chemicals (India, Philippines), trading and rubber processing (Malaysia 2)	p.76-77
	Sinofert Holdings Ltd	Bermuda/HK	Production, import and export, distribution and retail of fertilizer raw materials and finished products, and technical research and development and services relating to the fertilizer business and products.	11(1)	Fertilizer trading (HK, Macau)	p.169-171
COFCO	China Agri-Industries Holdings Ltd	HK/HK	43(25)		Trading of soybean (HK)	p.186-191
Legend	Lenovo Group Ltd	HK/HK, USA	Provision of advanced information technology products and services	14	Distribution of IT products (HK 4, Australia, Belgium, Canada, Denmark, Germany, France, Netherlands 2, Israel, Italy, Japan, Korea, Mexico, Switzerland, South Africa, Spain, Sweden, UK, Malaysia, Brazil, Thailand, USA, Venezuela, Russia); Manufacturing and distribution of IT products (India); Trading of mobile handsets' components (HK); Procurement agency, group treasury, supply chain management, intellectual property rights management and distribution of IT products (Singapore)	p.147-149
	Digital China Holdings Ltd	Bermuda/HK	Sale and distribution of general information technology products and systems products, and provision of information technology services	26(17)	Distribution of IT products (HK 4, Macau); Holding of trademarks (BVI)	p.128-133
China Unicom	China Unicom (Hong Kong) Ltd	HK/China, HK, USA	Provision of cellular and wireline services in China	14	Telecommunications service (HK 2, USA, UK, Japan)	p.162-166

Group	A	B	Main business	C	D	Source
China Minmetals	Minmetals Resources	HK/HK	Trading of non-ferrous metals and manufacturing and distribution of aluminium and copper products	4(2)	Purchase and supply of alumina (CI); Non-ferrous metals trading (HK 2)	p.109
	Minmetals Land	Bermuda/HK	Real estate development and project management, specialised construction, property investment, securities investment and trading	5(3)	Property investment (HK 9); Design and installation of curtain walls (HK); Provision of management service (HK); Securities Investment (BVI); Provision of financing for group companies (BVI); Property management (HK)	p.87
	Guangdong Investment Ltd	HK/HK	Investment holdings, property holdings and investment, investing in infrastructure and energy projects, water supply, hotel ownership and operations, hotel management and department stores operation	9(1)	Property investment (BVI 2); Hotel ownership, operations and management (HK 4)	p.111-112
GDH	Guangnan (Holdings) Ltd	HK/HK	Distribution of live and fresh foodstuffs, foodstuffs trading, manufacturing and trading of tinplate and property leasing	2(2)	Distribution and sales of foodstuffs; Distribution of live pigs; Trading of raw materials for production of tinplate products (HK 3)	p.126
	Kingway Brewery Holdings Ltd	Bermuda/HK	Production, distribution and sale of beer	9(9)	Brewery sales and marketing (HK)	p.74
	Guangdong Tannery	HK/HK	Processing and sale of semi-finished and finished leather	4(3)	Property investment (HK)	p.70
Airchina	Air China Ltd	China/China, HK	Providing air passenger, air cargo and airline-related services in China	7	Provision of air ticketing services (HK); Airline operator (Macau)	p.113
	China Shipping Development Company Limited	China/China, HK	Investment holding, the shipment of oil and cargoes along the China coast and international shipment	3	Water transport (HK 2)	p.89
China Shipping	China Shipping Haisheng CO.,LTD.	China/China	International shipping freight	6	Maritime transport, ship leasing (HK, Marshall 4)	p.64-65
	China Shipping Container Lines Co. Ltd	China/China, HK	Owning, chartering and operating container vessels for the provision of international and domestic container marine transportation services and operating container terminal	53	International container shipping and liner services; Cargo and liner agency; Provision of shipping services (HK 4); International container shipping and liner services (Panama 5); Sales, purchase and lease of vessels and containers; Owning of vessel (BVI 5); Owning of vessel (Marshall Island, Cyprus)	p.163-169
	China CITIC Bank Corporation Ltd	China/HK	Provision of corporate and personal banking services, conducting treasury business and corresponding banking businesses, and the provision of asset management, entrusted lending and custodian services	1	Commercial banking and other financial services, lending services, commercial banking, consumer lending (4)	p.169

Group	A	B	Main business	C	D	Source
	CITIC Pacific Ltd	HK/HK	Power generation, aviation, civil infrastructure and communications, manufacturing of special steel, property investment and development, and distribution of motor vehicles and consumer products	50	Mining extraction and processing of magnetite, gas procurement and trading, pastoral lease management (Australia 4); Build and own transhipment vessels and related facilities and equipment for iron ore product (Singapore); Property investment and management (HK 16); Tunnel operation (HK); Financing (BVI 2); Engineering services (HK)	p.190-198
	CITIC Resources Holdings Ltd	Bermuda/HK	Production and sale of aluminium smelter, coal, manganese, crude oil, import and export of commodities	14	Financing (BVI, Australia); Provision of management services (HK); Aluminium smelting, exploration, development and mining of coal and nickel mines (Australia 12); Import and export of commodities and manufactured goods (Australia); Import of tyres, alloy wheels, batteries (Australia 2); Exploitation of manganese mines and selection of minerals (Gabon); Exploration, development and operation of oilfields (HK)	p.107-113
	CITIC 1616 Holdings Ltd	HK/HK	Provides international voice, video call, short message hubbing services, mobile international roaming VAS, VPN services and data centre service to overseas and Hong Kong enterprises	1	Provision of leasing services (BVI, HK); Provision of financial and operational support, systems integration services, telecommunications services (HK 10); Provision of telecommunications services (UK, Singapore 4, Japan 3, Canada, USA); Property investment, Equipment holding (HK 2)	p.90-92
	CITIC 21CN Co. Ltd	Bermuda/HK	Provision of telecommunication and information value-added services, Product Identification, Authentication and Tracking System, system integration and software development	2	System integration and software development (HK)	p.72
	Asia Satellite Telecommunications Holdings Ltd	Bermuda/HK	Operation, maintenance and provision of satellite telecommunication systems for broadcasting and telecommunications, provision of broadband access services, provision of Direct-to-Home satellite television service		Provision of satellite transponder capacity worldwide, provision of broadband access services (HK 2)	p.93
China Poly	Poly HK INV	HK/HK	Property development business, property investment and management, hotel and restaurant operations, manufacturing and sales of digital discs and others; and trading of securities and loan financing services	69(4)	Property investment (HK 8, BVI); Financial services, Management services (HK 2); Securities investment (BVI 3)	p.164-168
Huaneng	Huaneng Power International, Inc.	China/China	Construction, operation and management of power plants, heat production and supply	25	Power and electricity generation, development, management, sales, and supply (Singapore 8)	p.70-74
Yanzhou Coal	Yanzhou Coal Mining Co. Ltd	China/HK	Underground mining, preparation and sales of coal, provision of railway transportation services, production and sales of methanol and electricity and related heat supply services	9	Coal mining business; Management of coal operations; Coal exploration and sales (Australia 15)	p.188-189

Group	A	B	Main business	C	D	Source
Guangzhou Yuexiu	Yuexiu Property Co. Ltd	HK/HK	Development, operation and management of toll highways and bridges, development, selling and management of properties, holding of investment properties	61	Property investment and development (HK 22; Macau 3); financial services (BVI); Asset management (HK 2); agent services (HK 3)	p.151-158
SINOTRANS	Sinotrans Ltd	China/HK	Freight forwarding, express services, shipping agency services, storage and terminal services, marine transportation and trucking services	17	Investment activities and Freight forwarding, shipping agency (HK 2)	p.127-128
	Sinotrans Shipping Ltd	HK/HK	Dry bulk vessel time chartering, container vessel time chartering, crude oil shipping services, technical management of vessels and other shipping related businesses		Owning and chartering of vessel (HK 31, Panama 8, Bermuda); Provision for agency services for shipping forwarding and air cargo (Singapore, Canada); Provision of ship management services (HK); Ship building and trading of vessels (BVI)	p.89-92
MCC	MCC	China/China, HK	Engineering and construction, resources development, equipment manufacturing and property development	56	Resource development/overseas (BVI, Australia, Argentina); Nico mineral mining and smelting/overseas (Papua New Guinea)	p.225-230
CCCC	China Communications Construction Co. Ltd	China/HK	Engage in the infrastructure construction, infrastructure design, dredging and port machinery manufacturing businesses	33	Trading of machinery (Japan)	p.177-179
ZTE	ZTE	China/China, HK	Design, development, production, distribution and installation of a broad range of advanced telecommunications equipment, including carriers' networks, handsets, and telecommunications software systems and services	13	Information technology (HK); telecommunications and related equipment manufacturing (India)	p.162
CNGC	AKM Industrial Co. Ltd	HK/HK	Manufacture and sale of flexible printed circuits and provision of sourcing and sale of electrical components for surface mount technology	4(1)	Trading of raw materials, procurement of flexible printed circuit boards, and sales of electronic components (HK)	p.69
Shougang	Shougang Concord International Enterprises Co. Ltd	HK/HK	Manufacture and sale of steel products, vessel chartering and the leasing of floating cranes, trading of steel products; and management services business	6	Trading of steel products and iron ore (BVI); Provision of warehousing services (HK); Chartering of vessels (UK, BVI); Provision of management services (HK 2)	p.178-183
	Shougang Concord Century Holdings Ltd	HK/HK	Manufacturing of steel cords; and processing and trading of copper and brass products	3(3)	Trading of metals (HK); Processing and trading of copper and brass products (HK); Property investment (HK 3)	p.161
	Shougang Concord Technology Holdings Ltd.	HK/HK	Manufacture and sales of DTV equipments and provision of technical services, telephone accessories, powercords, adaptors, printed circuit boards, high precision metal components, photomasks, intelligent information business and others	4(1)	Manufacture of telephone accessories, power cords and adaptors (Samoa); Property investment (Samoa, BVI, HK); Provision of management services (HK 2); Marketing of high precision metal parts (HK)	p.150-152

Group	A	B	Main business	C	D	Source
	Shougang Concord Grand (Group) Ltd	Bermuda/HK	Property leasing and building management services, digital content distribution and exhibitions, CG creation and films and television programme production, CG training courses and finance leasing	17(3)	Deployment of digital cinema equipment (HK); Provision of CG animation creation and production services (Samoa); Provision of computing solutions for digital content distribution and exhibitions (BVI, HK, Singapore); Provision of computing solutions for digital content distribution and exhibitions (USA); Provision of administrative and management services (HK 2); Property investment (HK 4)	p.155-161
Changsha Zoomlion	Changsha Zoomlion	China/China	Development, production, sales of construction machinery	26(2)	Production and sales of drillers (UK); trading (UAE, HK, Russia, Australia); manufacturing (Italy)	p.76-82
CNMC	NFC	China/China	Aluminium, zinc-based non-ferrous metal resources development, foreign non-ferrous metals consulting, investigation and design	16	Non-ferrous metal resources development (BVI); Mining, processing, import and export business (Mongolia); Network, communication technology development and sales (USA); Cargo freight (Mongolia); Bauxite exploration (Laos)	p.106-107
SAIC	SAIC Motor Corporation Limited	China/China	Production and sales of cars, motorcycles, tractors and other motor vehicles assembly and components	38	Automotive R&D (UK 2); trading, investment, technology and services, training and consulting of vehicles and key components (HK); Production and sales of small passenger cars, station wagons and related components (UK 2)	p.85-88
	Great Wall Technology Co. Ltd	China/HK	Development, manufacture and sale of computer and related products including hardware and software products	14	Trading HDD (CI, HK); Designs, manufacture and selling computer monitors and flat TV (Bermuda, HK, Brazil 2, Germany, Taiwan 2, USA, Poland 2, Netherlands 2); Provision of after-sales services (Netherlands)	p.155-159
	Chinasoft International Ltd	CI/HK	Provision of solutions, IT outsourcing, IT consulting and training services, and sale of standalone software and hardware products in the China	29	Provision of IT outsourcing services (Japan 2, USA 2, HK)	p.52-57
China Electronics	China Electronics Corporation Holdings Co. Ltd	Bermuda/HK	Design, research and development and sales of integrated circuits	3	Sale of mobile handsets (Russia, Turkey)	p.93-94
	TPV Technology Ltd	Bermuda/HK	Manufacture, design, and sale of a wide range of computer monitors and flat TV products	9(9)	Trading of computer monitors and flat TVs (HK; Brazil 2, Germany, USA, Poland 2, Netherlands 2); Research and development, trading of computer monitors and flat TVs and sourcing of certain components (Taiwan 2); Provision of after-sales services (Netherlands)	p.85-86
	Solomon Systech (International) Ltd	CI/HK	Design, development and sales of proprietary IC products and system solutions that enable a wide range of display applications for mobile phones, portable devices, LCD TVs, consumer electronic products, industrial appliances and lighting	3	Design, development, distribution of integrated circuits and system solutions (HK 2, Singapore); market research (USA, Japan, Taiwan)	p.86-87
China Telecom	China Telecom	China/HK, USA	Provision of wireline and mobile telecommunications services including wireline voice, mobile voice, Internet, managed data and leased line, value-added services, integrated information application services and other related services	3	Provision of international value-added network services (HK, Singapore); Provision of telecommunication services (USA, Macau)	p.131

Group	A	B	Main business	C	D	Source
	China Communications Services Corporation Ltd*	China/HK	Provide telecommunications infrastructure services, business process outsourcing services and applications, content and other services	21	Provision of integrated telecommunications support services (HK)	p.135-137
CIMC	CIMC	China/China	Manufacturing containers and relevant equipment	84(37)	Vehicle sales (Australia); tank equipment manufacture and sales (Netherlands 4, Belgium, Denmark); transport vehicles manufacture and sales (Netherlands 3, Belgium); trailers production (Belgium); special technology provision (Germany); production and operation of various special vehicles (Thailand, USA); purchase and sale of wood (Surinam)	p.118-138
	China Engine International (Holdings) Ltd	CI/HK	Manufacture & sale of wind energy related products, sale of electricity, manufacture & distribution of elevator motors, trading of chemical materials, develop & manufacture of communication products, ITS, broadband, equipment & accessories	10(5)	Distribution of broadband business, distribution of its business, distribution of telecommunication products (HK 4)	p.143-145
Spacechina	China Aerospace International Holdings Ltd	HK/HK	Manufacturing and distribution of plastic products, liquid crystal display, printed circuit boards, intelligent chargers and other products; property investment and trading of electronic products	11(5)	Provision of treasury services, distribution of LCD modules, distribution of liquid crystal displays, distribution of plastic and metal products and moulds, manufacturing and selling of printed circuit boards, distribution of intelligent battery chargers and electronic components, distribution of packaging materials (HK 7); Property investment (HK, Canada)	p.96-97
	APT Satellite Holdings Ltd	Bermuda/HK	Maintenance, operation, provision of satellite transponder capacity and satellite-based telecommunication services and other related services	1(1)	Provision of satellite transponder capacity (HK, CI 2); Provision of satellite television uplink and downlink services, satellite leasing, provision of telecommunication services, property holding (HK-4); management & project management consultancy (UAE)	p.92-93
CRCC	CRCC	China/China, HK	Construction, survey, design and consultancy, manufacturing operations, real estate development and the provision of logistics services, and capital investment	30	Construction management (HK); Construction (Trinidad and Tobago)	p.145-147

Note: A. listed company; B. Place of incorporation/listing; C. Number of subsidiaries in China (registered as foreign-owned enterprises); D. overseas subsidiaries (roles, location, and number)
Source: 2009 financial reports

Appendix 2: cross-border M&As by top 50 business groups

Ultimate acquiring company	Target company	Value	Stake	Year
CNPC	Two oil sands projects owned by Athabasca Oil Sands Corp. (Canada)	\$2.88 billion	60%	2009
	Nippon Oil (Japan)	N.A.	49%	2009
	Singapore Petroleum Co. (Singapore)	\$1.02 billion	45.51%	2009
	JSC MangistauMunaiGas (MMG) (Kazakhstan) ¹	\$3.3 billion	49%	2009
	EnCana (Chad)	\$202.5 million	50%	2007
	PetroKazakhstan Inc. (Canada)	\$4.18 billion	100%	2005
Sinopec	Addax (Switzerland)	\$7.24 billion	100%	2009
	Canadian oil sands project of Total SA (France)	N.A.	10%	2009
	Puffin and Talbot oil ventures of AED Oil Ltd.(Australia)	\$561 million	60%	2008
	Tanganyika Oil Co. (Canada)	\$1.94 billion	16.2%	2008
	Udmurtneft (Russia)	\$3.5 billion	51%	2006
	First International Oil Company (FIOC) (USA)	\$153 million	N.A.	2004
CNOOC	An oil block (Angola) ²	\$1.3 billion	20%	2009
	Awilco Offshore ASA (Norway)	\$2.5 billion	100%	2008
	Husky Energy (Canada)	\$125 million	50%	2008
	Oil and gas field (Nigeria)	\$2.3 billion	45%	2006
China Mobile	Paktel (Pakistan)	\$424.4 million	88.86%	2007
	China Resources Peoples Telephone Company Limited (Hong Kong)	\$436 million	90%	2005
Chalco	Rio Tinto Plc (UK)	\$14.05 billion	12%	2008
	Peru Copper Co. (Canada)	\$789.6 million	100%	2007
Sinochem	Emerald Energy Plc (UK)	\$879 million	100%	2009
	Soco Yemen Pty Ltd. (Australia)	\$465 million	100%	2008
	GMC Global Inc. (Singapore)	\$257.9 million	51%	2008
COFCO	Smithfield Foods Inc. (UK)	\$139 million	4.95%	2008
Legend	IBM PC group (US)	\$650 million	N.A.	2005
Yunnan Copper	Austar (Australia)	\$2.78 billion	100%	2009
	Southland Coal Mine (Australia)	\$230 million	N.A.	2005
China Minmetals	OZ Minerals Ltd. (Australia)	\$1.38 billion	100%	2009
	HPTec GmbH (Germany)	N.A.	100%	2008
	Northern Peru Copper (Canada) ⁴	\$ 408.1 million	95.92%	2007

Ultimate acquiring company	Target company	Value	Stake	Year
	OZMinerals (Australia)	\$1.7 billion	10%	2008
Hunan Valin	Fortescue Metals Group Ltd (FMG)	\$929 million	17.34%	2009
SinoSteel	Midwest Corp. Ltd. (Australia)	\$1.04 billion	98.52%	2008
	ZCE Mauritius, owned by Zimasco (Zimbabwe)	Over \$200 million	92%	2007
Huaneng	Tuas Power (Singapore)	\$3.04 billion	100%	2008
	Monto coal mine (Australia)	\$22.27 million	25.5%	2005
	OzGen (Australia)	\$227 million	50%	2003
Yanzhou Coal	Felix Resources Ltd. (Australia)	\$2.78 billion	100%	2009
	Southland Coal Mine (Australia)	\$230 million	100%	2004
MCC	Mining Assets (Cape Lambert Iron Ore Project) (Australia)	\$369.7 million	N.A.	2008
Chemchina	Silicones Unit of Rhodia (France)	N.A.	100%	2006
	Adisseo Group (France)	\$3 billion	100%	2006
	Qenos (Australia)	\$170 million	100%	2005
	Drakkar Holding S.A. (France)	\$473 million	100%	2005
Shougang	Mount Gibson Iron Limited (Australia)	\$45 million	12.03%	2008
Baosteel	Aquila Resources Limited (Australia)	\$250 million	15%	2009
Changsha Zoomlion	Compagnia Italiana Forme Acciaio SpA (CIFA) (Italy)	\$253 million	60%	2008
CNMC	Chaarat Gold Holdings Ltd (UK)	\$9 million	19.9%	2009
	Terramin Australia Ltd. (Australia)	\$7.03 million	11.15%	2009
	Luanshya Copper Mine (Zambia)	\$50 million	80%	2009
Shanghai Automotive	Ssangyong (South Korea)	\$500 million	N.A.	2004
CIMC	TGE S.A. (Germany)	\$28.8 million	60%	2008
	Enric Energy Equipment Holdings Limited (HK)	\$144 million	42.18%	2007
	Burg Industries B.V. (the Netherlands)	\$63.3 million	80%	2007
	HPA Monon Corporation (USA)	\$4.22 million	100%	2003
Jiangsu Shagang	Australian Bulk Minerals (ABM) (Australia)	\$108.0 million	90%	2007
Chinagold	Jinshan Gold Mines Inc. (Canada)	\$218 million	42%	2008
Jinchuan	Tiomin Kenya Ltd (Kenya)	N.A.	70%	2009
	Munali Nickel Ore (Zambia)	N.A.	70%	2009
	Fox Resources (Australia)	\$15.7 million	11%	2008
	Tyler Resources (Canada)	\$213.4	100%	2008

Ultimate acquiring company	Target company	Value	Stake	Year
		million		

Notes: 1. CNPC and KazMunaiGas (the Kazakh state-owned company) form a 50-50 venture to undertake this purchase. 2. CNOOC and Sinopec form a 50-50 venture to undertake this purchase.