A STUDY OF CHINA'S OVERSEAS INVESTMENT

——Empirical analyses of enterprises' overseas M&A performance

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Introduction

China, relatively weak in technical force and relatively scarce in resources, is one of the most important developing countries in the world. In 2007, with the end of the transition period and entering into WTO , China's domestic markets are further open to the outside world, and its internationalization of markets also deepen. At the same time, China is faced with the fierce market competition from the multinational companies. After the global economic crisis of 2008, China's economic growth slowed down, which means that chinese enterprises need to make new economic reforms to improve competitiveness. It is worth chinese enterprises' considering whether to choose the domestic markets and accept the challenge or go actively out of the domestic markets to take the road of internationalization. It is also essential to innovate China's approaches to foreign investment and cooperation, and to encourage enterprises to participate in international operation of 'research and development, production, sales'. The finale goal is to build world famous brands and multinational companies for China.

At present, China's open economy has undergone a lot of changes in both internal and external environments. China's opening to the outside world has entered a new historical period. In this period ,researches and major supports from the Chinese government, enterprises and academic circles are urgently needed. The research on China's overseas investment, on one hand, is closely linked to the interests of micro body --- the enterprises, and is also related to the national interests, on the other hand. In my thesis, i will address the issue of China's overseas investment in relation to its economic development.

In the first part, i want to survey the concept and some relative international theories of overseas investment. In the second part, i will describe the status of China's financial system and the characteristics and advantages of Chinese overseas investment. In the third part, i will combine the empirical analysis of enterprises samples to study the performance of Chinese overseas acquisition. In the fourth part, i want to talk about a relatively successful case of China’s overseas investment. In the fifth part, i will make some reasonable recommendations for China’s overseas investment in future.

Chapter 1. The concept of overseas investment and the relevant theories

1.1 What is an overseas investment?

Overseas Investment is investment of assets and capitals into production or business of a country by the investors of home country, in order to have access to foreign management, ownership and other operations of relevant rights and interests. It can be better shown in the following aspects:

1. “Investors”. Investors involved in overseas investment can be roughly divided into two categories: the first category refers to all kinds of corporate entities in China, including all industrial and commercial enterprises, state-authorized investment institutions and departments, and public institutions, etc, managed and controlled by the mainland law. The second category refers to the subsidiaries and enterprises in foreign countries of the domestic companies. These overseas enterprises or institutions are not subject to the relevant laws in the mainland of China. Of course, when domestic enterprises invest abroad through the overseas institutions, they should strictly abide by the relevant enterprise investment law and policy, and get the approval formalities in accordance with the regulations. In my paper, since i lack the related data of those foreign countires, we mainly study about the investors of first category.

2. “Investment forms”.Overseas investment in assets takes quite broad forms, including monetary fund, financial assets such as stocks, bonds, and the trust certificate, all kinds of physical assets, intangible assets such as intellectual property rights and proprietary technology. After the initial investment, there is also reinvestment in all kinds of new projects, reconstruction projects, investment activities such as acquisition, merger, equity participation, capital increase and share

expansion, etc. In addition,the financing guarantee for overseas investment[1] is also a kind of investment.

3.“ Investment purposes”. It is obvious that overseas investment directly aims to obtain the ownership of foreign assets or business activities, management control and other relevant rights and interests. Overseas investment, at the same time, launches such corporate operations as research and development, production, marketing, management for further financing.

1.2 Reviews of international theories of overseas investment

1.2.1 Traditional theories of overseas investment

Western economists elaborate on the theories of multinational companies from different angles. Stephen H. Hymer (1960), recognized as “Father of Multinational Corporations Theory” proposed in his doctoral thesis direct investment theory centered on enterprise advantage for the first time, and initiated the research of foreign direct investment theory of multinational companies. This theory, developed by his mentor Kindlebe and other scholars, formed the well-known “Monopoly Advantage Theory” or the concept of “Firm-specific Advantages”. It believes that the peculiar advantages of monopoly or oligopoly of multinational companies are the necessary conditions for their transnational operations.

After Hymer, Raymond Vernon’s “Product Life Cycle (PLC)” model[2] (1966,1979) and K. Kojim’s “comparative advantage theory”[3] (1973,1982) were respectively distinctive, and respectively explained multinational companies’s foreign investment in both the United States and Japan. PLC model analyzes, from the angle of product (or industry) life cycle, the reasons of multinational business of American

[1] The banks like Bank of China (one of the five state-owned commercial banks) support the financing for overseas investment. At the request of parent companies in China, Bank of China issues guarantee in favor of the overseas financial institutions providing financing or credit lines to the local enterprises wholly or partly owned by the parent companies. It is the way to guarantee these overseas enterprises fulfill their obligations to repay the principal and interest of loans or the fund according to the credit line agreement.

[2] R.Vernon:International investment and International Trade in the Product Cycle,Quarterly Journal of Economics, may 1966.

[3] Kujima,K,Direct Foreign Investment: A Japanese Model of Multinational Business Operations,London,Coon Helm,1978.

enterprises. It believes that multinationalization is the result of the evolution of a particular stage of product (or industry) life cycle and divides the product life cycle into three stages: growth stage, mature stage and standardization stage. The model well explains American multinational companies' foreign direct investment behaviors from after the second world war to the 1970's. But it can not explain the new trend of transnational operations for the past twenty to thirty years, especially the reverse investment behaviors of the developing countries and the two-way investment behaviors between developing countries. In the model developed by K. Kojim, foreign direct investment(FDI) takes place if a country has comparative disadvantage in producing a product, while international trade is based on comparative advantage.The comparative advantage theory emphasizes the analysis of the macroeconomic factors, and it takes the state as the main investment body and ignores the real investment subjects — a number of "enterprises" with different investment motives.

Buckley and Casson put forward the "internalization theory" in 1976, and Canadian scholar Rugman(1981) further developed the theory. This theory was based on the "hypothesis of incompleteness of markets", which means when markets are incomplete, the enterprises have the power of internalization. Buckley and Casson believes that when companies use some type of external market for transaction, it takes certain cost. If the transaction is carried out between the internal markets, which means the buyer and seller are in the same administrative organization. It will reduce the motivation to cheat between them,and reduce transaction costs. But, as Mr. Craig(American economist) points out that the internalization theory does not explain the direction of FDI. Its theoretical framework can not be applied to short-term investment behavior analysis, especially not applicable to explain foreign investment activities of the smaller companies in one or two countries. In addition, the internalization theory can not account for the internalization direction.

John H. Dunning (1977, 1979, 1988) put forward the compromise theory of international production. His purpose is to synthesize the monopoly advantage theory and internalization theory to form a comprehensive and general theory of multinational companies. The theory established the OLI model[4], believing that enterprises' going into transnational operations must have the ownership advantages,

[4] OLI-Ownership, Location, Internalization.

internalization advantages and location advantages, none is dispensable. The compromise theory of International production is of high generality and strong practicability, but is also critisized. Itaki (1991) thinks it has four obvious faults. Casson (1986, 1987) also points out the repeatability of its definition of advantage. In addition, Dunning realized the variability of the advantages, but he had no in-depth study of statics of eclectic paradigm limiting the explanatory power of his theory.

The theory of multinational companies mentioned above takes multinational companies in developed countries as the research objects, forming the mainstream research of the multinational company theories. The company theories of developing countries began in the 1980's, among which Lois T. Wells' small-scale technology theory (1983), Sanjaya Lall's technical theory of adaptability (1983), and Paz E.Tolentino (1987) and John Cantwell (1990)'s theory of technological innovation and industrial upgrading are more influential. The theories believe that multinational companies in the developing countries are small in strength, not having the big company advantages of multinational companies in the developed countries. But they have their own advantages, such as flexibility, to undertake transnational operations. It is rational for these theories to interprete the motivations and behaviours of the foreign investment of enterprises in developing countries and regions, which is a powerful complement to the traditional theories of multinational companies.

1.2.2 New theories of multinationals

As Contractor & Lorange (1988) pointed out, the concept of transnational corporations may need to change. Penrose's Theory of Firm Growth (1959), based on economy, discusses the resource allocation of enterprises. Its views can be summarized as follows: the enterprise is a collection of resources. The expansion is compounded by two aspects: internal resources and external opportunities. In the valuable internal resources of enterprise production, Penrose especially emphasizes the administrative resources, and thinks the administrative resources limit and determine the direction and degree of the company's expansion. From Penrose until now, resources-based enterprise theories have become the current mainstream of theory, or called the Resource Based View, RBV. Under the dynamic international business environment, such traditional concepts as the ownership advantages, internalization advantages and location advantages can not fully explain the source of competitive advantages of the multinational companies. The latest research on multinational companies start from redefining the connotations of ownership advantages and location advantages. From these redefinitions, focus is on the latest research of resources, especially of knowledge resources.

In the era in which multinationals become the main carriers in the global economic integration, resources-based theories' explanations of multinational companies behaviors are of more guiding significance. It focuses more on "adjustment of the competitive strategies" among multinational companies around the world, such as competition for "external resources and emerging markets". Therefore, the study of multinational companies moves from "why" to "how", making the theory of multinational companies take a big step forward, and the research is more focused on management strategies, investment decisions, etc.

In a word, new theories of multinational companies form such a consensus: competitive advantages of multinational companies increasingly come from the resources owned and used, especially such strategic resources as knowledge. This kind of strategic resources are not only resources of home country and parent company, but also resources of subsidiaries scattered all over the world and of host country resources. Since the multinational companies have to constantly innovate, externally they can obtain new strategic resources. If this view can be recognized, then the following points will become important points of theory development.

(1) "International strategic alliance". According to "Strategic Gap" hypothesis, the profound changes of the international competitive environments make multinational company performance targets under tremendous pressure. So assessing their competitiveness and resources, multinational companies often found gaps between the "strategic performance targets" and the "goals that they rely on their own resources and capabilities to achieve". This Gap is known as Strategic Gap, objectively requiring them to take the road of strategic alliances. International Strategic League made by multinationals, also referred as contract arrangement, is a new form of competition. It is used when they wish to reach their anticipated targets of the world market and meet the needs of their respective business. Enterprises' Strategic League

can avoid high market transaction costs and can completely avoid higher organizational costs caused by internalization. So Strategic League is regarded as an innovative organization which can effectively use the dual advantages of organization and market.

(2) "Theory of new subsidiaries". Subsidiaries, play an important role in the formation and development of specialized assets or core assets of multinationals. Birkinshaw (1996) pointed out that subsidiaries formed their special capacity and resources advantages in the process of operation to promote their growth. This unique advantage does not directly come from the parent company at first, but from entrepreneurs' management resources of subsidiaries. Birkinshaw further pointed out that subsidiaries' capacities and resources advantages can be used globally, not limited to where subsidiaries are located. This unique resources advantages can develop into specialized resources advantages of multinationals. Then the unique resources advantages are widely used and promoted, being made to coordinate with original resources of multinationals, to create a new resources advantage.

(3) "Location and cluster". Geographically, any multinational companies ha their own location advantage. But the differences of the knowledge stock and abilities of different multinationals leads to their capacity in absorbing, obtaining, using and integrating knowledge resources and strategic assets. All of these capacities are important to form advantage source of multinationals' competitiveness. Kogut(1988) divides multinationals' advantages into initial and subsequent advantages. Initial advantage is the advantage established in home country, while subsequent advantage is the advantage created by international business of enterprises. Location advantage, as an advantage of international operation of multinationals, plays an important role. Attention to the new "industry cluster"[5] started from Michael Porter's article published in *Harvard Business Review* in 1998. Followed by deep study of the diamond model[6] into development of regional competitiveness, Porter put forward the function of improving the local productivity, breeding the enterprises' production, and facilitating the regional networks of the enterprise cluster. Industry cluster, places higher demands of management on the subsidiaries or other branches of

[5] An industry cluster represents the entire value chain of a broadly defined industry from suppliers to end products, including supporting services and specialized infrastructure. It was introduced and popularized by Michael Porter The Competitive Advantage of Nations (1990).
[6] The diamond model is an economic model developed by Michael Porter to explain his theory of why particular industries become competitive in particular locations.

multinationals. They increase the local embeddedness, the integration and the ability to transfer knowledge flow between the external and internal of the firm.

(4) “International entrepreneurship and innovation”. The term “International Entrepreseneurship” focus on new ventures in international market (Zahra, 2000). McDougall (1989), through empirical research, compared US startups with those in other countries, revealing the characters of international new ventures. Closely related to this is the question about the role of multinationals’ entrepreneurs. From the entrepreneurs’ perspective, how to analyse “motivations, strategies and entry mode” of multinationals becomes a new growing point. Alvarez & Barney (2000) argue that entrepreneurial abilities are the key of the international business. Entrepreneur abilities such as sensitive decisions, creativity, ingenuity and vision, etc., are in essence unique resources that can not imitated.

(5) “Global learning”. Global learning ability has become a competitive advantage of profit for multinational companies in a dynamic environment. This ability includes the perception of new trends, and creative response of diffusion of innovation in the global scope (Bartlett & Ghoshal, 1991). Only those companies that continue to create new knowledge, spread new knowledge throughout the organization, and rapidly develop new products can be successful (Nonaka, 1991). Both the ability of the enterprise and enterprises’ ability to produce knowledge are important resources (Spender, 1996). Understanding the big differences in geography and cultures between the subsidiaries, multinationals are able to create Country-specific Knowledge. The accumulated enterprise-related knowledge is based on the local markets, management practice and operating environment. It contributes to enterprises’ improvement of local commitment[7] and reduction of uncertainty, and increase of enterprise economic efficiency. Country-specific knowledge has become a source of intangible assets and monopoly of multinationals.

By synthesizing the above points, it is found that the development of many contributors of new theories is very clear: “resources and capability” become the common starting point of new theories. Resources and capacity that enterprises have

[7] Enterprises compete in global markets, they have their social responsibility for the local government or people. They adopt the policy to take on responsibility for the environmental impact of business decisions and promote local economic development and make commitment , such as “ improve local occupation , help to make infrastructure construction...”. In this way, the enterprises get local government’s policy support like tax relief. It is important for enterprises’ long-term development.

are the distinctive force of international expansion of enterprises, and internationalization of enterprises is also a way of accessing external resources to improve their capacities. So “enterprise-specific knowledge” becomes the core resources. Overseas subsidiaries are becoming important learners of knowledge and contributors in the knowledge network system of multinationals. Due to their unique advantages in resources and capacities of the “overseas target enterprises or partners”, multinational companies carry out cross-border M. & A. and strategic alliances. Thees partners can help multinational companies to develop new kind of resources on the basis of the original resources advantage.

The traditional theories about the concepts of ownership advantages, internalization advantages and location advantages do not fully grasp the nature of the current global operations of multinational companies. The role of traditional strength is vanishing, although the multinational companies today are very strong. They win by relying on the advantage of their resources combination capacity in “strategy and organization”, instead of mainly relying on “advantage of scale”. As a supplement to the mainstream theory of multinational companies, new theories also put forward a lot of new advantages different from the traditional concept of advantage. They proved the “static and the limitations” of the traditional theories explaining many multinational phenomenons that many traditional theories can not explain from different angles. And more importantly, they provide important thoughts for us to analyse today’s management behaviors of multinationals as well as the development trend of the theories.

1.3 Advantages of overseas investment

(1) “Assets with long-term value gained from overseas investment”. Many new developed countries make cross-border mergers and acquisitions to obtain “intangible assets” and the “tangible assets related” with high value, such as famous brands, technology and human resources. These countries want to take the initiative to shorten the time of the innovation and create their own core competitiveness. It is still

confusing if they can get assets with long-term value during the rising periods and duration of “asset life cycle”, which needs evidence to prove. Generally speaking, most important pre-production technology, mainstream products and premium brands are not for sale. Especially they are not to be sold to those enterprises likely to become their competitors in the future. Most sold are not particularly important technologies. But there are also “mainstream and core technologies” are forced to sell whey the companies are in great difficulty.

(2)“ Assets through overseas investment can be internalized into its own assets”. Tangible and intangible assets got from transnational merger and acquisition, to a certain extent, can bring benefits to the firm buyers. But the late-risen countries carry out overseas mergers and acquisitions mostly with the aim to internalize overseas assets into their own advantages, and make mutual integration. If both can’t be effectively fused, it will only produce short-term interest,the advantageous assets of cross-border M & A will be of little value.

A brand, even if it is bought, it is not easy to translate it into one’s own thing for one’s own purpose. Famous brands with huge influence are always nourished and innovated locally. So there is a saying: the more national, the more global. Take the Ford Motor Company as an example, its strength is so strong that it purchased Volvo, but it can not completely make it part of American culture. The fact that Volvo is the symbol of Sweden is still unable to change. In addition, technology and knowledge are special assets. Their super “selectiveness” and “path dependence” make themselves not be fused into another culture by overseas M & A, Of course, unless the enterprise is willing to totally abandon the original technical routes.

(3)“The result of overseas investment is to internationalize ‘the matrix’[8] rather than localize the object[9]”. Late-risen powers, obtaining a lot of advantageous assets through cross-border , wish to create their own competitiveness, compete against other big multinational companies to extend to the international market. So, the

[8] With the “matrix”, we intend the parent companies that invest overseas.
[9] The objects of foreign countries.

success of this kind of M & A mainly lies in observing whether it can improve international influence and competitiveness, whether huge profits are made.

As mentioned above, assets obtained by overseas mergers and acquisitions may be out-dated or unsuitable for native culture, and they may be depreciated and not closely self-integrated. However, late-risen powers can take advantage of its broad domestic market. Even if the above-mentioned things occur, they can still make fairly good profit. According to the general successful benchmarking of transnational M & A, such mergers and acquisitions are a success. The transnational investment experience that many developing countries have also support this view. These views show that every investment behavior is meaningful. However, from the overall point of this paper, this kind of situation is surfacially consistent with the logic of general enterprises' overseas investment, but conflicts with the logic of overseas investment of late-risen countries. The reason is that it can not increase "international influence and competitiveness" of late-risen countries, and develop their own famous brands. Only when assets obtained by overseas M & A can dissolve into "the matrix", thus promoting the fundamental development of enterprises and the progress of the international competitiveness, is successful overseas merger and acquisition.

1.4 The disadvantages of overseas investment

(1) "Political risks". Political risks refer to political changes of the host country, leading to the change of the environment, and thus resulting in possible losses of foreign investors' activities. Political risks, in general, result mainly from wars, protectionist policies and nationalization of host country. They may directly affects a country's economic development, exerts great impacts on sales, profits and development of enterprises. There is also the possibility that the laws of the host countries lack of protection for foreign investors.

(2)" Business risks". Business risks refer to the possibility that investors can not acquire normal revenues due to the errors of the overseas enterprises' decision-making. There are great differences in customs, language and communication. The management personnel of the overseas enterprises even use wrong information in their decision making process, bringing business losses. In addition, in direct overseas investment, most enterprises of developing countries have difficulty in financing. Hard marketing networks and poor sales channels are easy to bring enterprises into despair. This would increase the bankruptcy cost of enterprises, thus reducing business revenues.

(3) "Economic risks". Every country has its economic cycle. If the projects that multinational corporations select are extremely sensitive to the change of the economic cycle, the net cash flow will fluctuate along with the change of the economic situations. So multinational enterprises are faced with increasing risks. Among the economic risks a multinational enterprise faces, there is the exchange rate risk. The change of exchange rates often lead to the uncertainty of asset values of foreign investors' subsidiaries in the host country. Especially the Bretton Woods System[10] collapsed after 1973, fluctuations of exchange rate are frequent, so foreign investors are faced with more exchange rate risks.

[10] At the end of World War II in 1945, Europe and the rest of the world went though a period of reconstruction. In order to recover from the devastation by the war, an agreement signed by the original United Nations members in 1944 that established the International Monetary Fund (IMF) and the post-World War II international monetary system of fixed exchange rates. The U.S dollaras became an international reserve currency that was linked to the price of gold.

Chapter 2. China's overseas investment

2.1 China's financial system

Nowadays, China's financial system has begun to take shape. The financial framework of the banking sector, especially commercial banks, are mostly state-owned. Until the end of 2012, the ratio of banking accounts in the total assets of financial institutions is 83.16% , and the ratio for insurance, securities, leasing trust and others is too small. What's more, the ratio of loans of domestic banks, is larger comparing with developed countries. In 2012, the loan ratio of assets in the national financial institutions accounted for about 73%. Such assets structure led to fast development of the national banking industry, especially the related "investment and financing", "risk management", and a series of services supporting measures. Capital allocation efficiency is not high, unable to meet the requirements of social financial needs, causing comparatively weaker international competitiveness. The unreasonable capital allocation caused irrational manipulation of banks, which is not conducive to the healthy development of non-banking financial institutions. It is a hindrance to those gradually modern financial markets in particular. Weak risk management and supporting service facilities, to a large extent, prompt the expansion of potential crisis of the financial system in China. So it is quite necessary to transform the financial system fundamentally centred on banks.

(1)"Banking system". China's current banking system is mainly composed of four major state-owned commercial banks[11], policy banks[12] and some joint-stock banks. Nowadays there is a common phenomenon existing in all of China's banks — short-term deposit and long-term loan. It is this phenomenon that brings the risk of serious unmatched deposit and loan to the bank. And those large state-owned commercial banks are still left with a lot of policy loans due to the historical issues in the process of development, which makes them always maintain a high non-performing loan ratio. Commercial banks also need to face risks of interest rates.

[11] The 4 major state-owned commercial banks:Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank.

[12] Function of policy banks:Providing long-term financing support for key projects promoted by government.

According to theories of “interest rate gap”[13] , “short-term deposit and long-term loan” lead to the mismatch of “fixed rate liabilities” and “fixed rate assets” of commercial banks. Finally, commercial banks may also face hidden credit risks. Excessive medium and long term loans will be a huge credit risk to banks when macro economic environment change in the future. For example, the medium and long term loans are granted to the field of fixed assets and infrastructures, which results in over-development of some industries, and bank loans will face a huge risk when excess capacity in these industries appear.

(2) “Stock market”. China’s stock markets has been adapting to the economic development of the country. The market scale is unceasingly expanding, the number of listed companies is growing, and institutional construction gradually is improving. However, in 2007, because the reform of equity division[14], Chinese stock market entered into the dormant period, and the development was hindered. The influence of the global financial crisis kept China’s stock market being at the stage of fluctuation and adjustments for more than a year. The orientational functions of China’s stock market are not in proper place, stock market and macroeconomy are not properly related, investment ability is weak, and there is the phenomenon of excessive speculation. In short, the stock market still in seriously lack of systems, the management is confusing, and the phenomenon that stock market tries to illegally get money emerges endlessly.

(3)” Futures market”. In recent years, China’s futures market has gradually developed. The scale is not big, but the perpective is still optimistic. China’s futures market has begun to play the role of hedging and price discovery[15]. With the development of the futures market, the related risks will gradually appear. Compared with overseas futures markets there is still a big gap in China: the varieties are too few, and the sizes are too small. The current varieties of futures are mainly commodity futures, and financial futures have not yet been developed. It is known that the financial futures are an integral part of the futures market in America, accounting for 75% of its

[13] The difference between fixed rate liabilities and fixed rate assets. It is a measurement of exposure to interest rate risk used by financial institutions and investors.

[14] The so-called “equity division” here means in A-share market, shares of listed company are divided into tradable and non-tradable shares. Shares held by shareholders released to the public and can be traded on the stock exchange, known as tradable shares; On the contrary, they are known as non-tradable shares. This situation that listed company divides its shares into tradable and non-tradable shares in mainland China's securities market is unique.

[15] Schroeder (1997) noted that “Price Discovery” is the process in which buyers and sellers make a deal on the price of a commodity at a given time and place according to the quality and quantity of transaction.

volume. So we should see the gap between futures market in China and the international ones.

(4)”Bond markets”. Today, China’s bond market has maintained a healthy development momentum. Market dealings are active, trading volumes have significantly increased. The market products are innovated, the issuing scale of bonds has been expanding. In the primary market, bonds varieties are more abundant, and the term structure of rate trends to be reasonable . Bond issuers are further diversified, and bond credit level are gradually increasing. The bond issuers have been expanding from the Treasury, The people's bank of China[16], policy banks to commercial banks, non-banking financial institutions, international development institutions and enterprises. Non-governmental credit bonds varieties such as RMB bonds of international development institutions[17], asset-backed securities[18], short-term financing bonds, etc. are produced in succession. Obviously a number of new bond markets are emerging. In the secondary market, the bonds in general continue to rise, and trading volumes are increasing.

(5) “Insurance markets”. China’s insurance industry has made rapid development under the leadership of the Chinese central committee and Council. The premium, with a 15% increase per year, will be one trillion yuan (RMB) this year. There are still many problems. First, the whole insurance services are not wide enough, life insurance and property insurance account for most of them. Other species such as social security, commercial insurance have not been well developed. Second, the competitiveness of the insurance industry also needs to be further improved. Third, the insurance innovation is not enough. Consumers should have more choices of products and better services. Fourth, China’s reinsurance industry development is relatively lagging behind. Reinsurance in China’s huge amount of premium is small, and there is a great difference from the developed countries in the world. Reinsurance’s role is important in directly spreading the risks of insurance company, optimizing resources configuration. And it can correctly establish insurance pricing and better assessing risks, so as to provide support for major accident compensation of the insurance company.

16 The people's bank of china is China’s central bank.
17 The RMB-denominated bonds lawfully issued by international development agencies in China. It is based on an agreed debt service within a certain period.
18 Asset-backed security is a security whose income payments is derived from and collateralized (or "backed") by a specified pool of underlying assets(usually real estate).

(6) “Foreign currency markets”. According to the state provisions, financial institutions are not allowed to carry on transactions between RMB and foreign currencies outside the Chinese market. China’s foreign exchange management system has been reformed in 1994 establishing a unified national inter-bank foreign exchange market, which completely changed the previous market segmentation. It laid the foundation of market supply and demand, a single and managed floating exchange rate system. On the basis of the swap[19] market, it develops the trade modes of “respective quotation of diffrent counterparties, brokered transactions, and central clearing”. Years of practice fully proves that the existing inter-bank foreign exchange market plays an important role in serving financial institutions, maintaining the stability of the RMB exchange rates, supporting economic growth and the reform and opening up. Seen from the operation of China’s foreign exchange market, its basic framework is reasonably designed, but some disadvantages still exist in the process of trading. Hindering choices freedom of traders, not guaranteeing the continuity of the deal, narrow market coverage, high cost of trading organization structure, and the central bank’s intervening much in the foreign exchange market which unbalances foreign exchange supply and demand.

2.2 Advantages of China’s overseas investment

1. “Brand advantages”. Many domestic enterprises with well-known brands have now set foot on the international stage, and the performance is brilliant. “Haier Group” is a typical example. According to the relevant data, the number of 280,000 refrigerators is the “break even point(BEP)[20] to measure whether a fridge manufacturer can be established in the United States. The reality is that the export number of “Haier Group” is far greater. “Haier Group” established its own production base in South Carolina of the United States in early 1999, and began to put on production in March the following year. It is in the hope of being the first six of refrigerator enterprises in the United States, and annually manufacturing 500,000 refrigerators. Meanwhile, “Haier Group” shows its style of internationalized brand, its strong competition and guiding the consumer market in the European market. With its

[19] In finance, a “swap” is a contract in which two counterparties exchange cash flows of one party's for those of the other party's financial instrument. Each counterparty is looking for an advantage that the original financial instrument did not have. For example, exchange of Japanese yen for British pound sterling.

[20] “Break even point” is the point of balance between making either a profit or a loss.

high quality, “Haier Group” has built its own brand culture in the electrical appliances market of the European region. In the year of 2012, six kinds of refrigerators of “Haier Group” have reached the requirements of energy consumption standards in Europe, namely A+. The sales volumes of “Haier Group” in the European area have rapidly increased 15 times within three years. On June 19, 2001, “Haier Group” was successful in the M. & A of an Italian refrigerator factory “MeneghettiCo.”, embodying the localization scale in Europe after America.

2. “Scale advantages”. A few domestic groups as “China National Petroleum Corporation (Petrochina)” expand internationally. “Petrochina” established a large petroleum and petrochemical group enterprise under the institutional reform policies of the State Council. It is a state-controlled and authorized investment, and wholly state-owned enterprise, integrating production and sales, conducting domestic and foreign trade. It is an integrated oil company with transnational, cross-industry, and transregional operations. As one of the largest manufacturers, “Petrochina” covers different areas, such as “prospecting and exploiting natural gas and oil, pipelines, oil refining and chemical industry, sales of oil and gas refining products, processing and manufacturing oil machinery, oil trade, and technical services of petroleum engineering, etc”. In processing, production and sales of natural gas and oil in China, “Petrochina” has a leading position. According to the 2012 index ranking of oil, “Petrochina” ranked the ninth among the 50 famous big oil companies in the world.

3. “Tecnical advantages”. The high and new technologies of the domestic enterprises are almost on a par with the world advanced level, and compared with less developed economies, China has relevant technical advantages. Having its own advanced technologies in China, “Huawei Group” has been successful in the global market. After years of continuous efforts devoted to the development of core communication Internet technology, “Huawei Group” havs reached the world’s advanced level in many technical fields such as Intelligent Network[21], SDH Optical Network[22], Internet Access Telecommunication Server, Signalling Network and Access Network[23], etc.

[21] Intelligent Netwok is a terminology of telecommunication network. It is a network solution that will separate some process control functions of telecom business from the program-controlled switching networks for easy centralized management.

[22] “SDH”(Synchronous Digital Hierarchy)--- It is a unified transport network of “multiplexed connection, line transmission and switching” operated by integrated information management system.

[23] “Signalling Network” and “Access Network” are telecom network terminologies. We don’t extend too much.

It is a big progress. Huawei's products have sold to more than 40 countries laying a solid foundation of expanding the international market platform.

2.3 Characteristics of China's overseas investment

1. "The size of investment stock unceasingly expands, and investment covers more countries (regions)".

Table l "Yearly Statistics of Direct Foreign Investment" set up by China

Year	Flow (one hundred million US dollars)	Stock (one hundred million US dollars)
2006	211	906
2007	265	1179
2008	559	1839
2009	580	1920
2010	679	2400
2011	731	2983
2012	900	3600

Note: 2006-2009 data are for China's non-financial statistic data for direct foreign investment, and 2010-2012 data are the whole industry's data of direct foreign investment.

Source of data: Ministry of Commerce of China, China's National Bureau of Statistics, China's State Administration of Foreign Exchange:2012 Statistics Bulletin of the Direct Foreign Investment in China.

Seen from the point of investment area, Chinese enterprises' overseas investment is relatively concentrated, while Asia and Latin America are the most focused investment area (see table 2). At the end of 2012, 12 countries and regions have a total foreign direct investment stock more than 1 billion dollars (see table 3). This distribution way of foreign investment plays an important positive role in expanding markets of the developed countries, but a negative impact on developing countries, not conducive to the diversification of market strategies. According to the relevant professional analyses, in 2012 there are three important characteristics about the overseas investment of Chinese enterprises: 1) the key investment fields are respectively energy sources, resources, manufacturing, accounting for about 73% of Chinese investment in the agreement; 2) overseas acquisitions are the most important way of Chinese enterprises foreign investment, accounting for about 51% of the investment agreement in China, 26% higher than that of 2010; 3) Chinese enterprises are developing toward the internationalization of management level, increasing the influence on foreign economic markets.

2. "Investment areas are continuously expanded, industry distribution is increasingly diversified". In the early days, the investment of China's enterprises were only limited to some service industry related to trade, such as maintenance, packaging, transport and so on. Some trading companies also invest in processing production companies. With the development of social economy, the status of China has increased internationally, and the investment industries are diverse. By the end of 2012, business services, finances, wholesale and retail trade, mining, transportation, warehousing, postal service, manufacturing, had taken up more than 90% of China's foreign direct investment stock (see table 4).

3. "From the point of investors, the main force of China's foreign investment is state-owned enterprises and limited liability companies". In 2012, China's foreign direct investment maintained the pattern of diversification. China's state-owned enterprises in overseas investment had a relative drop in the proportion, while China's limited liability companies in overseas investment increased by 8% over the previous year, rising to 54.3%, becoming the first foreign investors. In 2012, the number of state-owned enterprises investing in foreign countries accounted for 17%, fell 3.7% over the previous year, but took up the second position in domestic investment. Private enterprises accounted for 8.7%, ranking third in the number of investors. However, at the end of 2012, in China's foreign direct investment stock, state-owned

enterprises accounted for 77.3%; limited liability companies, 28.2%; incorporated companies, 6.6%; joint-stock cooperative enterprises, 1.2%; private enterprises, 1 %; foreign-invested enterprises, 0.8%; collective enterprises, 0.4%; investment enterprises of Hong Kong, Macao and Taiwan, 0.1%, and other 0.2%.

4. “Seen from the set-up way of overseas companies, priorities are given to subsidiaries or branches”. By the end of 2012, China had 12000 foreign direct investment enterprises, located in 174 countries (regions). The subsidiaries and branches accounted for 97% of the overseas companies, and joint companies were only 3%.

5. “In the stock of non-financial foreign direct investment, the central enterprises and units accounted for 88.9%, local enterprises for 21.6%”. At the end of 2012, the stock of provincial direct foreign investment totaled $33.476 billion, accounting for 21.7%. Top ten provinces or cities of direct foreign investment stock were Guangdong Province ($8.685 billion), Beijing ($2.51 billion), Shanghai ($2.186 billion), Jiangsu Province ($1.727 billion), Zhejiang Province ($1.527 billion), Fujian Province ($1.132 billion), Heilongjiang Province ($994 million), Hunan Province ($674 million), and Liaoning Province ($606 million).

Table 2 Regional distribution of China’s direct foreign investment stock at the end of 2012

Serial Number	Countries / Areas	Stock（one hundred million US dollars）	Percentage（%）
1	Asia	1313.2	71.4
2	Latin America	322.4	17.5
3	Africa	78	4.2
4	Europe	51.3	2.8
5	Oceania	38.2	2.1
6	North America	36.6	2.0

Sources of data: China’s Ministry of Commerce, China’s National Bureau of Statistics, China's State Administration Bureau: Statistics Bulletin of the Foreign Direct Investment in China in 2012.

Table 3 Top 10 Countries (Regions) of China's Foreign Direct Investment Stock at the end of 2012

Serial Number	Countries / Areas	Stock（one hundred million US dollars）
1	Hongkong, China	1658.56
2	Cayman Islands	256.73
3	British Virgin Islands	173.22
4	Australia	49.88
5	Singapore	47.89
6	South Africa	33.6
7	America	29.1
8	Russian Federation	25.88
9	Macao, China	23.9
10	The Republic of Kazakhstan	27.62

Sources of Data: China's Ministry of Commerce, China's National Bureau of Statistics, China's State Administration of Foreign Exchange: Statistics Bulletin of the Foreign Direct Investment in China in 2012.

Table 4 Industry Distribution of China's Foreign Direct Investment Stock at the end of 2012

Sector	Stock（one hundred million US dollars）	Percentage（%）	Notes
Business services	555.2	33.7	Investment and holding account for the major

			proportion.
Finances	499.7	25.6	Banks' stock is the main stock, $33.82 billion, accounting for 83% of the stock in the financial industry.
Wholesale and retail	333.6	24.3	Trade investment is the main part.
Mining	389.7	19.8	Oil, natural gas and black metal are the main parts, with non-ferrous metals as the secondary.
Transportation, warehousing and postal service	225.6	9.6	Water transport and air transport account for the main part.
Manufacturing	124.5	7.7	There are mainly the following kinds: communications equipments, computers and other electronic equipment manufacturing, transportation equipment manufacturing, textile industry, general equipment manufacturing, textile, clothing/shoes/hats manufacturing, ferrous metal smelting and rolling processing, non-ferrous metal smelting and rolling processing, special equipment manufacturing, pharmaceutical

			manufacturing, papermaking and paper products, metal products, etc.
Real estate	63	3.6	
Construction industry	53.5	2.7	
Scientific research, technical services and geological prospecting	22.6	3.3	
Electricity, gas and water production and supply industry	33.5	4	
Information transmission, computer services and softwares	28.8	2.2	
Agriculture, forestry, animal husbandry, and fisheries	18.9	1.9	
Water conservancy, environment and management of public facilities	11.7	1.6	
Residents service and other services	9.6	1.1	
others	3.2	1.4	

Sources of data: China's Ministry of Commerce, China's National Bureau of Statistics, China's State Administration of Foreign Exchange: Statistics Bulletin of the Foreign Direct Investment in China in 2012.

Chapter 3. The development of China's overseas overseas mergers and acquisitions

3.1 Analyses of the situation

Overseas investment by Chinese enterprises mainly started from the beginning of the reform and opening up[24]. Since China joined the WTO in 2001, Chinese enterprises' overseas investment sped up year by year, increasing to over $7 billion in 2001 from the initial investment amount of $2 billion in 2000, forming the second peak. From 2002 to 2012, the average annual growth rate of China's foreign direct investment was always maintained at 65.7%. China's foreign direct investment reached $55.91 billion in 2008, the highest year, increasing 111% from the previous year. At the same time, it was the first time to exceed $50 billion, reaching the level of China's actual use of foreign capital in 2003. Chinese investors invested directly in 2384 foreign companies of 122 countries and regions in the world in 2009, non-financial foreign investment reaching $45.6 billion, increased 6.5% from the earlier year. By the end of 2011 China's total foreign direct investment was more than $225 billion. In 2012, the agreed amount of China's non-financial overseas investment was $49 billion, an increase of 13.16% over the previous year.

Table 1 Top 10 of Chinese enterprises' outbound M. & A. transaction scale in 2011

Transaction time completed	Underlying business names	Underlying enterprise industries	Buyers	Transaction amount (one hundred million yuan)
2011 — 05 — 11	WHC(Sigapore)	Energy and mining	Yanzhou Coal Mining Company	240. 6
2011 — 10 — 14	NWG (Northumbrian	Public utilities	Cheung Kong Holdings / Cheung Kong	236. 4

[24] "Chinese economic reform and opening up" was started in december 1978 by reformists within the Communist Party of China (CPC) led by Deng Xiaoping(The chairman after Mao).

	Water Group, England)		Infrastructure Holdings	
2011 — 02 — 23	Petrobras (Brazil)	Energy sources and mining	China Petrochemical Corporation	155. 5
2011 — 09 — 01	CBMM (Brazil)	Energy sources and	China's Niobium Investment Company	123. 8
2011 — 08 — 09	APLNG (Australia)	Energy sources and mining	China Petrochemical Corporation	112. 0
2011 — 01 — 31	BorsodChem (Hungary)	Chemical industry	Wanhua Industrial Group	106. 2
2011 — 10 — 17	MAIN (State of Israel)	Chemical industry	ChemChina	91. 4
2011 — 10 — 04	SDL(Australia)	Energy sources and mining	Sichuan Hanlong Group	79. 2
2011 — 04 — 12	InterGen(India)	Public utilities	China Huaneng Group	78. 2
2011 — 09 — 16	British Petroleum Co. Ltd	Energy sources and mining	United Energy Group	51. 3

Data source: http://www. chinaventure.com.cn/

As is shown in table 1: among the top ten outbound M. & A. transaction scale, six energy mining mergers and acquisitions took the absolutely superior position. On May 11, 2011, Yanzhou Coal Mining Co. Ltd purchased Whitehaven Coal Limited (WHC. ASX) at $3.79 billion, which was the largest transaction in that year. The other four cases were respectively from the chemical industry and utilities. According to the above analyses, it can be seen that energy sources and mining took the leading position in the overseas mergers and acquisitions both in number and in size. And datas show that from 2006 to the present day, in “energy sources and mining industries” 141 outbound M. & A transactions were finished , and the total amount was 496.3 billion yuan. The “energy sources and mining industry” frequently carried on outbound mergers and acquisitions in large scale, which is closely related to their industry features. Due to the long development cycle of the “energy sources and mining industries”, the cost is higher. The buyer can quickly enter the stage of its production by merging and acquiring, and part of the cost can be saved. So these industries become the optimal choices of China’s outbound mergers and acquisitions. China Aluminum Group invested $12.85 billion in 2008, together with$14.05 billion from AlCOA[25], bought 12% stock equity of the mining giant Rio Tinto British Company, which became the leading case of Chinese enterprises overseas M. & A. In 2011 the energy sources and mining mergers were the dominant type of acquisitions, but other industries of mergers and acquisitions made some progress: at the beginning of 2011, China Chemical Group spent $2.4 billion purchasing 60% stock equity of Makhteshim Agan Industries Ltd., an Israeli company. On June 1, 2011, Lenovo Group spent 231 million Euros for 36. 66% stock equity of Medion AG (German Consumer Electronics Manufacturing), and in mid-November, Huawei Group announced an agreement with Symantec[26], bought 49% stock equity of Huawei Symantec[27] at $530 million, making Huawei Symantec be a wholly owned subsidiary.

3.2 Risk analysis of the Chinese enterprises’ overseas mergers and acquisitions

(1) “Assessments of risk ”. Assesing risk refers to the risk of overpaying resulted by the evaluation errors due to the insufficient research of target enterprise in the process for lack of information. In mergers and acquisitions, as a complex system, corporation

[25] AlCOA- “Aluminum Company of America” is the world's third largest producer of aluminum.

[26] Symantec Corporation is an American computer security, backup and availability solutions software corporation headquartered in Mountain View, California, United States.

[27] “Huawei Symantec” before acquistion was a Sino-USA joint venture compony.

is composed of a variety of production factors and relations, so it is hard for the M & A buyer to comprehensively know about the acquired firm in a relatively short time. Because of the existence of information asymmetry and moral hazards, the acquired firms may hide information against themselves in order to protect their own safety and get more benefits, and even provide false information for benefit. So in the course of M & A , lots of enterprises fall into the trap after the implementation. They can not pull themselves out of it due to the lack of knowledge of the debt paying ability, operating ability and financial status of the merged and acquired companies. Information asymmetry is generale phenomenon. China's enterprises lack long-term tracking of foreign enterprises, and do not thoroughly know about the target enterprises. There are also the differences of regional environments, market structures and cultures of enterprises. All of these made assessments of risks especially urgent in the transnational M & A in China.

(2) "Integration of risks". The integration of risks means all the uncertainty of integrating such corporate factors as the "governance structure, management, assets and liabilities, human resources, corporate cultures" of the merged and acquired companies after the completion of purchasing.

1. Integration of business risks

Business risks refer to the possibility of business income instability resulting from the enterprises' production and operation. China is a representative of the developing countries, and China's abroad images are usually associated with low prices and low efficiency. This negative understanding of the Chinese enterprises and its product brands brings business risks to China's enterprises overseas M & A, which are mainly shown in several aspects. First, the poor brand image of acquirer makes the staff of the acquired enterprise fail to fully identify with and accept the acquirer. This leads to a lack of high-end technical personnel, insuffienency of employees' work enthusiasm and loyalty. Second, the poor brand image of the acquirer makes the old customers and the public fail to fully accept the acquirer, causing the damage of original customers relations, loss of potential customers. Some customers are even suspicious and more fastidious of the products or services provided, and corporate social popularities are reduced, the supports from the government and the social public decline. Third, After the merger and acquisition, the enterprises expand, management costs soar, and integration costs are too high, which reduces the profitability of the enterprises. In addition, if overseas mergers and acquisitons are cross-regional, cross-industry, complicated interest subjects will turn up. It is hard for the enterprises to coordinate the relationships between the various stakeholders, bringing management risks to the merged and acquired enterprises.

2. Integration of cultures risks

Because of the big differences between China's culture and the western cultures, the Chinese enterprises face greater difficulties in the cultural integration when implementing overseas mergers and acquisitions. If corporate cultures can not be merged in time after merger and acquisition, cultural conflicts between both sides may become quite intense. The target enterprises of Chinese enterprises' overseas M&A are mostly mature enterprises in Europe and America. These enterprises generally have their own organizational cultures, values, management concept, management philosophy and code of conduct highly identified with by both employees and managers. They wish to keep their own cultures, and influences of the organizational cultures are profound. If the managers and employees of the merged and acquired companies reject and resist the acquirer, they will lose necessary enthusiasm, creativity for the work. Eventually, the mergers and acquisitons will become a failure. Cultural integration is one of important parts in overseas merger integration. If both parties are not able to form a common corporate culture, in addition to the two kinds of risks mentioned above, there are also subsequente strategic risks, integration risk of personnel and corporate goal, etc, which can not be ignored.

3.3 Improvements of China's enterprises overseas M & A performance

A large number of Chinese enterprises invest overseas, there is a risk hidden in overseas mergers and acquisitions. The reasons are as follows: first, the asymmetric information leads to distortion of the value evaluation of the target enterprises; second, integration after mergers and acquisitions is liable to changes.

With the approval of the strategy "going out"[28] by the government, China's enterprises in overseas mergers and acquisitions have the positive effect of wealth. Encouraging overseas investment to promote sustained economic growth in China is very important, it can not only ensure that China can obtain a stable full supply of energy and raw materials, and accelerate China's economic restructuring to reduce excessive dependence on exports. Chinese government should be careful to encourage enterprises to carry on the "going out" strategy. The government should provide the enterprises in overseas M & A with necessary policy and guiding information. At the same time, enterprises should consider their M & A events from multiple angles of M & A strategy and M & A integration. This chapter puts forward some suggestions for China's enterprises overseas M & A from the perspectives of the government policy and corporate self-interest.

I. Improvements of overseas M & A performance analysed from the angle of the government policy

In the international market, China is now increasing overseas investment in the world. Compared with domestic mergers and acquisitions, overseas mergers and acquisitions in many cases are not just a matter between two companies. The government policies and measures regulate generally all the enterprises who invest overseas, greatly affect overseas M & A business performance and domestic economic stability. Especially the state-owned economy is still used as the main body of the Chines economy, the state-owned enterprises are still the mainstay of overseas mergers and acquisitions. They are directly subject to the government policies. Since China's enterprises overseas M & A story is relatively short compared with western countries, Chinese government's policy guidance and intermediary services, etc. are not mature, even missing. It requires the Chinese government to provide full service for the enterprises overseas mergers and acquisitions.

(1) Policy guidance

[28] Here, "going out" strategy means "invest overseas".

In the year of 2000, the Chinese government put forward the strategy of “going out”, encouraged enterprises to go abroad to participate in international competition. In 2009, Premier Wen Jiabao explicitly put forward again in “The Government Work Report” the implementation of the “going out” strategy, officially made clear the development direction of Chinese enterprises overseas mergers and acquisitions. The government should use its powerful resources to provide opportunities for the Chinese enterprises overseas mergers and acquisitions. Such as preparations, foreign investment guide. It supplies domestic investors with the relevant information of industrial policy, investment environment, laws and regulations of the host countries. The central state-owned enterprises participating in overseas mergers and acquisitions have good M & A performance, especially energy and resources acquiring enterprises. This is largely thanks to the government guidance for the state-owned enterprisess in overseas mergers and acquisitions. At the same time it should also encourage and support the private enterprises in policy and information guide.

(2) Cultural environment of the host countries

For a long time, some foreign governments hold unfriendly attitudes towards the economic and social development in China. Especially under the influence of the “going out” strategy, some enterprises emerged to invest overseas, making some national governments worried, and their reviewing and examining China’s enterprises cross-border M & A became stricter. In 2005, China National Offshore Oil Corporation intended to purchase the American ninth largest oil company Unocal Corporation with $ 18.5 billion. But due to the intervention of the United States Congress, the second largest oil company Chevron Corporation in America got the deal with only $17.5 billion. In 2004, China Minmetals Corporation wished to merge and acquire Canadian mining company Noranda, but ultimately had to drop out under the political pressure. Some countries take many non-market factors into account, such as energy and scarce resources, military products. When the M & A involves these strategic facilities, the examination and approval departments of host countries often block M & A for excuses of protecting national security or the interests of the local businesses. Therefore, on the premise of encouraging enterprises “going out”, the government should use the international public relations ability to actively conduct formal and informal communication and cooperation between governments. The goverment is supposed to provide information service for enterprises overseas investment, and establish a coordination group to promote overseas mergers and acquisitions in the host countries.

(3) The intermediary information services

In the implementation of overseas mergers and acquisitions, intermediary information services are very important. The consultancy organizations of professional law, management, financing should participate. It can help to further understand the business environment of the target enterprises, and help Chinese enterprises to make an objective evaluation of the value and potential risks of the target enterprise at the beginning of M & A. Since Chinese enterprises' overseas mergers and acquisitions started later, the intermediary information services are not mature, even missing. In previous failure cases of transnational M & A, especially Chinese private enterprises could not properly evaluate such risks as politics, environment and labor and capital in businesses. Due to being too cautious, they missed many good M & A opportunities. Therefore, Encouraging more private enterprises to go abroad to actively participate in international competition, the Chinese government should also be involved in enterprises' transnational investment to develop local intermediary service organizations. They can provide the enterprises with the information services such as M & A information for reference, designing of mergers and acquisitions programs, and enterprises integration after M & A.

II.Improvements of overseas M & A performance analyzed from the perspective of enterprises' own interests

Due to the differences of geographical location and cultures, enterprises in a country participating in overseasM & A inevitably encounter many problems and risks, such as political risk, laws and regulations, M & A strategy and decision, and capital raising, etc. After having the power to participate in the overseas investment, in order to ensure the smooth implementation of overseas M & A, the Chinese enterprises have to be fully prepared before the M & A and for integration work after that.

(1) Preparation and target selections before M & A

Because of the complexity of overseas M & A, enterprises should decide on the M & A target according to their own strength and development strategic targets. It is also important to make objective analyses of enterprise' politics, economy, and the production and business operation after M & A. The key of the target enterprises is whether they are in line with the enterprise needs of future development strategy. The Chinese enterprises need to choose the target enterprises from the perspective of long-term investment and have clear strategic purpose. It can make the technologies, markets or brands to break through the bottleneck in the process of seeking enterprise development, and it is by no means the short-term speculation. It is necessary to keep in mind: Never blindly merge and acquire to increase its liabilities. Science and technology enterprises should choose the advanced target enterprises with similar products to reduce the unpredictable risk in M & A. In February of 2010, Sichuan Tengchong Heavy Industry Group failed to purchase Hummer of General Motors. Tengchong is an enterprise mainly producing mixers and other road construction machinery, announcing it was buying Hummer with the registered capital of 300 million yuan and acquisition costs was only $150 million. It was completely beyond Tengchong's strength and had nothing to do with Hummer in business. The merger and acquisition is doomed to be a failure. Energy enterprises should consider the political and cultural backgrounds of the host country when choosing targets, making sure the mergers and acquisitions are not be ended because of political pressure.

(2) The integration after M & A

Brue Wasserstein, an American scholar, once said: " M & A success or not depends not only on the ability to create value of the acquired firm, and more on integration after M & A." Integration content includes assets, businesses, organization structures, cultures, etc. The integration after the merger is one of the most important problems to ensure the success of the enterprise to achieve the expected targets. Overseas M & A involve enterprise activities at least two countries or regions. Enterprise cultures are greatly different, so it is particularly important to make cultural integration after the merger. In 2002 TCL Group[29] merged and acquired Schneider Electric in Germany. Because of the inadequate cultural integration, 20 year company

[29] **TCL Corporation** is a Chinese multinational electronics company.

culture of TCL and the more than 100 year company culture of Schneider Electric conflict, inevitably affecting the M & A efficiency. The staff sent to the target enterprise in the process of M & A is of vital importance, because they are the carrier of the company culture, the key to the cultural integration of the target company. After made a lot of effort, the Schneider Electric is running normally now. China Chemical Industry is outstanding in this field. It have already domestically cultivated international technology and management talents in China and sent them abroad for the actual operating platform before the mergers and acquisitions of Adisseo[30] and Rhodia[31] in France. Only in this way can they make enterprise cultures integrate after the merger, lower transaction costs, improve the efficiency of enterprise integration to realize the coordination of the enterprise operation, management and finances.

Although overseas M & A is not the only way for foreign direct investment, but as the promoter of enterprise internationalization, it is a strategic choice for those Chinese enterprises who hope to catch up with western counterparts as soon as possible. With the deepening of the reform and opening up of economic development in China, overseas M & A has become the most important way for the Chinese enterprises to expand international businesses to improve the international influences. In the context of the international financial crises, the international assets depreciate quickly. Holding valuable key technologies, brands and markets through overseas M & A is the best choice for the Chinese enterprises to have the technology power and brand power to enhance their own competitiveness. The government and enterprises should be adapted to the international trends, in proper time formulate overseas M & A strategies, effectively improve the performance of the Chinese enterprises.

[30] “Adisseo” in France is one of the world's three manufacturers of nutritional supplements, specializing in the production of methionine, vitamins, enzymes series of products.
[31] “Rhodia” in France is a group specialized in fine chemistry, sythetic fibers and polymers.

3.4 Empirical analyses of China's enterprises overseas M & A performance

3.4.1 A brief introduction to research methods of enterprises M & A performance

There are mainly two kinds of research methods on M&A performance. The first is called "event study" method, uses the changes of stock price to estimate the changes of enterprise value. The second employs public accounting and financial statements to study the company financial situation before and after M & A, called "financial index" method. The two kinds of methods are respectively analyzed and reviewed as follows.

① Event Study method

Event study first proposed by Kelly (1967), is used to measure the M & A performance by looking at the differences between "expected return" and the "real return" of stock. The efficency[32] of capital market can be valuated using the "event study" method. Western scholars who study the short-term M & A performance believe that wealth gains of the shareholders of "M & A target enterprise" are positive, their abnormal returns within short period of time are 20%-40%, while the abnormal returns of acquiring firms are negative. Netter (1986) studied 633 mergers and acquisitions from 1962 to 1985 in the United States, thought that abnormal returns of the target enterprises were 19% in the 1960's, 35% in the 1970's and 30% in the 1980's; abnormal returns of acquiring firms were 2% in the 1970's, and -1% in the 1980's.

Bruner (2002) who summed up 130 papers from 1971 to 2001, thinks that the abnormal returns of the target companies might be from 10% to 30% within short period of time, but the abnormal returns of acquiring firms were negative.

Chinese scholars have different views about the short-term performance results of M & A. Zhang Zongxin and Ji Lei made an M & A empirical analysis of 216

[32] The efficient market hypothesis (EMH) asserts that financial markets are "informationally efficient". First, it assumes that all investors perceive all available information in precisely the same manner. Secondly, under the efficient market hypothesis, no single investor is ever able to attain greater profitability than another with the same amount of invested funds.Thirdly, no investor should ever be able to beat the market, or the average annual returns that all investors and funds are able to achieve using their best efforts.

enterprises from the year 1999 to 2000 showing that returns for the shareholders of acquiring firms after M & A were significantly negative in the short term. However, the empirical studies by Li Shanmin and Chen Yugang have shown that the shareholders wealth of acquiring firms were on the increase, and shareholder earnings of the target enterprises changed little.

Long-term studies choose the period of several years from M & A as sample research interval. Western scholars have different views about the enterprises M & A performance results analysed by this mothod. Asquith (1983) empirically studied 91 M & A companies, and found that the long-term average yields of target enterprises were -8.7%. Mocner's(2003) research results show that the wealth effects of small and medium-sized companies increased but those of big companies suffered losses.

Wang Qian, a Chinese scholar, studied 30 cross-border M & A events of the Chinese listed companies from 2000 to 2005, concluded that the business performances of the main M & A enterprises declined at first but rose later. Another chinese shoclar, Zhu Tao found that shareholders' wealth gain of the acquiring companies was significantly negative from the first year to third year after M & A .

② Financial index method

Financial index method mainly uses public accounting financial statements and financial indexes to study the influences of the merger and acquisition on the company's financial situation. Herman and Lowenstein, based on the operating performance changes of the target companies before and after M & A, analyzed the M & A behaviors of the year 1975-1983, concluding that the business performance of the target companies after the M & A made no improvement comparing to industry average. Fang Fang, Yan Xiaotong, Chinese scholars, analyzed the business performances by selecting nine indicators from such three aspects as "solvency, profitability and business growth". They found the acquiring company's cash flow and short-term debt paying ability have big effects on the overall performance of the enterprise. Feng Genfu and Wu Linjiang (2001) evaluated enterprises M & A performance by choosing such four indicators as "the main business income/total assets, net income/total assets, earnings per share and return on equity", using the method of factors analysis[33]. His conclusion is that the performance of acquiring enterprise in the year and the next year after M & A was improved, then was generally declined.

Yi Fei (2007) uses the accounting method to select financial indicators, and to establish analysis models by the factor analysis method. He investigates the performance of China's overseas M & A. And the results show that Chinese acquiring enterprises had obvious growth performance in the first year, but started to decline significantly from the second year.

In the western mature capital markets, the event study method is the mainstream evaluation method of the merger and acquisition performance. Compared with the western capital market development, China's is underdeveloped. This paper uses financial index method to evaluate China's enterprises overseas M & A performance.

3.4.2 Designing of the research methods

In this chapter we use the research methods of M & A performance of western countries for reference, and summarize predecessors' M & A research analyses, and makes the following arrangements:

I. Sample: 37 M & A events from 25 M & A enterprises between the year of 2004 to 2009 are chosen. We consider the year of M & A and the following three years as the sample research range. The business performance analyzed in such a long period of time can fully reflect the impact of mergers and acquisitions on the enterprise performance. Among the enterprises, 11 are central state-owned, 7 are local state-owned, and the rest 7 are private. The following Table 5 and Table 6 respectively show the nature and industry of sample companies.The datailed company information is in appendix at the end of paper.

[33] Factor analysis is a statistical method used to describe variability among observed, correlated variables in terms of a potentially lower number of unobserved variables called factors. For example, it is possible that variations in four observed variables mainly reflect the variations in two unobserved variables. Factor analysis searches for such joint variations in response to unobserved latent variables. The observed variables are modelled as linear combinations of the potential factors, plus "error" terms. The information gained about the interdependencies between observed variables can be used later to reduce the set of variables in a dataset. Factor analysis originated in psychometrics, and is used in behavioral sciences, social sciences, marketing, product management, operations research, and other applied sciences that deal with large quantities of data.

Table 5 Classification based on company nature

Central state-owned	Shougang Group, CITIC Group, Sinochem Group, Sinopec, China Natural Gas, CNOOC, China Netcom, China Metallurgical Group, Chinalco, China Minmetals, China Nonferrous Metal Mining Corp
Local state-owned	TCL, SAIC Motor, Zoomlion Heavy Industry, Shanghai Electric Group, SGSB GROUP Co. ltd, SMTCL, Shaanxi Qinchuan
Private	Lenovo, Shagang Group, Xinjiang Chalkis Co. Ltd, Yongor Grop, Yanzhou Coal Mining Company, Ji'en Nickel Industry Co., Zijin Mining Group

Table 6 The industries of sample companies

Corporate name	Industry
Mining	CITIC Group, Shougang Group, Sinochem Group, Sinopec, China Natural Gas, CNOOC, China Metallurgical Group, Chinalco, China Minmetals, China Nonferro, Yanzhou Coal Mining Company, Ji'en Nickel Industry Co., Zijin Mining Group
Telecommunication	China Netcom
Manufacturing	TCL, SAIC Motor, Zoomlion Heavy Industry, Shanghai Electric Group, SGSB Group Co., ltd, SMTCL, Shaanxi Qinchuan, Lenovo, Shagang Group, Xinjiang Chalkis Co. Ltd, Youngor Group

II.Establishing the performance evaluation system

This chapter is based on five aspects: enterprise debt paying ability, profitability, operation ability, changes in shareholder wealth and development ability. We compare the financial data index of sample enterprises and the industry averages, establish sample performance evaluation system.

(1) Debt paying ability refers to the ability that a firm repays all its debts. This part selects two financial indicators: asset-liability ratio and liquidity ratio. Asset-liability ratio is the ratio of total debt and total book assets of the enterprises, showing how much of the enterprises total assets is raised through debts. Liquidity ratio is the ratio of the current assets and current liabilities, showing the current ability that the enterprises can use liquid assets to repay mature liabilities in the short term. It is internationally believed that the enterprises liquidity ratio should be 2:1.

(2) Profitability refers to the efficiency of the enterprises using economic resources to obtain economic benefits. This section selects two indicators: return on net assets and profit rate of business. Return on net assets refers to the ratio of the enterprises' net profit on average net assets in certain period of time, reflecting the investment income level of the enterprises. Profit rate of business is the ratio of profit on sales of the business, should be kept in pace with the current national economic growth(GDP).

(3) Operation ability chooses the total asset turnover and inventory turnover ratio as evaluation indexes. Total asset turnover is the ratio of sales and total assets for a certain period. Generally speaking, the higher the ratio, the better it is, since it implies the company is generating more revenues per dollar of assets. Inventory turnover ratio equals cost of goods sold divided by the average inventory. It shows how many times a company's inventory is sold and replaced over a period. A low turnover implies excess inventory.

(4) Shareholder' Changes in wealth refer to the changes of market value of stockholders' share in the company. It selects earnings per share and net assets per share as a shareholders' wealth change evaluation index.

(5) Development ability selects business growth rate and net profit growth rate as two indicators. Business growth rate refers to the ratio between the difference of the current income and the previous period's income of businesess. Net profit is one of the important indicators to measure enterprise management benefits, is the final results of enterprise management. The more the net profit is, the better the enterprise

management benefit is.

In order to valuate the M&A performance of sample companies, i have designed an evaluation system in the table 5. As you can see, the fianal score of sample enterprises varies from -90 to 100. About the criteria for debt paying ability index, asset-liability ratio is less than 50% or less than the industry average the sample enterprises' score is 100; greater than the industry average and less than 100%, the score is zero; greater than 100%, the score is -100. Liquidity ratio is greater than 2:1 or the score of the industry average is 100; less than 2:1 or the score of the industry average is zero, and other indicators are calculated in sequence according to the standard.

From the year 2004 to 2009, China's average growth rate of the national economy was 10.05%. The index can be used as reference for the net profit growth rate and growth rate of business. The industry average is calculated in two steps. First, it needs to get the average from the first 10 listed companies in the same industry of sample enterprises every year. Second, based on the average of first step, work out the average another time within the inspection period. Finally the average of corresponding enterprises within the inspection period and that of the industry can be compared. At the end of the paper, there are several tables in the appendix. There are sample enterprises' M&A statistic, financial indicators of sample enterprises, and the comparison with industry average.

Table 7 Evaluation Index System and Principle of Weight Assignment

	Index X	Principle of judgment	Score	Percentage
Debt-paying	asset-liability ratio	X< the industry aveage	100	0.1
		the industry aveage	0	0.1

ability		<X<100%		
		X>100%	-100	0.1
	liquidity ratio	X>2:1 or the industry aveage	100	0.1
		X<2:1 or the industry aveage	0	0.1
Profitability	return on equity	X> the industry aveage	100	0.1
		0<X< the industry aveage	0	0.1
		X<0	-100	0.1
	Main business profitability	X>10.05	100	0.1
		0<X<10.05	0	0.1
		X<0	-100	0.1
	total assets turnover	X> Industry average	100	0.1
		0<X< Industry average	0	0.1
		X<0	-100	0.1

Operation capacity	inventory turnover ratio	X> Industry average	100	0.1
		0<X< Industry average	0	0.1
		X<0	-100	0.1
	earnings per share	X> Industry average	100	0.1
Changes in shareholder wealth		0<X< Industry average	0	0.1
		X<0	-100	0.1
	net asset value per share	X> Industry average	100	0.1
		0<X< Industry average	0	0.1
		X<0	-100	0.1
Development ability	main business's growth rate of income	X>10.05	100	0.1
		0<X<10.05	0	0.1
		X<0	-100	0.1
	net profit growth rate	X>10.05	100	0.1
		0<X<10.05	0	0.1
		X<0	-100	0.1

3.4.3 Evaluation of sample score

Based on the assignment principle and the comparision of the sample company financial index and the industry average, the performance scores of the sample companies are calculated as in Table 6:

Table 8 Score of Sample Companies

Corporate Name	Asset liability Ratio	Liquidity Ratio	Return On Net Assets	Profit Rate of Business	Total Assets Turnover	Inventory Turnover Ratio	Earnings Per Share	Net Assets Per Share	Business Growth Rate	Net Profit Growth Rate	Overall Score
Shougang Group	0	100	100	0	100	100	100	100	0	-100	50
CITIC Group	0	0	0	100	100	0	100	0	100	100	50
Sinochem Group	100	0	100	0	100	0	100	100	100	0	60

Sinopec	0	100	100	100	100	100	100	100	100	0	80
China Natural Gas	0	100	100	100	0	100	100	100	100	0	70
CNOOC	100	100	0	100	0	100	0	100	100	100	70
China Netcom	0	0	100	100	0	100	0	0	100	100	50
China Metallurgical Group	0	0	100	0	100	100	0	0	100	100	50
Chinalco	100	100	0	100	0	0	0	100	0	-100	30
China Minmetals	100	100	0	0	100	100	100	0	-100	-100	30

China Nonferrou-s Metal Mining Corp	100	100	100	0	100	100	0	100	-100	-100	40
TCL	0	0	0	100	100	100	0	0	100	-100	30
SAIC Motor	100	100	0	100	0	0	0	100	100	100	60
Zoomlion Heavy Industry	0	0	100	100	0	0	100	0	100	100	50
Shanghai Electric Group	0	0	100	100	100	0	0	0	100	100	50

SGSB Group Co., ltd	0	100	-100	100	0	100	-100	0	100	-100	10
SMTCL	0	0	100	100	100	100	100	0	100	100	70
Shaanxi Qinchuan	100	100	100	100	100	0	100	0	100	100	80
Lenovo	0	100	100	100	100	100	0	0	100	100	70
Shagang Group	0	0	-100	0	100	100	0	0	100	-100	10
Xinjiang Chalkis Co. Ltd	0	0	0	100	0	0	0	0	100	0	20
Youngor	0	0	100	100	0	0	100	100	100	100	60

Group											
Yanzhou Coal Mining Company	0	100	0	100	100	0	100	0	-100	-100	20
Ji'en Nickel Industry Co. , Ltd	0	0	100	100	0	0	0	0	-100	-100	0
Zijin Mining Group	0	0	0	100	0	100	0	0	100	100	40
Total	700	1200	1200	1900	1400	1400	1000	900	1500	300	1150
Average	7/ 25	12/ 25	12/ 25	19/ 25	14/ 25	14/ 25	10/ 25	9/ 25	15/ 25	3/ 25	46

3.4.4 research conclusion

In following Table 9, we will see the score of sample camponyies respectively based on nature and industry.

Table 9 The score of sample companies based on the nature

Central state-owned	Score	Local state-owned	Score	Private	Score
Shougang Group	50	TCL	30	Lenovo	70
CITIC Group	50	SAIC Motor	60	Shagang Group	10
Sinochem Group	60	Zoomlion Heavy Indstry	50	Xinjiang Chalkis Co. Ltd	20
Sinopec	80	Shanghai Electric Group	50	Youngor Group	60
China Natural Gas	70	SGSB Group Co., ltd	10	Yanzhou Coal Mining Company	20
CNOOC	70	SMTCL	70	Ji'en Nickel Industry Co. , Ltd	0
China Netcom	50	Shaanxi Qinchuan	80	Zijin Mining Group	40

China Metallurgical Group	50				
Chinalco	30				
China Minmetals	30				
China Nonferrous Metal Mining Corp	40				
Average	53		50		31

Table 10 The score of sample companies based on the nature

Mining	Score	Manufacturig	Score	Telecommunication	Score
Shougang Group	50	TCL	30	China Netcom	50
CITIC Group	50	SAIC Motor	60		
Sinochem Group	60	Zoomlion Heavy Industry	50		
Sinopec	80	Shanghai Electric Group	50		
China Natural Gas	70	SGSB Group Co., ltd	10		
CNOOC	70	SMTCL	70		
China	50	Shaanxi	80		

Netcom		Qinchuan			
China Metallurgical Group	50	Lenovo	70		
Chinalco	30	Shagang Group	10		
China Minmetals	30	Xinjiang Chalkis Co. Ltd	20		
China Nonferrous Metal Mining Corp	40	Youngor Group	60		
Yanzhou Coal Mining Company	20				
Ji'en Nickel Industry Co. , Ltd	0				
Zijin Mining Group	40				
Average	46		49		50

Through the analyses of the above data and combining the detailed information in the appendix, we can draw the following conclusions:

(1) “From the perspective of M & A enterprises’ nature, the central state-owned

enterprises are still the main body of China's overseas M & A ". 11 central state-owned enterprises participated in 18 cases of mergers and acquisitions, accounting for 48.64% of the whole sample research interval. Followed by the local state-owned enterprises, seven of them sponsored 10 M & A events, accounting for 27.02% of the sample interval. Private enterprises also play an important role in overseas mergers and acquisitions. Seven of them participated in nine overseas mergers and acquisitions, accounting for 24.32%. To sum up, the state-owned enterprises are still the mainstay of China's enterprises in overseas mergers and acquisitions, play a key role in the whole process, and private enterprises will also gain a place in China's enterprises going abroad for overseas competition.

(2) "The gap of M & A performance between industries is obvious , and the performance gap with different motives is large". The M & A performance of the central state-owned enterprises of energy and minerals is significantly higher than other industries, and the performance after M & A improved significantly. On one hand, it has something to do with the fact that energy companies go abroad earlier to actively seek overseas resources for integration on a global scale, and accumulate rich experience in M & A. On the other hand, energy companies belong to the central state-owned enterprises, bearing certain government tasks, and the government, gives fund and policy support and diplomatic support. So it is easier for them to succeed in overseas mergers and acquisitions, and the mergers and acquisitions performance is significantly higher than other industries. The M & A performance of private mining enterprises is not ideal. Taking Yanzhou Coal Mining Company and Jean nickel industry co., LTD as examples, after their M & A , their debt paying ability, profit ability, changes in shareholder wealth and development capacity are less than the industry average. It is mainly because the financial strength of private mineral enterprises is weaker compared with state-owned enterprises, intermediary information is less complete and the integration after the merger is inadequate. The M & A performance of manufacturing industry is volatile. State-owned manufacturing performance increased significantly. After mergers and acquisitions, their profit ability, operation ability and development ability are significantly improved, while private manufacturing performance is volatile after the merger. For example, Jiangsu Shagang Group after the merger, its debt paying ability, profit ability and shareholder wealth changes were below the industry average.

Those samples enterprises whose motive is to obtain strategic resources have a marked increase in the overall M & A performance. Most of the sample companies are the state-owned enterprises. China is scarce of mineral resources now. To meet the national development and the strategic security, these state-owned enterprises have powerful capital strength and get politic and diplomatic aid from the government in overseas mergers and acquisitions. Both in the process of M & A and after the M & A they go more smoothly than other enterprises, and naturally their M & A performance is better. Those enterprises whose M & A motive is to obtain technology are local state-owned enterprises. Their M & A performance significantly higher than that of private enterprises. Such as the M & A performance of shanxi Qinchuan Machine Tool Group Co., LTD. were constantly rising after M & A in its debt paying ability, profit ability, operating ability and development ability. While the asset-liability ratio of private company Jiangsu Shagang Group is as high as 77.27% in the sample research interval, and its return on net assets and profit rate of business are less than the industry average, its M & A performance is relatively poor.

Those sample enterprises aiming to obtain brand to expand the market are manufacturing industry. Such companies as China's Sinochem Corporation, Changsha Zoomlion Heavy Industry, Lenovo, and Youngor Group have achieved good performance in overseas M & A. This is mainly due to China's traditional manufacturing technology being relatively mature, but the brand construction lagging behind, the competitiveness of entering the international market being inadequate.

(3)"The M & A performance is different in regions in the world". The M & A performance of Asia, Africa, North America is relatively stable and significantly higher than other regions. Based on geographical relation, the Asian market has long-term cooperation with China's enterprises. In the long term, China's enterprises' investment in Asia is mainly concentrated on such developing Asian countries and regions as Malaysia, Singapore, etc. Especially in 2002 ASEAN[34] Free Trade Area was established, the preferential policy provided for the member states created good conditions for China's enterprise's investment in the trade area. The region especially Southeast Asia should be the important area of the China's enterprises foreign direct

[34] The Association of Southeast Asian Nations (ASEAN) was formed in 1967 by Indonesia, Malaysia, the Philippines, Singapore, and Thailand to promote political and economic cooperation and regional stability. Brunei joined in 1984, shortly after its independence from the United Kingdom, and Vietnam joined ASEAN as its eventh member in 1995. Laos and Burma were admitted into full membership in July 1997 as ASEAN celebrated its 30th anniversary. Cambodia became ASEAN's tenth member in 1999.

investment. North American and African markets appeal to China's enterprises, the reasons lie mainly in: First, the natural resources are abundant, especially oil, minerals and natural gas, etc. For example, Sinopec's[35] purchasing oil in Algeria and Nigeria and mineral oil in Colombia and Angola. Second, The related M & A laws and policies are relatively complete, such as Mexico's "Laws of Overseas Investment", Argentina's No. 1853 Decree and Peru's "Foreign Investment Law". Kenya, Tanzania and Uganda established East African Cooperation in 1994, 16 west African countries in 2005 announced to establish West African Economic Alliance. All of these mean that Africa will have a big market for extensive cooperation. It is a good opportunity for China's enterprises to expand to the African market.

North America, especially the United States has a free and open capital market, a sound legal system, and a developed credit system and a strict information disclosure system. The financial capital markets are very developed, with flexible investment ways and strong liquidity of capital, and diversified financing channels. M & A is a kind of free market trading activity and the government does not in principle exert any intervention to enterprises' mergers and acquisitions, even if in practice, the principle of free market trade does not mean that mergers and acquisitions are completely free. The government will take measures to appropriately intervene.

(4) "The overseas overseas M & A performance of China's enterprises as a whole are not very ideal". According to tables 8 ratings, 9 sample enterprises scored more than 60 points (including 60 points), accounting for 36 % of the total; the enterprises scoring between 0-60 points were 64%, suggesting that more than half of China's enterprises in overseas mergers and acquisitions haven't reached ideal effects. Maybe the number of sample companies is too small, the reseach results couldn't represent all the Chinese enterprises, but to a certain extent, it reflects the current situation. The two best scored companies are Sinopec and shaanxi Qinchuan Group, both of them are the state-owned enterprises. The lowest scored private enterprise is Jean Nickel Industry Co., LTD, which is private.

[35] Sinopec limited (China Petroleum & Chemical Corporation), is a Chinese oil and gas company based in Beijing, China.Sinopec is the world's fifth biggest company by revenue.

Chapter 4. Case analyses of successful overseas investment — TCL's investment in Vietnam

4.1 Introduction to TCL and the economic and trade development between China and Vietnam

TCL Group, founded in 1981, is a large state holding enterprise engaged in household appliances, information, telecommunications, development, production and sales of electrical products, integrated technology, industry and trade as a whole body. It is one of A-Shares[36] listed companies. After the development of 20 years, TCL Group has formed four products series of home appliances represented by Trump TV, telecommunications, information, and electrotechnics. It began to execute the strategy to develop "audio and video products centred around Trump TV" and "the mobile telecommunications terminal products represented by mobile phones" so as to drive business growth. In 2012, TCL became the world's fourth largest TV makers (after Samsung, LG, and SONY). The pace of development of TCL is fast but robust, especially from the 1990's, TCL has had an average annual rate of 50% growth continuously for twelve years. So it is one of the fastest growing industrial manufacturing enterprises of China. TCL's leading products such as home appliances, telecommunications, information, electrotechnics are ranked the top among Chinese mainland counterparts. In fact, when the domestic markets shrank, TCL developed overseas to stay one step ahead of its rivals. In 2002, TCL acquired Schneider Company, a German color TV enterprise. At the end of year 2003, TCL announced to acquire the business of Thomson, a French colour television company, and became the largest joint venture of color TV enterprise. In October of 2004, it acquired Alcatel mobile phone business to jointly set up the production, research and sales platform of mobile phones. At that time, TCL seemed to have begun to take the shape of a world-class multinational company, but the financial data clearly show that these acquisitions have led to great loss, proving that the purchase was a failure. In spite of

[36] Most companies listed on Chinese exchanges will offer two shares classes: A-shares and B-shares.B-shares are quoted in foreign currencies (such as the U.S. dollar) and are open to both domestic and foreign investment(provided that locals set up a foreign currency account), while A-shares are only quoted in Chinese renminbi.

the failures, the domestic enterprises' idea of going out is right. Internationalization does not have too many patterns for the Chinese enterprises for reference. Any pattern may create the corresponding problems. Here, the paper mainly analyzes the case of TCL's relative success in the Vietnam market.

At present, Vietnam is a fast growing trading partner of China. That China-Asean Free Trade Area is in operation and continue to creates a better development environment for the economy and trade between China and Vietnam. According to "The Chinese Customs Statistics", the trade volume between the two countries was \$32 million in 1991, but reached \$1.052 billion in 1995. From 2000 to 2008, the trade between the two countries grew from \$2.466 billion to \$19.464 billion. In the global financial crisis, Vietnam's foreign trade contracted in general in 2009, the volume still rose to \$21.05 billion, taking up 16.8% of the total import and export trade of \$125.4 billion of the goods in Vietnam. China became Vietnam's largest trade partner for six consecutive years, and the largest source of imports. In the first nine months of 2010, the two countries' trade surged 44.1%, reaching \$20.63 billion.

4.2 The diverse aspects of Chinese investment in Vietnam

(1) Direct investment field

According to "The 2009 Statistics Bulletin of the Foreign Direct Investment in China" by the Ministry of Commerce, the National Bureau of Statistics, the State Administration of Foreign Exchange. China's direct investment in Vietnam stock rose from \$28.73 million to \$728.5 million from the end of 2003 to the end of 2009, ranking fourth in the 10 Asean countries, only after Singapore, Burma and Indonesia. But considering the existence of undeclared investment, it is believed that the size of China's direct investment in Vietnam is actually larger than the above official statistics. Vietnam statistics also confirmed this. According to its statistics, at the end of 2008, China's direct investment in the contract of Vietnam totaled \$2.198 billion, among which \$1.092 billion had been invested. Based on "The 2009 Statistics Bulletin of the Foreign Direct Investment in China", in 2008 the stock of China's direct investment in Vietnam was \$521.73 million. And Vietnam statistical data is 2.09 times more than that of China. According to "The 2009 Statistics Bulletin of the Foreign Direct Investment in China", the volume of China' direct investment was

$112.39 million in 2009. And the statistics by the Foreign Investment Agency of the Ministry of Planning and Investment in Vietnam showed that China's direct investment in Vietnam was $210 million in 2009, 1.87 times more than that of the Chinese data.

(2) The engineering contracting field

In the field of engineering contracting field, with the growing international competitiveness, the size and fields contracted by the Chinese enterprises in Vietnam have been expanding. It extended to large power plants, chemicals, cement, road and bridge construction, ship-building, real estate development and other industries. By the end of December, 2008, the contract amount of Chinese enterprises in Vietnam accumulated to $10.59 billion. They are signed for engineering, design and consultation, and cooperation of labor service, and the turnover of $5.01 billion was finished.

(3) The field of international tourism

In the field of international tourism, China is Vietnam's biggest client. 650,100 Chinese tourists traveled and visited Vietnam in 2008. At the same time, as the Vietnamese living standards improve, the number of Vietnamese who came to travel in China has grown in recent years, and China has become the first traveling destination of the Vietnamese.

4.3 General profile of the Vietnamese market

As the result of the Vietnam war(1955-1975), the economy of Vietnam has been stagnant for a long time. Between 1970 and 1980, the growth rate of the average annual GDP in Vietnam was only 2.8%, and was 4.1% during the years of 1980 to1990. Since the reform and opening-up started in 1986, Vietnam's economy has grown rapidly. As shown in Table 1, from the 1990's to 2009, the Vietnam's GDP growth rates were actually higher than the world's the developing countries'average level. In 2009, Vietnam was one of the twelve coutntries who realized the economic growth. According to the statistics from "WEO Database" of the IMF[37] and "the International Financial Statistics", from 2000 to 2009, the volume of Vietnam's GDP

[37] IMF=International Monetary Fund

has increased from $31.196 billion to $97.18 billion. Its per capita GDP rose from $402 to $723 in year 2007, further to $1132.6 in 2009. Vietnam has been among the middle-income countries in the world. Vietnam's natural conditions are superior, and it is the 13th of the world's most populous countries, and is expected to enjoy a longer "demographic dividend" in the future. According to the latest census data, the population of Vietnam are in the period of "Golden Structure", working age population (15 to 59 years old) accounted for 66%, nearly one time more than the non-working age population. In 2014, the national labor population are about 54.87 million, accounting for more than 50% of the total population, according to the Vietnamese population statistics quoted by the business department of the Chinese embassy. Under the edification of traditional Chinese culture for thousands of years, the Vietnamese are hard-working, taking the lead in the world. The tradition of a socialist country attaching great importance to the popularization of education makes literacy rate of the Vietnamese labor population as high as 96%. Therefore, Vietnam's demographic dividend is real. Various conditions decide the economic growth prospects in Vietnam. Vietnam is listed as the most attractive country after "BRIC" (Brazil, Russia, India, China, abbreviated as the "BRIC") and the first of "VISTA" (Vietnam, Indonesia, South Africa, Turkey, Argentina, abbreviated as "Vista") by *the Economist Magazine* in Japan. For the Chinese enterprises vigorously competing for high-end markets, the advantages of the Vietnamese market also lie in that economic growth and young population structure. These make the Vietnamese consumers strongly chase fashionable consumer goods. The high prices of the real estate in Vietnam make many consumers realize that their dreams of buying flats are hopeless, so they spend the larger share of income on tradable consumer goods. All of this further strengthens the Vietnamese consumers to chase fashionable goods, to such a degree that the big cities in Viewnam, in term of the consumption of electronic products, are almost synchronous with the Chinese market.

Table 1　Economic growth rate in Vietnam (real GDP): %

Year	1992-2001	2002	2003	2004	2005	2006	2007	2008	2009
World	3.2	2.9	3.6	4.9	4.5	5.1	5.2	3.0	-0.6

Devel-oping Econo-mies	3.8	4.8	6.2	7.5	7.1	7.9	8.3	6.1	2.4
Devel-oping Count-ries in Asia	7.3	6.9	8.2	8.6	9.0	9.8	10.6	7.9	6.6
Vietna-m	7.7	7.1	7.3	7.8	8.4	8.2	8.5	6.2	5.3

Note:

① The data from 1992 to 2001 are average annual growth rate.

② Since the year of 2003, although Vietnam's economic growth rate was lower than that of developing countries in Asia as a whole, it topped the Asean countries. Just because China's economic growth rate was far ahead of the world, China significantly pushed up the overall economic growth in developing countries in Asia.

Source of Data: "The World Economic Outlook" by the International Monetary Fund, (April 2010), pp. 155-160.

As for TCL Company, Vietnam is the first country of its foreign direct investment and production. In 1999, TCL set up factories to produce color TV sets in Vietnam. The domestic market demand in Vietnam was for about 650，000 color TV sets in the same year, but its domestic production capacity was more than 3 million units. In such a market with overcapacity of four times and fierce competition, TCL gained a firm foothold shortly after. Since the year of 2001, the Vietnamese Company, TCL made profit every year. Wang Cheng, the General Manager of the Vietnamese Company, introduces that the company has more than 300 employees, produces 600，000 color TV sets annually (The color TV sales in Vietnam are now from 1.6 million to 1.8 million throughout the year). With production and trade calculated together, Tcl's annual business revenues are more than $30 million, and the market share of color television in Vietnam ranked top three for consecutive years, becoming the famous brand in the Vietnamese market. Though more detailed data can not be gained because of the trade secrets protected by the company, judging from these situations, TCL's business in Vietnam is a great success.

4.4 The conditions of success for TCL's overseas investment in Vietnam

4.4.1 The long history between China and Vietnam provides the basic conditions for the development of TCL

The Vietnamese civilization originated from China, *Vietnam's Historical Records*, the Vietnam's classical official history regards the legendary King Jingyang (named Lu Xu, the equivalent of Yellow Emperor (Huangdi), named Xuan Yuan in China) as the first ancestor in Vietnam. King Jingyang is the son of Sun Diming, the third generation of the Chinese emperor Shen-Nung. "King Xiong" (Legend goes that he established the kingdom of Van Lang (2879 B. C. – 258 B. C[38].)), who is today recognized as the earliest ancestor officially sacrificed by the Vietnamese government, is the grandson of King Jingyang. King Anyang (called Shu Pan), who perished the Kingdom of Van Lang and founded the Kingdom of Au Lac (257 B. C-207 B. C) was a prince of the ancient Kingdom of Shu destroyed by the ancient Qin Kingdom[39]. Apart from the legendary figures and regimes, the earliest regime that Vietnam can confirm is the local government called the Xiang Prefecture established by the Qin Dynasty. The prefecture covered the west of China's Guangxi Province and the north and the middle of today's Vietnam. It has been a county of China for thousands of years, and Chinese was popular with them. It was much more Chinesized than the Mongolia plateau ruled by the Central Plains Dynasty and the Western Regions (that is, the inner and outer Mongolia, Tibet and Xinjiang Provinces today). The current Chinese loanwords account for about 60% of the Vietnamese vocabulary, in some areas for 70% to 80%. Wang Bo, a Chinese historical and cultural celebrity, was buried in Vietnam. During the Five Dynasties and Ten kingdoms (907-960) in Chinese

[38] B.C- before Christ.

[39] The **Qin dynasty** was the first imperial dynasty of China, lasting from 221 to 206 BC. The dynasty was formed after the conquest of the six other states by the state of Qin, and its founding emperor was known as Qin shi huang, the First Emperor of Qin.

history, Vietnam was divorcecd from China, and was independent, but the state and the actual rulers often came from China's Fujian, Guangdong and Guangxi provinces. Chen Guojun (1213-1300), the great national hero, who led the Vietnamese soldiers and civilians to fight against Mongolia and won the victory, was an immigrant from Fujian Province.

The Mekong Delta Region, now Vietnam's most developed area, was developed and set up under the Chinese autonomous power during the Ming(1368-1644) and Qing(1616-1912) Dynasties in Chinese history. The military, political, and economic supports from the Mekong Delta of the Han people contributed quite a lot to its success in power. At the end of WWII[40], Ho Chi Minh's call to arms for the independence and liberation of the Vietnamese was also written in Chinese. Until the fifties and sixties after the WWII, Vietnam was able comprehensively to switch to Latinized Mandarin. The comprehensive recovery of Chinese education has been popularly growing in recent years, and common cultural traditions and population contacts are conducive to Chinese enterprises to develop the Vietnamese markets.

Geographical linkage and cultural affinities determine that Vietnam in history was the hot spot of the multinational business for Chinese people. For developing the economy and consolidate the national strengths, the regimes of the Vietnamese Dynasties meant to attract the Chinese residents with technical and financial advantages. So Vietnam has become the most important country that China has foreign direct investment in trade, mining, smelting and other industrial departments. At least since the Post Li Dynasty (1428-1787), Vietnam actively attracted the Chinese capital and workers to exploit rich mineral resources in the country. The mining of gold, silver, copper and tin were undertaken by the workers employed from the Chinese Qing Dynasty. Taiyuan Song-Star Silver Factory, Jiaozhi Dulong Silver Mining, and Xinghua Scorpion Silver Factory were large-size companies funded by the Chinese in Vietnam. Some Chinese-funded mines and their attached smelters had the most number of employees, and some Chinese-funded mines hired over ten thousand workers. The Manchu Regime[41] in China severely restricted, and prohibited the development of mining industry from the Ming Dynasty(1368-1644), being worried about the Han[42] people's gathering against them. There was no exception to

[40] WWII, world war two.
[41] Munchu regime is the government of Qing dynasty(1616-1912) in Chinese history.
[42] The "Han" is the biggest nationality in China throughout history.

the wise Emperor Kangxi, Emperor Yongzheng[43], etc. Overseas investment played an irreplaceable role in keeping, developing China's mining and metallurgical technologies and organizing skills.

4.4.2 TCL positions its development as the internationalized operation

The primary factors of success lie chiefly in that the strategical decision-making about internationalization management must be right. Namely, from the start, the companies, based on their own brands, open up overseas markets, just after a good foundation of the export business is laid, they can expand the overseas direct investment. In foreign direct investment, it is necessary to start from new investment rather than mergers and acquisitions. The first step for TCL Group to start its overseas direct investment in Vietnam was from the sales and production of its own brands. When it merged and acquired the color TV program of Luks Industrial Co., LTD in Hong Kong in 1996, it took the lead in using the state-owned brands for the acquisition of Hong Kong-funded enterprise. At present, the proportion of original equipment manufacturer (OEM) [44]production of TCL color TV is not high, accounting respectively for 24.8% and 15.6% of the total sales of TCL Group color TV in 2006 and 2007, accounting for 7.93% in 2008.

Foreign direct investment is a natural expansion process starting from the exporting internationalization. At least in the manufacturing field where Chinese enterprises are dominating, the most reliable development way of transnational operation is first to export and then invest. When investing, they have to produce their own brands with greenfield investment[45]. After accumulating the strengths and experience, they can carry out cross-border M & A. In the rapid development of the foreign direct investment in recent years, however, too many Chinese enterprises have gotten it wrong. Their own brands and independent researches and developments are not quite competitive, they even do not have much experience in export business.

[43] Both of these two emperors are in Qing dynasty.

[44] "OEM" refers to a company whose products are used as components in another company's product. The OEM will generally work closely with the company that sells the finished product (often called a "value-added reseller" or VAR) and customize the designs based on the VAR's needs.

[45] A form of foreign direct investment where a parent company starts a new venture in a foreign country by constructing new operational facilities from the ground up. In addition to building new facilities, most parent companies also create new long-term jobs in the foreign country by hiring new employees.

They attempt to attain the highest level in one step, wishing to obtain the well-known brands and research and development ability through overseas merges and acquisitions. It must be realized that the ability of research and development is dynamic, the brand value is also dynamic. The acquirers who lack their self-developed and advanced and core teconology, are difficult to make the acquired enterprises be utterly convinced. So when the acquirers begin to manage, members of the research and development team may start to quit or be missing. Such a “Gold Digging” way that the second-class and third-rate brands acquire the first-class brands is bound to cause the latter devalued in the eyes of the consumers. When Lenovo Group bought IBM PC, many of IBM’s clients in Europe and the United States massively left for this reason, failing to achieve the effect of “1+1>2”. After the acquisition, the global market share of Lenovo laptops did not rise but fall in ranking. As for SAIC Motor’s[46] acquiring South Korea’s Ssangyong Motor, it was a complete failure. The government of the host country would severely limit the high technology transfer. For example, the Committee on Foreign Investment of the Ministry of Commerce in the United States in February 1990 ordered China National Aero-Technology Import and Export Corporation to withdraw from the purchase of MSMCO airlines, USA. In the field of pure civil products having nothing to do with the national security, the core competitiveness of any enterprise can not be bought with money. But in shaping the core competitveness, the most arduous independent development is the most effective way. It seems difficult at the fledgling stage for TCL in an old style, it not only brings TCL the better brand effects, but also has shown the function to improve the stability of the enterprise. Even if TCL’s cross-border mergers and acquisitions in Europe once failed later. The losses in 2005 and 2006 were 320 million yuan and 1.93 billion yuan respectively, but it could complete the rebound in two or three years, starting to remake profits since 2007. At the same time, the location choice of TCL’s direct investment in Vietnam is also correct. In the foreign direct investment boom, some Chinese companies have already fallen into the “going out for the sake of going out” error. The foreign direct investment, especially overseas mergers and acquisitions in their eyes seem not the choice or means but the purpose itself. Enterprises, in carrying out internationalized operations, however, have two choices: trade and direct investment. For

[46] SAIC Motor is the largest auto group in China, listed as the largest auto company by market capitalization in Chinese A-share stock market.

manufacturers, only when there are large market capacity, rapid economic growth and higher import barriers in the host countries, or when the host countries have the potential to be export-oriented production bases, it is reasonable to carry out direct investment and production. Otherwise, it is necessary for them to produce goods domestically, and then export them to other countries. According to the above principles, Vietnam is a suitable host country for the Chinese well-developed household appliances enterprises to make direct investment.

As mentioned above, Vietnam has bigger market capacity of electronics consumer in developing countries, and its economy grows fast, and it has the potential to become the export-oriented production assembly base. And the import barriers in Vietnam is high, its cutting speed is lower than the other major Asean countries. As shown in Table 2, the simple average tariff rate in Vietnam was 11.79% in 2008, 70 percent higher than the average level (6.95%) of APEC[47], higher than that of all member countries of Latin America in APEC. Among the Asean countries who joined in APEC, Vietnam was second only to Thailand. Especially Vietnam had many high tariff projects. Vietnam had had 1880 projects whose tarrif rate were more than 20% by the end of 2007, accounting for 20.7% of the total tariff duty numbers, more than Thailand (1619 projects and 19.5%), Malaysia (1384 projects and 13.3%), far more than China (467 projects and 6.1%). It was clear that Vietnam was the country with the most high tariff projects among the 21 APEC members. The Ministry of Industry & Trade Commerce of Vietnam put forward the planning of the development of the domestic market and the campaign of "Vietnamese use Vietnamese goods" in 2009. It is the above fundamental factors that determine that such well-developed industries as the household appliances industry in China take Vietnam as the host country to make foreign direct investment, which is a right choice.

Table 2 Average Tariff Rates of Some APEC members from 1988 to1988: %

Member State	1988	1993	1996	2004	2006	2007	2008
China	40.3	37.5	23	10.4	9.9	9.9	9.8

47 **Asia-Pacific Economic Cooperation** (**APEC**) is a forum for 21 Pacific Rim member economies that seeks to promotefree trade and economic cooperation throughout the Asia-Pacific region. It was established in 1989 in response to the growing interdependence of Asia-Pacific economies and the advent of regional trade blocs in other parts of the world. APEC currently has 21 members: Australia, Brunei Darussalam, Canada, Indonesia, Japan, South Korea, Malaysia, New Zealand, Philippines, Singapore, Thailand, United States, Chinese Taipei, Hong Kong, People's republic of China, Mexico, Papua New Guinea, Chile, Peru, Russia, Vietnam.

Chile	19.9	14.9	11	6	6	6	6
Mexico	10.6	12.8	9.8	15.9	10.9	10.9	10.9
Peru	/	/	11.9	10.2	10.1	8.3	5.0
Indonesia	20.3	17	13.01	9.88	9.45	9.45	7.72
Malaysia	13	12.8	9	8.56	7.68	7.68	7.7
the Philippines	27.9	23.5	13.99	7.06	7.33	7.33	6.23
Thailand	40.8	37.8	18.36	11.97	11.36	11.36	11.83
Vietnam	/	/	11.9	18.53	18.5	18.5	11.79
Average of APEC	15.4	12.9	10.7	8	7.6	7.5	6.95

Source of Data: PECC(Pacific Economic Cooperation Council), quoted in "The APEC Development of 20 Years: from the perspective of the Bogor Goals" by Gong Zhankui. *The Asia-Pacific Economic DevelopmentReport, 2009*. Nankai University Press, 2009.

4.4.3 The successful strategies of self-owned brands

On the basis of the right strategy and successful product development, TCL's brand strategies go well in the Vietnamese market, achieving great success. The sales of its color TV sets ranked the top three in the Vietnamese market year after year. In the China (Guangdong)-Vietnam Economic and Trade Fair held in October 20, 2009, Pham Gia Khiem, the Vietnamese deputy Prime Minister and Foreign Minister, also praised that TCL was a well-known international home appliances brand in Vietnam. He hoped that TCL could develop better in Vietnam. If there is no other evidence, his words may be understood as merely the host's polite remarks, but this is not the way things turned out. The publicity in *Vietnam Airlines Fashion Magazine*, the prices in the local mainstream home appliances markets in downtown, etc. show that the Deputy Prime Minister was not out of politeness. To determine the market position of a brand, it can seen from such aspects as the business area, the quality of the promotion ladies arranged and commodity prices. In November, 2009, the major home appliances stores like Jiacheng, CAO Phong, located in the city center of Ho Chi Minh City, the biggest city in Vietnam, gave TCL the same business area as Panasonic, Samsung, Toshiba, LG and other well-known brands. And the promotion girls were beautiful. The commodity prices on the spot also indicated that with LCD TV products of the same class, TCL's prices were usually lower than those of Panasonic, Toshiba, higher than these of LG. And as stated earlier, LG has a much longer history than TCL. TCL ranked fourth in advertising costs for the home appliances market in Vietnam in 2009, the top three were Japanese and South Korea's enterprises. If TCL did not open up the overseas markets by its independent brands, TCL's brand strategy in Vietnam would now fall into a dilemma: more investment means more losses, and less investment is not conducive to opening the markets. By contrast, in November 2009, the Lenovo brand in the Vietnamese market was apparently poorer. At that moment, Lenovo's large outdoor billboards can be seen outside the home appliances stores in the center of Ho Chi Minh City, side by side with SONY, Samsung, Toshiba, and LG, etc. By contrast, the business area and location arranged for Lenovo's home appliances are significantly less than Acer, Asus and other Chinese computer brands, and its prices are inferior to the main competitors. The saddest thing is that Lenovo completed its acquisition of IBM PC in May 2005, and there is a time limit to Lenovo's continuing to use the IBM brand. After four and half years, Lenovo still could not get rid of IBM's impacts in the Vietnamese market. Products labelled Lenovo in China have to be branded "IBM-LENOVO" in Vietnam. Outside the Vietnamese market, Lenovo Group's "Gold Digging" brand strategy of buying IBM PC improved rapidly in a short time Lenovo's profile in the western markets, but could not achieve the effect of "1+1>2". It makes the Lenovo Group more constrained when managing the acquired brand "Thinkpad". The fact that the black "Thinkpad" for years was changed by Lenovo incurred consumers' criticism. Any small changes to Thinkpad made by Lenovo may be seen by consumers as the quality decline signs of Thinkpad after the acquisition. It also makes, in the long term, Lenovo's independent brands difficult to get rid of the IBM brand shadow and be self-reliant. An article in *The Wall Street Journal* once commented: "The basic issue of Lenovo Group is that it is unable to succeed in expanding business outside China, the core market", "a conspicuous acquisition could attract the attention of the media, but will further reduce the company's cash positions". The comments can be almost seen as an denunciation to Lenovo's mistake of acquisition of IBM PC. Lenovo is a well-known enterprise in China, together with TCL. The two companies involve in the industries which are much overlapped, and their total overseas income is about 50%, and both of them are working hard to improve their positions in the international market. China's first international standards officially accepted in the field of information technology were the "Series Standards of the Information Equipment Resources Sharing Collaborative Services (Flash)" of ISO international standards in June, 2008. The standards were formulated by "Flash" jointly launched by TCL, Lenovo and other enterprises. In their respective key industries of the two companies (Lenovo's in the computer industry, TCL's in the home appliancres industry), Lenovo seems to have a more important position than TCL in the domestic counterparts. Lenovo started earlier to get into overseas markets than TCL, the former set up companies in the United States and France in 1990, and set up research & development lab in Silicon Valley in early 1992. The latter took the first step in its multinational management until 1999 by setting up production plants in Vietnam. In this case, the management performance of Lenovo brand is poorer. It is partly because of its overdependence on mergers and acquisitions of international famous brands to realize its leapfrog development strategy. Thanks to China's strong anti-crisis policy, Lenovo has reversed the loss situation for three consecutive quarterly in in the second quarter of the 2009/2010 fiscal year (by the end of September 30, 2009), but 49% of its sales came from the Chinese market in that quarter. It still suffered large losses in the overseas emerging markets and well-developed markets abroad and its transnational operation strategy was unsuccessful. The negative effects of the "Gold Digging" strategy will last for quite a long time. Yang Yuanqing, CEO of the Lenovo Group, used to say that Lenovo will continue to focus on innovation to improve its competitiveness, "let our products be different from those staple commodities made by our competitors who make PCs into bulk stock[48]". His ambitions are laudable, but in spite of the fact that Lenovo Group has achieved the symbolic position of the national computer industry in China, it has to eliminate the negative effect of its "old Digging" strategy so as to take the road of sustainable development.

4.5 How to improve China's overseas investment?

I. Guiding the enterprises to scientifically formulate their long-term development strategies of foreign investments

Enterprises aiming to make foreign investment are sure to scientifically formulate their long-term development strategies. First, it is necessary for them to fully grasp the international production and business operation information in the same industry. On the basis of full understanding of the world market, production and operation in the same industry, they have to design and develop their own advantages and characteristics, and accurately position their foreign investment. Secondly, it is essential to analyze the combination effect of optimizing production reconfiguration that the investment in different regions, different countries can create. When analysing, they should have the concept of globalization and emphasize the overall foreign investment benefit, rather than just look at the economic benefits in a certain country. The investment in a certain country may not be ideal, but may bring technology update and more scientific management for other investment projects. In the planning, therefore, it is reasonable to adopt different strategies in regions of different countries. Enterprises should be far-sighted and emphasize overall layouts so as to make the enterprises' long-term development of the foreign investment work methodically.

II. Establishing the advisory service system of overseas investment information and policy

According to the principle of information sharing, China's Foreign Economic

48 In this case, it means Lenovo is trying to produce the more creative and distinctive commodities, not those ones low-value-added just for consumption.

and Trade Commission and State Administration of Foreign Exchange should set up the consulting information network of the state policy in overseas investment as soon as possible. It is necessary to set up on Internet the information database of overseas investment and trade policy and the information communication stations of foreign investment projects based on key countries, key areas. It is important to enhance corporate's consciousness and ability of using law and government protection mechanism to safeguard the lawful rights and interests in overseas investment .

III. The main area of overseas investment should be the developing countries

The vast developing countries are similar to China in the levels of economic development, with good political and economic ties. These countries are actively opening up their markets, formulating various preferential policies. Investment in these countries is conducive to China's technological advantages, reducing the cost of investment, changing China's technology, equipment, labor management and so on, and expanding China's export. Many Asia-pacific[49] countries are neighbors to China. With large market potentials, fast economic development, and more overseas Chinese, these countries should be the first choice for China's overseas investment.

IV. Intensify financial support

Relax foreign exchange control and financial control to enterprises and the necessary financing rights at home and abroad should be given to the suitable multinationals. China is supposed to further improve the international investment guarantee system, encourage enterprises to apply issue shares, bonds, and international credit financing in the international financial market. It is necessary to reduce the difficulty of the application processes, simplify examination and approval processes, and reduce the cost of the enterprises. In the early stages of the multinational enterprises, for example, no profits are available for reinvestment, it is appropriate to relax foreign exchange controls, allowing companies to internally adjust the foreign exchange funds, and give them greater autonomy in terms of

[49] **Asia-Pacific** is the part of the world in or near the Western Pacific Ocean.

additional investment. Especially in the face of China’s high foreign exchange reserves at present, we have the conditions to provide the financial support measures, provide the convenience of the preferential policy and foreign exchange. At the same time, it can better operate foreign exchange reserve, and ease the pressure of appreciation of RMB’s huge foreign exchange reserves.

V. Perfect the insurance system of overseas investment

This is a more positive prevention strategies. The Chinese enterprises can pass on political risk to the insurance institutions through assets insurance, with the help of policy or commercial insurance company’s insurance business. At present, the system of the policy insurance means to support enterprises overseas investment in China is gradually formed. In 2003, China Credit Insurance began to cover part of the political risk. After the Libyan crisis, this company pay Gezhou Dam Group, CNBM more than 200 million yuan. The Chinese companies can also reinsure their political risks on a global scale, further spread the risks. The world’s most famous political risk insurance institutions are “Overseas Private Investment Corporation (OPIC)” and “North American Insurance Company”in the United States, “Export Credit Guarantee Department” in the UK, and Multilateral Investment Guarantee Agency (MIGA) of the World Bank Group and the Asian Development Dank (ADB), etc. These insurance companies are indispensable for the development of overseas investment.

Conclusion

China's overseas investment started in the beginning of reform and opening up in 1979, compared with the history of foreign direct investment in developed countries it lags behind more than a century. After 20 years of exploration and development, it has been gradually formed a certain scale. Although in recent years the development of China's overseas investment is fast, overall, there are still many problems. For example, " investment projects are not high-tech, the regional structure of foreign investment enterprises is not reasonable, investments in developing countries and regions are too low, overseas investment enterprises' profits are to be further improved". According to incomplete statistics, China's overseas enterprises who made profits accounted for 55% of the profit, most of them are non-productive enterprises. The enterprises who can keep the balance of payments accounted for 28%. The loss-making enterprises accounted for 17%, the majority are productive enterprises. This is in stark contrast to the dominant position and huge scale of multinational industrial corporations enterprises in the international arena.

In the first part of my thesis, we have learned various theories of international foreign direct investment. These theories have become great learning materials for China's overseas investment. And also to a certain extent, they pointed out the direction for a growing number of Chinese enterprises. Overseas investment is important step to the world economic chain, gain, and achievement of international brand.

In the second part of my thesis, I summarized the development status and characteristics of China's overseas investment. The conditions of Chinese enterprises overseas investment are mature. Since the 1990s, China's economy has shifted from a seller market to buyer market, which means the supply is higher than the demand. Currently, in the industries of domestic appliances, textiles, chemicals and light industry and other heavy industries, "production capacity excess, product backlogging, technical equipment being left unused and other issues have generally emerged. To get further development, they must find new markets. Through foreign investment, China could replace goods output with goods output, invest and build factories in foreign countries, establishsales network and service outlets. At the same time, it will promote the export of domestic equipment, raw materials and semi-finished products, and effectively expand in the international market.

In the third part of my thesis, we can see the overseas acquisition performance of 25 Chinese companies through empirical analysis. I chose the method of fiancial index and designed a system of evaluation. Through the comparison with the industry average, we can see the difference. The fourth part we viewed the conditions of Tcl's direct investment success in Vietnam. Foreign direct investment, is not needed only bt the opening-up strategy and participation in international division of labor at a higher level, but also by China's industrial upgrading and sustainable economic development. Although a country's industrial upgrading can be carried out within the domestic area, but its room is generally small. Acoording to the internatioanal experience, the U.S. industrial structure adjustment and upgrading is carried out worldwide. Some traditional "sunset" industries and some of the "sunrise" industries were transferred to other countries. Such as all the accessories of Boeing aircraft were made by over 70 countries including China. In contrast, the industrial structure adjustment of the UK to eliminate the textile industry in the past was implemented domestically, which resulted in massive unemployment. The UK paid a heavy price. From an international comparative perspective, China is currently in the middle of international division of labor. Compared with lower ladder countries, some industries in China has a comparative advantage, and with higher ladder countries, there are still so many thingsto learn in the next period of time. The specific position in the international division of labor of China determines two different types of foreign direct investment. The first is the "dominant type" foreign direct investment. China has established a relatively complete industrial system, the export of manufactured goods has an absolutly dominant position. Although China's industrial development still lags behind developed countries, but compared with some developing countries, China in the textile, food, metallurgical, chemical, pharmaceutical, electronics and other industries formed a certain comparative advantage. According to the third national industrial census, China has almost 500 kinds of products with lower than 60% of the production capacity utilization . Many of these products in terms of technical standards and quality are higher than those in many developing countries. In addition, China also has a large number of mature and applicable technologies, such as home appliances, electronics, light transportation equipment, small-scale production technology and labor-intensive production technologies. Their corresponding products have become standardized, and they are easy for other developing countries to accept. The second is “learning type” foreign direct investment. It is aimed at learning foreign advanced industrial technology and management experience, stimulating domestic industrial upgrading, creating new comparative advantages for the foreign direct investment in a higher ladder States. In order to develop the information industry as the core competence, Haier Group established foreign companies in the United States and Germany for the main purpose of research, development and technology transfer. It set up 6 product design divisionin in Los Angeles, Silicon Valley, Lyon(France), Amsterdam(Netherland) and Montreal (Canada). On the other hand, in order to let their products enter the international market, Haier has established overseas companiesin in Indonesia, Philippines, Malaysia and Latin America countries. In this way Haier combined “learning type” and “dominant type” foreign direct investment.

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Appendix

Table 1： Sample enterprises' overseas M&A statistic

Corporate Name	Sector	Overseas M&A items	Motive	Amount
CITIC Group	Mining	Acquisition of KUFPEC oilfield in Indonesia (2006)	Obtain strategic resources	97.40 million $
	Mining	Acquisition of AquilaResourcesLtd. (Australia) iron ore item,2006	Obtain strategic resources	415 million $
	Mining	Acquisition of Canadian NationsEnergy's oil and gas assets in Kazakhstan (2007)	Obtain strategic resources	1.91 billion $
Shougang Group	Mining	Acquisition of U.S. Company New XCL (2007)	Obtain strategic resources	228 million $
Sinochem Group	Mining	Its subsidiary's acquisition of Adisseo in	Develop the market	400 million

		France (2006)	and get the brand	Euro
Sinopec	Mining	2005 in Angola, obtained the stock ownership of 17th exploration area(27.5%), the 18th exploration area(40%) and the 15th exploration area(20%)	Obtain strategic resources	2.4 billion $
	Mining	In 2006, Acquisition of British Petroleum's joint venture (Udmurtneft) equity in Russia	Obtain strategic resources	3.5 billion $
	Mining	In 2006, With India, joint acquisition of 50% equity of a coastal oil fields in Colombia	Obtain strategic resources	400 million $
China Natural Gas	Mining	In 2005, Acquisition of oil company (PK) in Kazakhstan	Obtain strategic resources	4.18 billion $
	Mining	In 2005， with India's ONGC acquired the Al-rhett oil company (Syria) owned by Canadia	Obtain strategic resources	unkown
	Mining	In 2006, with Sinopec acquired oil and pipeline	Obtain strategic	1.42 billion $

		assets owned by Canadian Nkana in Ecuador	resources	
CNOOC	Mining	In 2004, acquisition of Muturi's partial interests of British Gas Group (BG) in Indonesia	Obtain strategic resources	98.1 million $
	Mining	In 2006, Acquisition of oil company SAPETRO in Nigerian	Obtain strategic resources	2,268 billion $
China Netcom	Telecommunication	In 2004, acquisition of PCCW, Hong Kong Telecom	Develop the market	1 billion $
China Metallurgical Group	Mining	In 2008, acquisition of Australian mining company Cape Lambert	Obtain strategic resources	400 million pataca
Chinalco	Mining	In 2007, acquired 91% equity of Canadian Peru Copper	Obtain strategic resources	860 million $
TCL	Manufacturing(cellphone)	In 2004, acquisition of Alcatel mobile phone business in France	Obtain technology and brand	55 million Euro
	Manufacturing(cellphone)	In 2005, acquired 45% stake of the T & A company	Obtain technology and brand	unkonown

	Manufacturing(home electrical appliances)	In 2005, acquisition of U.S. DVD player manufacturer GoVideo Company	Develop the market and circumvent tariff barriers	10 million $
SAIC Motor	Manufacturing(automobile)	In 2004, acquisition of Ssangyong Motor Company	Obtain technology	520 million $
Zoomlion Heavy Industry	Manufacturing(machinery)	In 2008, acquisition of Italian engineering machinery manufacturing company CIFA	Obtain technology and develop the market	271 million Euro
Shanghai Electric Group	Manufacturing(machinery)	In 2004, acquisition of Japanese IKEGAI in cash	Obtain technology	416 million yen
SGSB Group Co., ltd	Manufacturing(machinery)	In 2004, acquisition of the German company DA	Obtain technology	35 million Euro
SMTCL	Manufacturing(machinery)	In 2004, acquisition of German SCHIESSAG	Obtain technology	2 million Euro
Shaanxi Qinchuan	Manufacturing(gas equipment)	In 2007, acquisition of 42.18% shares of China Enric in Hong Kong	Obtain Technology and develop the market	1.1 billion Hong Kong dollar
	Manufacturing(gas	In 2007, acquisition of the Dutch company Burg	Obtain	108 million

	equipment)	Industries	Technology and develop the market	Euro
Lenovo	Manufacturing(electronic information)	In 2004, acquisition of IBM's PC business	Obtain brand and develop the market	1.75 billion $
Shagang Group	Manufacturing	In 2004, acquisition of Japanese sewing machine factory	Obtain technology	unknown
	Manufacturing(iron and steel)	In 2005, acquisition of Dortmund, Germany ThyssenKrupp's steel works	Obtain technology	unknown
Xinjiang Chalkis Co. Ltd	Manufacturing	In 2004, acquisition of Canterbury rowan food co., LTD., France	Develop the market	7.4 million $
Youngor Group	Manufacturing	In 2007, acquisition of U.S. Kellwood Company holds 100% of the shares of the new horse	Develop the market and obtain the brand	50 million $
China Minmetals	Mining	In 2009 the company acquired the Australian OZ	Obtain resources	1.386 billion $

China Nonferro	Mining	In 2009, acquisition of 80% shares of Luanshya Copper Mines in Zambia	Obtain resources	50 million $
Yanzhou Coal Mining Company	Mining	In 2009 the company acquired the Australian Felix	Obtain resources	3.33 billion pataca
Ji'en Nickel Industry Co. ,	Mining	In 2009, with Canadian GBK jointly acquired 100% stock of Canadian Royalties Inc.	Obtain resources	148.5 million Canodian dollar
Zijin Mining Group	Mining	2006, acquisition of 70% stock of Longxing Novosibirsk, Russia international investment co., LTD	Obtain resources	unknown
	Mining	In 2007, acquisition of the British company Monterrico	Obtain resources	unknown

Table 2 Central state-owned sample companies' financial indicators

Corporate Name	Year	Asset liability Ratio	Liquidity Ratio	Return On Net Assets	Profit Rate of Business	Total Assets Turnover	Inventory Turnover Ratio	Earnings Per Share	Net Assets Per Share	Business Growth Rate	Net Profit Growth Rate
Shougang Group	2007	55.9	1.12	8.04	5.42	1.55	20.19	0.21	2.67	23.39	31.26
	2008	55.15	1.02	5.35	5.34	1.38	16.26	0.14	2.59	-10.3	-35.6
	2009	56.72	0.97	5.24	3.7	1.27	12.71	0.12	2.60	-7.04	-10.4
CITIC Group	2006	36.69	0.87	5.57	29.91	0.24	1.5	0.14	2.49	3.9	-21.7
	2007	40.27	1.48	6.34	28.08	0.24	1.68	0.17	2.61	7.94	19.11
	2008	37.86	2.85	6.61	25.37	0.3	2.25	0.18	2.74	28.86	9.5

	2009	39.19	2.47	6.24	23.53	0.34	2.52	0.22	2.91	18.93	20.22
Sinochem Group	2006	53.45	1.41	12.66	5.88	2.16	13.14	0.31	2.41	-3.09	-46.1
	2007	52.08	1.31	10.95	6.93	1.8	11.53	0.44	4	25.87	63.97
	2008	53.17	1.3	13.23	6.28	1.88	16.43	0.49	3.71	41.18	12.18
	2009	59.59	1.35	12.57	7.76	1.28	12.08	0.43	4.07	-16.9	-12.2
Sinopec	2005	52.93	0.85	18.35	14.22	1.63	8.74	0.46	2.49	35.3	22.57
	2006	53.43	0.68	19.88	13.04	1.87	9.67	0.58	2.94	30.72	28.08
	2007	54.58	0.69	18.26	13.07	1.84	9.69	0.63	3.47	15.34	8.45
	2008	53.34	0.57	8.99	4.71	1.97	12.56	0.34	3.81	20.52	-45.9

China Natural Gas	2005	31.04	1.16	27	46.32	0.85	5.1	0.71	2.66	42.1	31.44
	2006	30.36	0.91	25	39.87	0.89	5.23	0.76	3.02	24.76	6.54
	2007	28.06	1.17	19.9	33.44	0.92	5.92	0.74	3.7	21.2	-1.21
	2008	29.05	0.86	14.4	25.3	0.98	7.63	0.62	4.32	28.28	-15.4
CNOOC	2004	22.81	2.58	9.93	22.66	0.45	12.7	0.18	1.77	18.15	50.62
	2005	21.04	1.53	10.63	19.96	0.52	17.07	0.21	1.92	25.06	17
	2006	34.37	1.15	13.09	24.77	0.57	18.16	0.28	2.16	32.36	37.4
	2007	25.39	3.38	12.99	33.73	0.51	16.57	0.5	4.17	41.66	98.37
China Netcom	2004	50.52	0.37	5.4	48.02	0.48	13.18	0.12	2.14	18.29	6.19
	2005	45.75	0.3	5.97	45.24	0.54	15.18	0.13	2.54	7.59	15.02

	2006	43.87	0.4	7.25	43.36	0.57	19.54	0.17	2.37	5.74	28.23
	2007	35.68	0.34	10.4	36.45	0.7	25.29	0.27	2.57	24.84	54.55
China Metallurgical Group	2008	94.12	0.97	87.01	9.1	1	3.53	0.24	2.8	24.3	-12.4
	2009	79.97	1.31	0	9.86	0.82	2.77	0.22	2	7.76	35.74
Chinalco	2007	35.34	1.39	17.65	24.18	0.89	5.16	0.76	4.88	24.86	-9.74
	2008	55.58	1.1	0.02	8.5	0.67	4.19	0	4.07	0.72	-99.9
	2009	58.51	0.91	3.4	1.34	0.52	3.43	-0.34	3.73	-8.42	-50.44
China Minmetals	2009	74.04	1.02	0	2.06	2.37	6.99	0.25	7.63	-16.7	-70.2
China Nonferrous	2009	30.05	1.56	8.78	1.9	0.18	7.74	0.02	6.78	-12.5	-54.86

Metal Mining Corp											

Table 3 Local state-owned sample companies' financial indiacators

Corporate Name	Year	Asset liability Ratio	Liquidity Ratio	Return On Net Assets	Profit Rate of Business	Total Assets Turnover	Inventory Turnover Ratio	Earnings Per Share	Net Assets Per Share	Business Growth Rate	Net Profit Growth Rate
TCL	2004	68.6	1.4	4.49	18.3	1.7	5.88	0.09	2.1	42.57	-57.0
	2005	74.3	1.1	-6.52	14.9	1.7	6.27	-0.1	1.9	28.28	-230
	2006	75.9	1.1	0.46	16.3	1.8	6.6	0.01	1.2	-9.33	-210
	2007	72.6	1.2	11.38	16.4	1.8	6.44	0.15	1.3	-16.6	-264
SAIC Motor	2004	18.1	2.4	17.38	25.4	0.6	3.84	0.6	3.5	8.69	30.41
	2005	19.6	2.5	9.48	18.2	0.5	3.43	0.34	3.6	-14.7	-44.2
	2006	57.2	1.1	4.5	16.6	0.6	4.39	0.22	4.8	377.5	29

	2007	57.8	1.1	12.4	13.3	1.1	10.1	0.71	5.7	241.2	225.3
Zoomlion Heavy Industry	2008	76.9	1.1	30.88	27.1	0.9	2.52	1.03	3.3	50.99	18.91
	2009	77.4	1.1	32.1	25.2	0.7	2.7	1.42	4.4	53.24	49.61
Shanghai Electric Group	2005	61.8	1.3	11.86	21.1	0.7	2.59	0.15	0	20.4	18.47
	2006	63.6	0.1	12.68	18.6	0.8	2.52	0.18	0	21.77	19.51
	2007	64.3	1.3	14.98	17.6	0.8	2.82	0.24	1.6	28.6	38.87
	2008	65.9	1.3	12.3	18.0	0.8	2.5	0.21	1.7	3.65	-9.53
SGSB GROUP Co., ltd	2004	49.1	1.3	0.44	11.2	0.6	4.81	0.01	1.9	14.93	-74.2
	2005	73.9	1.4	-48.9	17.7	0.7	3.59	-0.6	1.3	48.82	-74.41
	2006	72.2	1.5	0.83	26.9	1.0	3.6	0.01	1.3	59	-128

	2007	72.9	1.6	4.8	23.9	1.0	3.77	0.06	1.3	7.66	472.9
SMTCL	2004	80.1	1.0	6.96	19	0.7	3.81	0.17	2.5	77.55	426.7
	2005	79.0	1.1	10.77	20.3	0.9	3.78	0.33	3.1	39.74	91.36
	2006	77.5	0.9	11.34	19.5	0.9	3.46	0.39	3.5	21.5	17.99
	2007	81.6	1.0	5.86	16.7	0.9	2.25	0.14	2.4	11.35	-43.5
Shaanxi Qinchuan	2007	40.3	2.1	9.68	26.8	0.7	2.25	0.31	3.2	31.12	78.48
	2008	40.2	1.9	8.92	23.9	0.8	2.27	0.21	2.4	28.23	1.44
	2009	38.2	2.0	10.08	22.7	0.8	2.14	0.27	2.6	4.94	26.11

Table 4 Private sample companies' financial indicators

Corporate Name	Year	Asset liability Ratio	Liquidity Ratio	Return On Net Assets	Profit Rate of Business	Total Assets Turnover	Inventory Turnover Ratio	Earnings Per Share	Net Assets Per Share	Business Growth Rate	Net Profit Growth Rate
Lenovo	2004	45.84	1.85	22.61	9.67	0.22	12.1	0.02	1.28	14.54	1.23
	2005	42.12	1.86	20.99	11.02	0.19	10.08	0.06	1.32	-2.68	7.62
	2006	79.28	0.86	2.65	8.63	0.17	2.68	0.04	1.37	359.1	-80.2
	2007	79.18	0.87	14.22	24.79	1.22	23.01	0.14	1.5	9.63	480.9
Shagang Group	2004	80.92	0.79	15.68	8.15	1.59	7.79	0.28	1.8	60.46	60.42
	2005	79.49	0.72	16.23	7.05	1.73	8.29	0.35	2.15	38.92	23.57
	2006	68.12	1.05	7.73	5.59	1.82	9.5	0.24	3.15	49.12	27.91

	2007	80.54	1	-40.2	-0.93	1.46	7.55	-0.45	1.12	8.44	-470
Xinjiang Chalkis Co. Ltd	2004	74.07	0.78	9.61	33.41	0.32	1.53	0.43	4.45	-26.7	-35.1
	2005	75.1	0.77	7.73	24.66	0.35	1.42	0.39	5.06	48.09	-8.54
	2006	67.72	0.94	6.85	18.73	0.45	1.86	0.42	6.14	73.04	54.56
	2007	69.49	0.86	6.43	17.24	0.52	2.18	0.23	3.64	35.25	0.22
Yongor Grop	2007	53.11	0.99	15.73	33.3	0.29	0.71	1.11	7.07	17.71	227.9
	2008	68.67	1.14	17.57	33.49	0.32	0.67	0.71	4.05	53.26	-36.3
	2009	62.86	1.14	22.61	35.55	0.33	0.48	1.47	6.48	13.9	106.2
Yanzhou Coal Mining	2009	54.28	1.91	0	41.17	0.46	14.33	0.79	5.77	-17.7	-40.2

Company											
Ji'en Nickel Industry Co. ,	2009	55.43	0.71	4.22	36.62	0.19	1.57	0.16	3.7	-38.2	-49.0
Zijin Mining Group	2006	55.45	1.06	46.68	37.85	1.28	10.62	0.16	0.35	251.2	143.47
	2007	57.62	0.67	47.75	38.26	1.07	9.19	0.19	0.41	39.61	49.97
	2008	26.84	1.42	19	26.3	1.12	10.5	0.21	1.11	46.37	38.91
	2009	27.09	1.25	19.49	32.44	0.75	6.57	0.24	1.25	41.26	35.72

Table 5 Sample companies compared with the industry average

Corporate Name	Asset liability Ratio	Liquidity Ratio	Return On Net Assets	Profit Rate of Business	Total Assets Turnover	Inventory Turnover Ratio	Earnings Per Share	Net Assets Per Share	Business Growth Rate	Net Profit Growth Rate
Shougang Group	55.92/ 28.19	1.04/ 0.9	6.21/ 5.57	4.82/ 36.83	1.4/ 0.78	16.39/ 8.09	0.16/ 0.13	2.62/ 1.74	2.02/ 21.18	-4.91/ -18.47
CITIC Group	38.5/ 30.28	1.92/ 2.9	6.19/ 14.2	26.72/ 60.8	0.28/ 0.21	1.99/ 76.19	0.18/ 0.13	2.69/ 4.04	14.91/ 0.81	6.78/ 6.12
Sinochem Group	54.57/ 58.27	1.34/ 1.6	12.35/ 5.28	6.71/ 17.24	1.78/ 1.15	13.3/ 15.78	0.42/ 0.19	3.55/ 2.27	11.77/ 6.77	4.46/ -60.1
Sinopec	53.57/ 48.67	0.7/ 0.52	16.37/ 12.74	11.26/ 8.26	1.83/ 0.98	10.17/ 7.52	0.5/ 0.39	3.18/ 3.09	25.47/ 27.24	3.3/ 15.01
China	29.63/	1.03/	21.58/	36.23/	0.91/	5.97/	0.71/	3.43/	29.09/	5.34/

Natural Gas	22.57	0.9	11.79	34.78	1.17	3.68	0.45	3.28	27.31	3.19
CNOOC	25.9/ 49.01	2.16/ 1.52	11.66/ 20.12	25.28/ 28.25	0.51/ 0.99	16.13/ 13.68	0.29/ 0.76	2.51/ 2.5	29.31/ 28.58	50.85/ 39.15
China Netcom	43.96/ 42.96	0.35/ 2.2	7.26/ -8.12	43.27/ 23.7	0.57/ 1.12	18.3/ 15.11	0.17/ 0.31	2.41/ 3.95	14.12/ 11.76	26/ -462.8
China Metallurgical Group	87.05/ 63.76	1.14/ 1.22	43.51/ 6.43	9.48/ 13.52	0.91/ 0.66	3.15/ 2.8	0.23/ 0.31	2.4/ 4.21	16.03/ 30.12	11.67/ 197.65
Chinalco	49.81/ 60.34	1.13/ 1.0	7.02/ 7.78	11.34/ 12.0	0.69/ 1.23	4.26/ 5.55	0.14/ 0.42	4.23/ 3.38	5.72/ 6.41	-1717.88/ -22.69
China Minmetals	74.04/ 88.23	1.02/ 0.9	0/ 6.98	2.06/ 3.34	2.37/ 1.83	6.99/ 5.92	0.25/ 0.19	7.63/ 8.28	-16.7/ -22.4	-70.2/ 93.52

China Nonferro	30.05/ 57.62	1.56/ 1.1	8.78/ 7.98	1.9/ 2.21	0.18/ 0.12	7.74/ 5.69	0.02/ 0.03	6.78/ 6.21	-12.47/ -20.5	-54.86/ -87.31
TCL	72.85/ 46.09	1.19/ 1.29	2.45/ 3.76	16.48/ 14.75	1.75/ 0.75	6.3/ 4.98	0.04/ 0.15	1.63/ 2.87	11.23/ 37.49	-190.25/ -41.88
SAIC Motor	38.18/ 184.01	1.78/ 1.1	10.94/ 14.01	18.38/ 15.66	0.70/ 1.34	5.44/ 6.36	0.47/ 0.94	4.40/ 2.49	153.17/ 120.72	60.13/ 10.93
Zoomlion Heavy Industry	77.15/ 57.72	1.1/ 1.35	31.49/ 11.99	26.15/ 14.36	0.8/ 1.29	2.61/ 4.34	1.23/ 0.58	3.85/ 3.96	52.12/ 58	34.26/ 191.04
Shanghai Electric Group	63.90/ 42.03	1.0/ 1.94	12.96/ 11.84	18.83/ 36.08	0.78/ 0.65	2.61/ 3.47	0.2/ 0.62	0.83/ 4.15	18.61/ 33.84	16.83/ -41.26

SGSB Group Co. ltd	67.03/ 53.46	1.45/ 1.32	-10.7/ 11.23	19.93/ 7.62	0.83/ 1.01	3.94/ 3.88	-0.13/ 0.43	1.45/ 3.29	32.6/ 45.18	-1792.58/ 66.26
SMTCL	79.55/ 43.46	1.00/ 1.47	8.73/ 6.22	18.88/ 17.65	0.85/ 0.61	3.33/ 3.28	0.26/ 0.21	2.88/ 3.09	37.54/ 14.16	123.14/ 37.88
Shaanxi Qinchuan	39.57/ 42.57	2.0/ 1.4	9.56/ 6.17	24.47/ 17.9	0.77/ 0.55	2.22/ 3.57	0.26/ 0.19	2.73/ 3.12	21.43/ 16.28	35.34/ 33.71
Lenovo	61.61/ 57.82	1.36/ 1.2	15.12/ 9.87	13.53/ 16.3	0.45/ 0.37	11.97/ 10.2	0.07/ 0.11	1.37/ 2.36	95.15/ 48.39	102.39/ 65.55
Shagang Group	77.27/ 51.62	0.89/ 1.3	-0.14/ 16.22	4.97/ 13.71	1.65/ 1.34	8.28/ 8.09	0.11/ 0.57	2.06/ 3.43	39.24/ 37.02	-89.53/ 57.65
Xinjiang Chalkis Co. Ltd	71.6/ 59.93	0.84/ 1.3	7.66/ 15.81	23.51/ 27.9	0.41/ 1.23	1.75/ 6.78	0.37/ 0.42	4.82/ 13.94	32.42/ 32.19	2.79/ 15.86

Youngor Group	61.55/ 43.02	1.09/ 2.08	18.64/ 6.87	34.11/ 16.34	0.31/ 0.66	0.62/ 2.95	1.1/ 0.19	5.87/ 2.5	28.29/ 2.25	99.27/ -140.49
Yanzhou Coal Mining Company	54.28/ 50.46	1.91/ 0.89	0/ 3.96	41.17/ 42.87	0.46/ 0.25	14.33/ 15.68	0.79/ 0.28	5.77/ 7.32	-17.7/ 12.11	-40.20/ 20.82
Ji'en Nickel Industry Co.	55.43/ 48.52	0.71/ 0.97	4.22/ 4.19	36.62/ 32.47	0.19/ 0.31	1.57/ 1.98	0.16/ 0.22	3.7/ 4.76	-38.2/ -22.08	-49.02/ -18.26
Zijin Mining Group	41.75 /37.55	1.1/ 1.39	33.23/ 37.98	33.71/ 20.21	1.06/ 1.98	9.22/ 5.59	0.2/ 0.3	0.78/ 6.21	94.61/ -25.29	67.02/ -57.13

Source of data:

1. NetEase securities market ： http://quotes.money.163.com/f10/ggnr_601808,409246.html

2. CSRC(China Securities Regulatory Commission)website for information disclosure:http://www.cninfo.com.cn/

3. Industry data declared by the same stock exchange are the average of top 10 listed companies of the same industry within the inspection period.