Analysis of the strategy change of multinationals in China

-------From Joint Ventures to Wholly-owned Foreign enterprises

Xiuwen Zhai [1]

Abstract

After the market-oriented economic reform of China, multinational corporations began to invest in the Chinese economy and since then have taken China as part of their global networks. The initial forms of their investment include Sino-foreign joint ventures, Sino-foreign cooperative enterprises and foreign- funded enterprises, among which the mode of joint ventures takes the leading form for a long period. However in recent years, multinationals have put forward a strategy change in FDI. Wholly-owned foreign-funded enterprises seem to have taken place of joint ventures. In accordance with it the investment structure has changed a great deal. R&D centers and district headquarters have sprung out in some large cities. Furthermore there seems a new trend of cross-border merger & acquisitions in the host country. Why have the multinational corporations changed their investment strategy in China? What effect will it have to the Chinese economic development? This paper will try to give an analysis.

Key words Strategy, Investment, Multinational, Cross–border Merger & Acquisitions

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1 Overview of Multinationals FDI in China

The multinationals investment in China is called Chinese absorption of foreign investment. It is an important respect of China's fundamental principle of opening up to the outside word. Now 28 years have past and China has become one of the best known countries for multinational corporations to invest. China has become the largest recipient of FDI among developing countries and in the Asian region[2], and also one of the largest recipients of FDI in the world. [3]

1.1 The development periods of multinationals FDI in China

Since the market-oriented reform in 1978, China has opened itself to the outside world; many multinationals have been investing in China. The development periods of FDI can be divided into 3 stages.

First stage: foreign investment with caution (1978－1991). For a long time, China seemed a mysterious country to many western countries. Since the economic reform and opening-up to the outside world, the western world began to realize that China is a country with rich resources and potential demand. It is a place worth to venture especially when market was saturated, production cost went high and natural resources were short in their home countries. However, as the original economic system and absorbing foreign investment policies were not so clear as they are today, some of the multinationals invested in China with great caution（Yang Yumou, 2005）. Many well known multinationals such as Volkswagen, Hewlever–Packard and Nokia, experienced unfortunately a hard beginning. From the memoire to the final assignment of the contract, it took Coca-Cola and the Chinese government 3 years to settle down their negotiations. For 6 years Volkswagen and Shanghai Motor Company had negotiated before setting up a cooperative enterprise. When Nokia initiated its first business in China, it had only 5 employees and now China has become its largest market in the world.[4] The year of 1986 saw in China a good performance in regulating the climate of absorbing foreign investment. Chinese government enacted **Provisions of the State Council on the Encouragement of Foreign Investment,** which were aimed to improve the investment environment, to better facilitate the absorption of foreign investment, to introduce advanced technology, to improve product quality, to expand in order to generate foreign exchange and develop the national economy. The State encouraged foreign companies, enterprises and other economic entities

[2] The OECD-MOFTEC Conference on Foreign Investment in China, Challenges and Prospects (Xiamen, 11-12 September 2000, Conference Summery Report Overview

[3] According to 2006 World Investment Report, China is the third largest recipient of FDI, the United Kingdom and the United States are ahead.

[4] 2006 Chinese Foreign Investment Report by Chinese Foreign Investment Department of the Ministry of Commerce

or individuals (hereinafter referred to as "Foreign Investors") to establish Chinese-foreign equity joint ventures, Chinese-foreign contractual joint ventures and foreign-capital enterprises (hereinafter referred to as "Enterprises with Foreign Investment") within the territory of China. In the same year China began its negotiations of resuming to GATT. With the enacting of these provisions, foreign investors speeded up their pace of investment. The actual utilization of FDI in 1991 was up to 3 times of that from 1979-1984 in all.

Table 1. The Absorption of FDI from 1978-1991

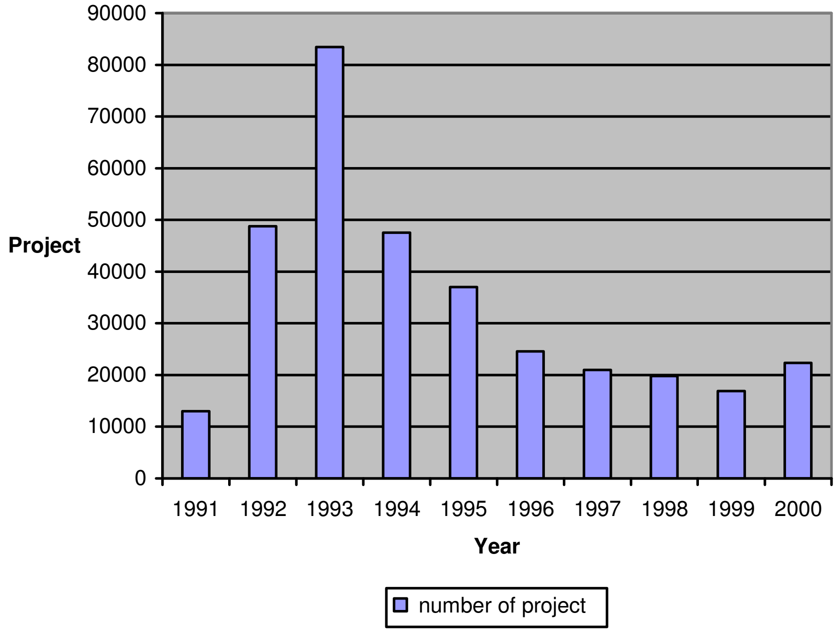
year	**number of projects**	**contractual FDI value unit: US $ 100 million**	**realized FDI value unit US $ 100 million**
total	42503	525.92	250.58
1979-1982	920	49.58	17.69
1983	638	19.17	9.16
1984	2166	28.75	14.19
1985	3073	63.33	19.56
1986	1498	33.30	22.44
1987	2233	37.09	23.14
1988	5945	52.97	31.94
1989	5779	56.00	33.93
1990	7273	65.96	34.87
1991	12978	119.77	43.66

Statistics from: FDI in China till Year 2002, http:www.fdi.gov.cn

On this stage the strategy of the multinationals' investment focused on the labor intensive industries because labor costs are much lower than in most other countries and regions of the world. They are as low as in India and even 33 percent lower than that in Brazil and Mexico.

Second stage: crowding into Chinese market (from 1992-2000). The year of 1992 saw a new stage of Chinese economic reform. The framework of so called socialist market system became more distinct. From that year on more and more foreign investors came to invest in different sectors, especially in the year 1992 and 1993. Figure 1 shows vividly the rush period of FDI during this stage. It outlined the trend of project numbers, first upward and then downward.

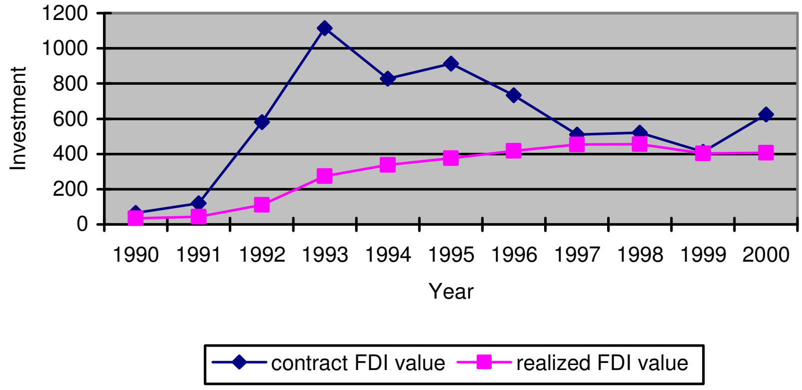
Figure 1. The foreign-Sino cooperate projects from 1992-2000



Statistics from: FDI in China till year 2002, http:www.fdi.gov.cn

From the above diagram one can see that in the year 1992 and 1993, many multinationals rushed into Chinese market with eagerness to broaden their global networks. Despite a decline in the projects number, we can see from Figure 2 that the realized foreign capital was on a way upward which indicates that larger multinationals became interested in investment in China then.

Figure 2. The absorption of FDI from 1992-2000
(Unit:100 million USD)



Resource: statistics from FDI in China till year 2002, http:www.fdi.gov.cn

The third stage: adjustment of FDI (from 2001-present). The year of 2001 was a milestone in China's history as it was successful in accessing to WTO and had through in-depth reforms in many aspects. The government and regional authorities have done a great deal to further improve the hard as well as the soft environment. China's laws and managerial system on foreign investment have been gradually improved. As a result, increasing FDI inflows has contributed significantly to the building up of the nation's foreign exchange reserves, export drive and financial stability. Furthermore at the beginning of the 21st century, there was a trend of economic regionalization and globalization; many multinationals had to adjust their global strategy in which China's position has become more and more important.

According to the Chinese Foreign Investment Administration of Ministry of Commence (MOFCOM), among the 500 largest multinationals in the world, 470 firms have invested in China.[5] Until 2005, the number of approved foreign related companies had reached more than 55 thousand, the contract FDI value was up to 1285.7 billion USD and the realized value reached to 622.43 billion USD.[6] The main part of inflows comes from ten Asian nations and regions, which account for 63.35% of all capital inflow. Investments from EU countries since 1986 keep on a rising percentage on the whole though it fluctuates a bit. From Table 2 one can get a clear idea of it.

Table 2. 1982-2004 EU countries investment to China

[5] 2006 Chinese Foreign Investment Report by Chinese Foreign Investment Department of the Ministry of Commerce
[6] The same as above

Year	Project EU	Project all	EU %	Contract EU	Contract all	EU %	Reali-zed EU	Realized all	EU %
1986	32	1498	2.14	3519	33304	10.57	1785	22437	7.96
1987	40	2233	1.79	4229	37088	11.4	527	23136	2.28
1988	87	5945	1.46	2853	52971	5.39	1573	31937	4.92
1989	78	5779	1.35	3329	55998	5.94	1876	33926	5.53
1990	82	7273	1.13	2242	65961	3.40	1474	34871	4.23
1991	163	12978	1.26	7594	119768	6.34	2456	43663	5.63
1992	763	48767	1.56	9636	581235	1.66	2430	110075	2.21
1993	1726	83437	2.07	31818	1114357	2.86	6712	275150	2.44
1994	1464	47549	3.08	56296	826798	6.81	15377	337665	4.55
1995	1582	37011	4.27	74198	912815	8.13	21313	375205	5.68
1996	1167	24556	4.75	67592	732764	9.22	27371	417255	6.56
1997	1040	21001	4.95	42288	510035	8.29	41712	452570	9.22
1998	1002	19799	5.06	59394	521021	11.4	39787	454628	8.75
1999	894	16918	5.28	40957	412230	9.94	44791	403187	11.1
2000	1130	22347	5.06	88552	623795	14.2	44795	407148	11
2001	1214	26140	4.64	51528	691946	7.45	41827	468776	8.92
2002	1486	34171	4.35	45069	827683	5.45	37098	527429	7.03
2003	2074	41081	5.05	58543	1150697	5.09	39303	535047	7.35
2004	2423	43664	5.55	83619	1534790	5.45	42390	606300	6.99
2005	2846	44019	6.47	115307	1890640	6.10	51938	724057	7.17

Unit: million USD

Origin: Information by the Chinese Foreign Investment Department of the Ministry of Commerce. http:www.fdi.gov.cn

From 1986 to 2005, the number of investment projects in EU countries rose from 32 to 2846, keep on a rising percentage from 2.14% to 6.47%. Although the contracted value and realized value increased in absolute forms, the percentage of inflows showed fluctuations. Nevertheless, they remained stable in recent years and even show a light upward trend.

1.2 Means of multinationals FDI

The means of FDI in China include mainly Sino-foreign joint ventures, contractual cooperation businesses, wholly foreign-owned enterprises, foreign investment holding companies and joint exploitation.[7]

Sino-foreign joint ventures are also known as share-holding corporations. The main feature is that the involved parties invest and operate together, take risk according to the ratio of their capitals. In general, the capital from the foreign party should not be lower than 25%. The Sino-foreign joint ventures are the first form of China absorption of FDI and they account for the biggest part. At present, they are still a great part in the absorption of FDI.

[7] The Absorption of Foreign Investment in China http:// www.fdi.gov.cn

Contractual cooperation businesses are simply called cooperation business, which show that the rights and obligations of different parties are embedded in the contract. They are formed in China with joint capitals or terms of cooperation by companies, enterprises, other economic organizations and individuals with Chinese companies, enterprises, other economic organizations and individuals. To establish a contractual cooperation business, the foreign party supplies all or most of the capital while Chinese party supplies land, factory, buildings, and useful utilities, and some also supply a mount of capital, too.

Wholly foreign-owned enterprises are also called exclusive foreign-owned enterprises, which are invested entirely by foreign companies, enterprise, other economic organizations and individuals in accordance with laws of China. From Chinese point of view, the enterprises must adopt international advanced technology and facility; all or most of the products must be export-oriented. The foreign funded enterprises often take the form of limited liability companies, and do not include the Chinese branch of foreign company or other economic organizations.

Foreign investment holding companies are Chinese-foreign equity joint ventures or wholly foreign-owned enterprises within Chinese territory which deal with direct investment usually in the form of limited liability companies. Foreign investor, who applies to establish a foreign invested holding company must possess great assets and good reputation, establish a certain mount of companies within China, and own over 30 million USD of actual investment of registration principle. Upon the approval of the Chinese government, foreign investment holding company could enjoy a broader field of management than other ordinary companies, in an attempt to encourage big overseas companies to carry out their investment plans.

At present, foreign invested holding company can invest in the fields of industry, agriculture, infrastructure, energy and service industries that the country encourages and permits.

Joint exploitation is the abbreviation of joint maritime and overland oil exploitation which is a widely adopted measure of economic cooperation in the international natural resource economy, characterized by high risk, high investment and high reward. Compared with the other means mentioned above, joint cooperation accounts for a small ratio.

Another new type of FDI by multinationals is cross-border M & As which will be discussed later.

2 Strategy Changes of Multinationals in Chinese Market

At the beginning of the new century, multinationals laid more efforts to improve their global strategy. In accordance to their global strategy networks (Ranjay Gulati 2000), they have adjusted strategy in China, too. Because they have realized that China is playing a more and more important role in the world economic development and should not be ignored in their global investment strategy.

2.1 Diversification of investment.

In recent years, foreign-funded enterprises seem to take the place of initial joint ventures and there seems a new trend of setting up wholly foreign-owned enterprises. At the beginning of entry into China, joint ventures were the main form of foreign investment for the Chinese absorbing foreign investment-oriented policies. At that time, investors, firstly, were unfamiliar with Chinese market and wished to prevent any possible potential risks from the host country. They were uncertain about the political and economic stabilities and not sure about polices on utilization of foreign capitals. Secondly speaking, they were and still are worried whether the technique spillover can adversely affect their own competitiveness if sticking to the initial form of joint ventures. More over, they did not want to increase the negotiation cost due to time for negotiations. Time has become one of the dominant determinants of success in today's business landscape (Li Zheng, Frank Possel-Duelken, 2002). Years of practice has made them understand that China's economic reform has given rise to a clearer and more transparent investment policy to the outside world. Improvements of law and regulation system go step by step, and multinationals therefore need not "guess" the situation any longer. Some multinationals, especially companies already in the Chinese market, have become more experienced. Further more, with China's accession to WTO, competition in Chinese market would become more severe, in order to get more right of management, more efficiency from investment and more benefits of global networks. Multinationals pay more attention and also lay more efforts to set up wholly-owned subsidiaries in Chinese market.

At the same time, many multinational corporations pay more attention to value added industrial networks. Some invest not only in production process but also preceding or after production process which is called vertical investment (Wang Zhile, 2003). Many multinationals have changed the investment of one by one separately; instead they pursue a long run strategy. Nokia's Star-Network of Industry Zone in Beijing is a successful example. [8]Systematical investment may increase competitive ability not only in Chinese markets but also in the world. At the same time, investment goes horizontally to other sectors. China's absorption of FDI has mainly taken the form of setting up new companies and enterprises. That is called green-land investment. On one hand, it is easy to do so for both sides of cooperators just as the saying that it is easy to draw pictures on a piece of blank paper. On the other hand, China had no laws and regulations in its earlier stage

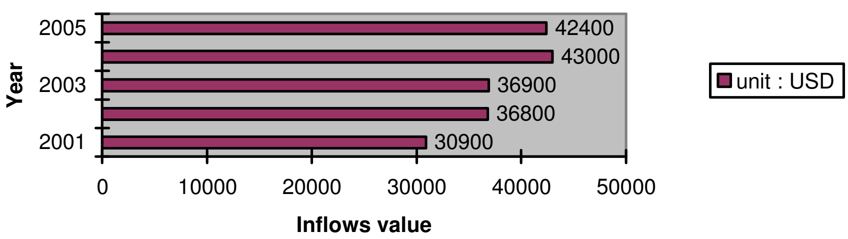
[8] The project includes more than 20 sub–projects and one –off investment of 10 bn CH Yuan. As a result, it obtains 50 bn CH Yuan output. And the amount of reinvestment by the accessory and parts companies exceeds that of initial subsidies.

about cross-border M & As. For years, M & As have become popular among the developed countries, which accounts for more than 80% of FDI, while in China it accounts only 10% in 2005, reaching a higher level in 2006.

2.2 Change on investment structure

In the early stage, almost all the FDI flowed to manufactory industries. The multinational companies then took asset-exploiting strategy. They focused on market-seeking, resource-seeking and efficiency-seeking. That is because the multinationals were eager to find new markets abroad. China carried out policies of absorbing FDI in manufactory industries. Multinationals focused investment in labor-intensive production field in order to make the best use of the cheap labor resources. In fact, they take China as a world factory or a production base. As a result, their investment was concentrated narrowly on the manufactory field. Even now, investment to manufactory industries almost accounts for 60-70% of China's FDI and will continue to rise. Figure 3 shows the upward of the investment in manufactory from 2001–2005.

Figure 3. 2001-2005 inflows to China manufacture



Origin: Information by the Foreign Investment Department of the Ministry of Commerce

When investment in manufactory remains stable or even goes upwards, there is an obvious change that investment to service and financial sectors has reached a new level. With China's accession to WTO, it has become more open up step by step to the outside world. It has relaxed regional restrictions on operations in the tertiary sector. So multinationals began to shift FDI to business, financial and service related sectors, such as financial, insurance and banking sectors. According to China MOFCOM, at the end of 2005, 72 foreign financial institutions from 21 countries and regions have 254 business setups and 177 foreign financial institutions from 40 countries have set up 240 business agencies. Realized investments from foreign financial institutions in Chinese banks have increased from 1.18 billion USD in 1994 to 8.72 billion in 2005, 8.36 times in 11 years. [9]Also, by the end of 2005, 111 foreign banking institutions were approved to do business concerning RMB in 18 cities, such as Shanghai, Beijing, Shenzhen etc., among which, 61 foreign banking institutions were approved to do business denominated in the RMB of the Chinese funded enterprises, 13 are approved to do the E-banking business via internet in China, and 24 were approved to handle with financial derivatives. Altogether, the foreign-funded banks have provided more than 100 kinds of services within the provisions. Since the ending of the post-WTO transitional protection period for China's banking industry in 2006, global investors are enthusiastic about the foreign investment absorption of China's banking industry and are purchasing stock of Chinese banks.

Table 3 Absorption of FDI in China's banking sector

Till year	F.B institution	representative office	F.B branch	RMB business	city covered
1979/1999		1	1	2	5
2000/2003	61	210	148	61	7
2004	62			84	18
2005.12	249	240	254	111	25

Statistics come from the Survey of Foreign Investment in China's Banking Industry of 2005,2004,2003,2002

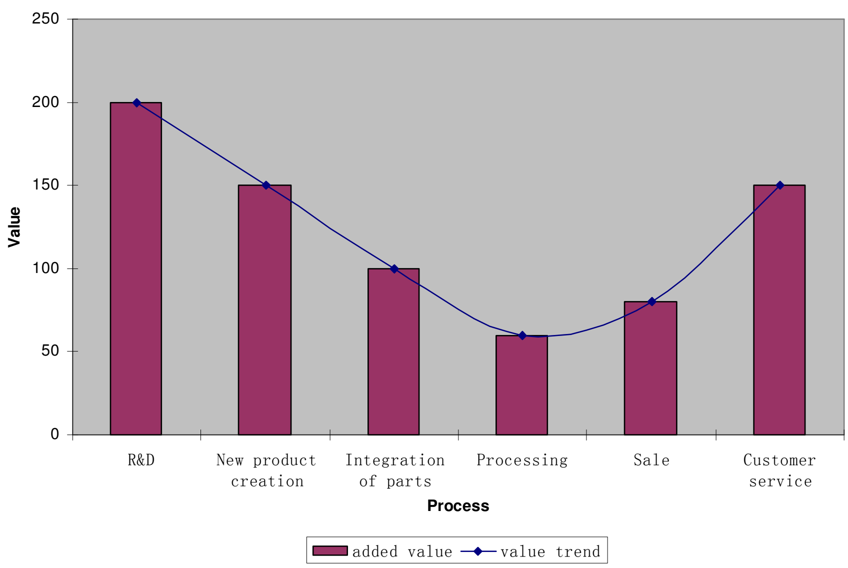
Another evident change in investment structure is that multinationals have made a great effort to improve organization of production centers and set up research and development centers. Instead of early strategy of taking China only as a world factory, they now act in a broader sense, a sense of system and networks. After China's accession to WTO, foreign investment has accelerated pace into research and development. Many multinationals set up their regional centers for R＆D, while in the past only some IT multinationals cared about them. In the last 2 years, the numbers of newly set-up R&D centers have been over 200 each year, and altogether there are at least 750 regional R＆D centers in China, mainly covering electronic and information industries, transform manufactory and medical sectors, chemical raw materials and production sectors, most of them are capital-intensive, technique-intensive and even high-tech industries. Often the multinationals choose large cities such as Beijing, Shanghai, Guangzhou, Shenzhen, Tianjing and Suzhou for their R＆D centers because they are rich in scientific research resources. Centers of R & D in computer, software and communication field usually concentrate themselves in Beijing, Guangzhou, Shenzhen, Tianjing, and Suzhou while R＆D in chemical, autos and medicine select Shanghai as their centers. Nowadays most R＆D centers, about 75 percent

[9] 2006's Chinese foreign investment report http://www.fdi.gov.cn.pub/fdi

of which are belong to certain companies and enterprises for the sake of management and short cut of transforming research outcome into real productivity. According to Mark Otten, director of WTO Department of Intellectual Property Right, China has become the world second biggest R&D input country and most attractive R&D investment place.[10]

Strategy changes in the investment structure also can be seen from the large scale investment to the industrial value chain. Nowadays, multinational strategy investment focus on the whole industrial value chain, including R & D, new product creation, integration of parts, production processing, marketing and service. As the following diagram shows, the value added is generally low in production process, where as it is high in R&D and in service.

Figure 4 Industrial Value Chain



Origin: Strategic Production Networks, Springer-Verlag Abaerlin Heidelberg, 2002

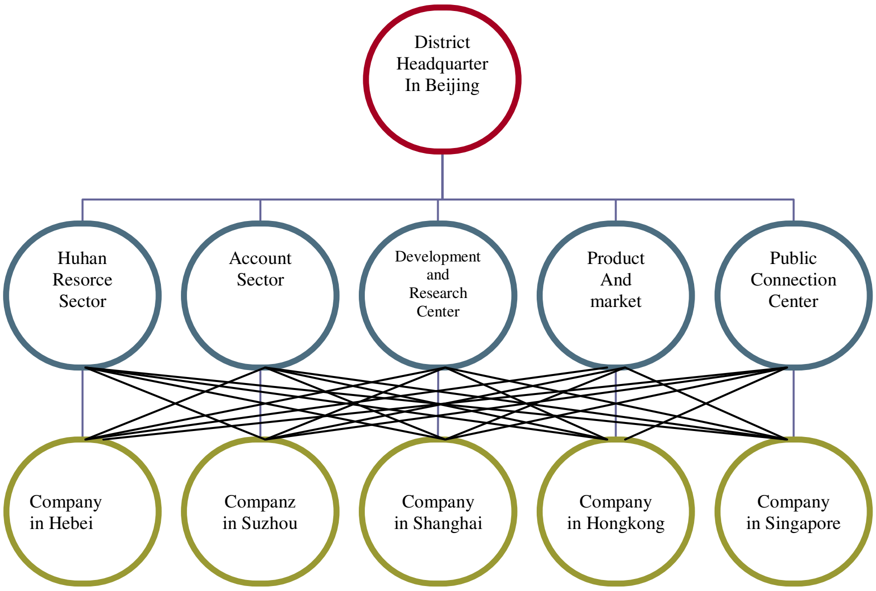
So they become more interested in the whole production process including the backward and forward sectors, as well as basic materials. In addition, they also show an interest in productive projects, and those having something to do with market, finance, insurance, transport and consultation. The purpose of all these strategy changes is just to enhance their competitiveness in Chinese market.

[10] 2007 China Intellectual Property Right Protection Senior Forum, 24 April 2007 Beijing

2.3 Setting up district headquarters

With more and more multinationals investing in China, especially the transfer of the production and marketing network, China's position has become more important in multinational global strategy. Regional headquarters, practically speaking, are necessary for multinationals to realize systematic administration, adjust the productive and research activities, and strengthen control of industrial chains with nearby countries and regions.

Figure 5. Structure of District Headquarter



In Sept. 1999, as a trial, Beijing municipality put forward certain regulations encouraging multinational companies to set up district headquarters in Beijing. Afterwards followed by Shanghai, Guangdong and other cities, as a result, a series of policies have sprung out to encourage multinationals to set up headquarters in China. By the end of 2005, there are more than 40 headquarters in China, mainly from companies of OECD countries, USA and Japan. These headquarters are ranged from electronics, communication, and manufacture to electric power sectors. Some multinationals have even transferred their Asian headquarters from Hong Kong, Singapore, Manila and Sydney to Shanghai, Beijing and other Chinese mainland cities. Shanghai is the most attractive city for district headquarters. According to Chinese Xinhua News Agency, in 2006, 20 new district headquarters settled in Shanghai, altogether there are 151 district headquarters, 14 of which are national-level ones and 11 are regional headquarters. It is necessary for multinationals to integrate their production and market resources. Siemens, for example, owned 45 initial Sino-foreign joint ventures and 11 foreign-wholly-owned companies, which covered almost all the fields of its production and service. In order to prevent waste of resources, to reach scale economies, and to achieve profit maximization, they should be unified. Some multinationals adjust the operation structure, such as setting up or strengthen the investment center, manufactory center, customer service center, training center, financial center and so on so forth.

3 Multinationals Strategy Change and Economic development of China

The foregoing discussion has depicted the multinationals investment and its strategy change in Chinese market. Why have multinationals made these changes? And what is the effect to Chinese economic development? The following discussion may outline the basic opinions on it.

3.1 General reasons for the strategic change

There are perhaps many domestic and foreign factors that make the multinationals change investment strategy in the Chinese market (Gao Tiemei and Kang Shulong). The main reasons, I think, are listed as follows.

First, with the speed up of global economic recovery, global foreign direct investment has grown upward since 2004, which is indicated by the higher economic growth rates in some developed countries and strong economic performance in many developing countries. In 2005, investment value reached up to 900 billion USD, increasing by 29% in comparison with that of 2004. The fast economic development and industry structure adjustment no doubt enhance the pace of capital flows. Multinationals, especially some large ones from developed countries play the leading role in FDI activities. According to Supachai Panitchpakdi, the secretary-general of UNCTAD, the growth of FDI is a "worldwide phenomenon".[12] Global investment focus is still in resource-based industry while service sector is gaining the most from the surge of FDI.

Secondly, generally speaking, the motivations of multinationals are to seek markets, efficiency, resources and assets. However, in China the motivations of multinationals in accordance with investment are different in response to the industries concerned and strategy stages. For instance, at the beginning of market

[11] Xinhau News Agency Shanghai Branch. http:// www. Shanghai.gov.cn
[12] 2006 world investment report, overview, another year of FID growth p.xviii

entering, multinationals usually made trial investment, and cooperated with partners by a low level share holding with the motivation of market seeking. In the stage of adjusting investment, their interests changed to business efficiency. Apart from asset exploiting, there is a trend that they are more interested in pursuing asset creation. That is why the upsurge of FDI reflects the greater level of cross-border M＆As in the world and also in China. Nevertheless acquiring strategic position in a long run seems to be common for all multinationals. That is one of the reasons why they have made strategy adjustment.

Thirdly, China has gained a lot from multinationals FDI. According to the 2006 China's Foreign Investment Report, by the end of 2005, registered foreign enterprises have reached 280 thousand, whose export value accounts for 58.3% of the whole nation's export. The tax revenue from these enterprises accounts for 20.17% of the nation's total tax revenue. The industrial added-value accounts for 28.6% of its corresponding nation base. The foreign enterprises attracted 25 million employees, more than 10% of the nation's employment in cities and towns. With these gains, China shows not only a willingness to carry on further economic reform and sincerity to open more widely to the outside world, but also solutions of problems in absorbing foreign investment. The central government and local authorities have done a great deal to improve the investment climate. These involved simplified procedures; more open to the service sector, enhanced incentives to set up R＆D centers and district headquarters, and unified tax rates among the foreign and domestic firms. All these absorbing FDI policies and practices have made multinationals fully confident in becoming the most efficient by investment and cooperation in the long run.

3.2 About R＆D center

On the whole, multinationals R＆D centers in host country are a win-win strategy practice for both sides. For parent companies, R＆D center belongs to multinationals' networks. The advantages for multinationals are apparent. It can reduce R＆D costs in many ways: R＆D center's geographically approaching production base will shorten the transforming process of outcome into production, and lower labor costs as labor resources are much cheaper in host countries. It can improve or create new products or services in accordance to local market demands, and offer timely and qualified after-sale services. In a word, it will solidify the multinational strategy position of parent companies in host countries. Nevertheless, for a host country like China, multinational R＆D centers will have the spillover effect which is always welcomed by host countries (Zhong Changbao 2006). Multinational's R＆D centers will offer international-wide work and research conditions, higher salaries and attract first-class scientists and technicians, especially some high level talents from abroad to serve in these R＆D centers. It will also assimilate some local scientific and technical staffs to join in the activities. Multinationals R&D centers will set up examples for local institutes and improve abilities in management and creativity, which will benefit the host countries in a long run.

Despite of a win-win practice, worries still exist in host countries. Multinationals may crowd human capital out. Serious competitions in human resources will be brought about especially for scientists and high level technicians, as multinationals R&D centers are able to provide more attractive salaries and working conditions. As a result, the cost of human resources in research will be enhanced and the research institutes of the host country will face a great challenge. Another disadvantage for the host country drawing wide attention is that multinationals assign R&D centers only some applied research work.[13] For the spillover concern, the basic and core research work which calls for large amount of research infrastructures and high qualified researchers often remain at home R&D centers. This would make it more difficult or impossible to narrow the great technology gap between developed and developing countries.

3. 3 About cross-border M & As

Cross-border M & As are common in developed countries. According to the 2006 World Investment Report, the value of cross-border M & As rose to 716 billion USD, increasing by 88% over 2004, and the number of deals rose by 20%, up to 6,134. There were 141 mega deals valued more than 1 billion USD. The values of mega deals was 545 billion USD in 2005, more than twice that of 2004 and accounts for 63% of the total value of global cross-border M & As.[14]

Cross-border M & As are a dominant form of global FDI, while they remain a relatively small part of FDI inflows to China because of some policy obstacles. In recent years, China has made a rapid progress in developing a regular framework for cross-border M & As. Some multilaterals or bilateral cooperation programs have been on the way aimed to relaxation of formal restrictions on the foreign enterprise ownership, the simplification of investment approval procedures and improvement in the institutional framework.

Cross-border M & As can be of great benefit to domestic as well as foreign investors in China. From the Chinese point of view, first, cross-border M & As can play an important part in restructuring state-owned industries, especially in the old industrial heartland in north-east China. State-owned enterprises usually have heavy historical burden, constituting core of the further economic reform. Via cross-border M & As, they can restructure company asset, improve quality of public listed company and enhance corporate governance. Secondly, foreign

[13] COM Institute: an investigation on industry investment trend from 2005-2007 http:// www.dgfipc.gov.cn

[14] 2006 World Investment Report Chapter 1 p.13

ownership can bring technology and market, and investment can inject capital to the enterprises in host country, pushing them to a new phase of development. Thirdly, from a broader sense it will provide opportunities to gain benefits from international division of labor. Multinationals involved in cross-border M & As have their own advantages-advanced ideas, techniques, operation modals and market networks etc. All these will enhance the Chinese industrial structure adjustment and accelerate the internationalization trend. From foreign investors' point of view, first of all, China is a large market for their surplus capital, labor resources, products and techniques. Secondly, entry into Chinese market is an important part in their global strategy networks in a long run, as china is such a developing country and it is developing so fast. According to UNCTAD investigation, among 10 most attractive investment countries and regions, 87% of multinationals and 85% of experts take China as the most attractive investment destination.

Although cross-border M & As seem win-win to both home and host countries, there are some worries in China about foreign monopolization in certain industries and national security concern. (Yao Zhangqi) It is understandable as the same worries also exist in developed countries.[15] Some companies, involved in cross-border M & As, are private equity firms. Unlike other kinds of FDI, they do not intend to invest for a long run, which will be an unstable factor that has a negative effect on the structure of a company asset and even the corporate governance in China.

Conclusion

Multinationals strategy change in China, as a part of global strategy, reflects not only the world economic development but also the capital movement and appreciation. Capital inflows into China are a win-win practice for both parent companies and the host country. For the former, it is a chance for them to make use of their technology advantages, gain more share of benefits and international comparative efficiency in a broader market, as China is the biggest potential market in the world. In the future whoever succeeds in the strategy investment in China will win his business. For the latter, it is an opportunity to get needed capital, advanced technique as well as management experiences, as China is on its way to modernization. FDI from multinationals is needed to accelerate China's domestic reform and economic social development. At the same time, there exist risks and challenges for both sides.

[15] The national concern led to a blocking of the purchase of Unocal (United States) by CNOOC (China). And Spain and France governments try to prevent the buyouts of Endesa Suez, respectively, by companies from EU countries.

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