Multinationals In China:

40 Years of Investment

The Chinese Academy of International Trade and Economic Cooperation,
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Foreword

Developing its economy by actively absorbing foreign direct investment (FDI) is an important part of China's opening-up, which is one of China's fundamental national policies. Investment from multinational corporations is one of the manifestations of China's reform and opening-up. Four decades ago when China initiated reform and opening-up, overseas companies, including multinational corporations, started their investment and operations in China, ranging from small to large scale, from low to high levels, and from coastal to inland areas, playing a unique and prominent role in China's reform and opening-up. In 2018, China absorbed a total of US$ 134.97 billion of FDI, ranking second in the world. By the end of 2018, a total of 961,000 foreign-invested enterprises (FIEs) had been established in China, bringing FDI of US$ 2.1 trillion in real terms, making China one of the world's largest host countries for FDI.

FDI has advanced China's reform and opening-up, promoted the change of ideological concepts, government functions and macroeconomic management systems, and played an important role in establishing a new economic mechanism of the open economy. Having significantly contributed to China's taxation, employment, technology progress, management and learning, structural upgrading, market expansion, and international trade, the FDI in Chinese economy has been occupying an important position in China's market economy, and has thus promoted China's overall economic and social development, transformation and upgrading. In terms of statistic figures and given China in general, FIEs account for less than 3% of the total number of its enterprises, but they contribute nearly half of its foreign trade volume, one-quarter of the output value and profits of all of its industrial enterprises (enterprises with annual sales over RMB yuan 20 million), one-fifth of its tax revenue and about 13% of its urban employment. FIEs indeed play an important and indispensable role in China.

China has been improving its FDI environment in recent years. The Chinese government attaches great importance to FDI and has made a series of major arrangements, demonstrating China's commitment to opening-up and actively attracting FDI. The new FDI Law of the People's Republic of China, which has been promulgated by the National People's Congress and will be officially implemented on January 1, 2020, will provide a better legal guarantee for FDI. On top of that, the State Council has issued a number of important documents and imposed a series of measures to expand openness and optimize

the environment. To create a good business environment and improve service quality and standards, State departments and local governments, by introducing corresponding supportive policies easing market access, providing fiscal and taxation support, and protecting rights and interests, have been making efforts to ensure that those measures work in effect.

Chinese President Xi Jinping has repeatedly emphasized that China will not change its policy of using FDI, protecting the legitimate rights and interests of FIEs, and providing better services to FIEs in China, and will continue to deepen reforms in all areas and further expand opening-up. In April 2018, at the Boao Forum for Asia, President Xi Jinping proposed four major strategic initiatives to further open China's market to the world. In June 2019, at the G20 Osaka Summit, President Xi Jinping once again emphasized that China will adopt major measures to further open up its market, actively expand its imports, offer equal treatment, and promote economic and trade negotiations, so as to accelerate the pace of opening-up and to achieve high-quality development. We have every reason to believe that China is capable of providing more market opportunities, better investment environment and a higher return on investment for multinational corporations in China, and that the prospect of investing in China is bright. At the same time, investment from multinational corporations will make more contributions to the high-quality development of China's economy and society.

October 2019

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Chapter 1 Investment History by Multinationals in China

On December 18, 1978, the Third Plenary Session of the Eleventh Central Committee of the Communist Party of China (the Party) was held and decided to shift the major duties the Party and the country to economic development. The fundamental national policy of reform and opening-up was established. In the following four decades, China has undergone tremendous changes, and FDI in China has had a sharp increase.

1.1 Initial Stage (1979-1991)

1.1.1 The reform and opening-up enables multinationals to enter China

In October 1978, a technology delegation of the Chinese government made a visit to the United States. During its negotiation with GM on introducing heavy-duty vehicle technology into China, GM proposed to establish a joint venture with Chinese companies in addition to technical cooperation. The Chinese delegates did not understand the very meaning of the joint venture until their American counterparts made an explanation. Although it sounds reasonable that two parties work together to invest, operate and share risks, the Chinese side doubted that how could capitalists and communists work together to invest and operate. The delegation submitted this proposal to the Party leaders after coming back from the U.S. Deng Xiaoping, then Vice Premier of the State Council accepted this proposal, by saying, "A joint venture is acceptable," and that "the joint-venture scheme may be applied to both sedans and heavy-duty vehicles." The Chinese side then started to consider joint ventures during its negotiations with General Motors of the United States and Volkswagen of Germany. In March 1979, the Chinese delegation made another visit to the U.S. to talk about investment cooperation with GM. Unfortunately, the board of directors of GM made a final decision to reject this proposal. However, Volkswagen showed great interest in direct investment and operation, and beat GM to the draw by establishing the very first automobile joint venture in China—SAIC Volkswagen Automotive Co., Ltd.

According to historical records, China's first FIE, approved by the State Council Committee on FDI, is Beijing Air Catering Co., Ltd. Prior to this, several foreign-invested enterprises had already been established in Shenzhen, Dongguan and other regions. In 1979, the central government approved to adopt special policies and flexible measures in Guangdong

and Fujian provinces, and decided to establish four special export zones in Shenzhen, Zhuhai, Shantou and Xiamen to enable Guangdong and Fujian to take full advantages of neighboring Hong Kong, China and Macao, China, and having a large number of Chinese from foreign countries and Taiwan, to actively expand exports, and to learn from other countries and regions in establishing export processing zones or free trade zones. In August 1980, the Standing Committee of the National People's Congress approved the State Council's motion on establishing special economic zones. As Guangdong and Fujian were China's first two provinces opening-up to the world, multinational corporations entered the Chinese market by making their first investments in these two provinces.

1.1.2 A good start

When the Law of the People's Republic of China on Chinese-Foreign Contractual Joint Ventures was promulgated and implemented in July 1979, more than 200 FIEs were established in China that year. By 1985, China had approved the establishment of more than 3,000 FIEs, with an average actual use of FDI of US$ 870 million per year. Due to China's special national conditions, most FDI came from Hong Kong and Macao. At the same time, multinational corporations from the United States, Japan, Germany, the United Kingdom, and Thailand started to invest in China. As Guangdong and Fujian were China's first two provinces opening-up to the world and adopted "special policies and flexible measures", they received the largest share of FDI, had two-thirds of newly established FIEs and used one-third of FDI in China. In addition, Beijing, Shanghai, Guangzhou and other major cities also had hosted some FDI projects.

The first FIEs in China include: Beijing Air Catering Co., Ltd., Beijing Jianguo Hotel, Great Wall Hotel Beijing, Beijing Schindler Elevator Company, Tianjin Dynasty Group Co., Ltd., Tianjin Wella Shampoo Company, Tianjin OTIS Elevator Company, China Otsuka Pharmaceutical Co., Ltd., SAIC Volkswagen Automotive Co., Ltd., Beijing Jeep Company, and Xinjiang Tianshan Wool Tex Stock Co., Ltd. Although these investment projects were small in scale and encountered many unexpected difficulties in the initial stage of operation, they have all delivered great business performance and played a leading and exemplary role in FDI in China.

FDI at the initial stage was mainly concentrated in such infrastructure and services as labor-intensive manufacturing and hotel. Investment in the manufacturing sector focused on processing projects such as processing, assembly, sample processing and compensation trade. The Guangzhou White Swan Hotel and Beijing Jianguo Hotel were representative projects of FDI in China's service sector at that time. In the mid-to-late 1980s, a number of technologically advanced large-scale projects invested by multinational corporations were completed, including Guangdong Nuclear Power Plant, Pingshuo Open-pit Coal Mine, and Alcatel-Lucent Shanghai Bell Co., Ltd., which filled the gap and improved production level in the industry.

Column 1 Shenzhen Chia Tai Conti Group

Founded in 1979, Shenzhen Chia Tai Conti Group is a large comprehensive animal husbandry enterprise jointly invested by Thailand Chia Tai Group (Charoen Pokphand Group) and the U.S. Continental Grain Company. With its approval number as the Shen Foreign Investment Certificate [1981] 0001, this is the first wholly foreign-owned enterprise (WFOE) incorporated in Shenzhen Special Economic Zone in Guangdong Province after China's reform and opening-up.

Shenzhen Chia Tai Conti Group took the lead in China's modern feed industry, and promoted the development of China's feed industry and animal husbandry. Following the management tenet of "feed safety, quality first, professional service, happy customers", the Group is committed to the production and operation of high-quality poultry feed, aquatic feed, additives and seedlings. After more than 20 years of development, Shenzhen Chia Tai Conti Group, recognized as "the pioneer of China's feed industry", has created an excellent brand image in China's animal husbandry and feed industry and received a number of awards including the "Outstanding Group in China's Feed Industry" and "Top 100 Enterprises in China's Feed Industry", "Most Trusted Foreign-invested Enterprise in China", "Top Ten Feed Brands in China", and "Top 100 Technology Enterprises in Shenzhen".

Shenzhen Chia Tai Conti Group has established nine feed companies and one animal health care company in Shenzhen, Shantou, Guangzhou, Zhuhai, Dongguan, Yangjiang and Kaifeng, and has maintained a good momentum of steady development. Now it has become a large group company with businesses in feed production, sales and technical services, and with nearly 1,000 employees and annual revenue of over RMB yuan 2 billion.

Table 1 FDI in China, 1983-1991

Year	FDI (US$ 100 million)	FDI Increase Rate year-on-year (%)	Number of Newly Established FIEs	Quantity year-on-year(%)
1983	9.20		470	
1984	14.20	54.35	1,856	294.89
1985	19.56	37.75	3,073	65.57
1986	22	14.72	1,498	-51.25
1987	23.14	3.12	2,233	49.07
1988	31.94	38.03	5,945	166.23
1989	33.92	6.2	5,779	-2.79
1990	34.87	2.8	7,273	25.85
1991	43.66	25.21	12,978	78.44

Source: http://data.mofcom.gov.cn/

1.1.3 Concentration in open coastal areas

From the late 1980s to the early 1990s, nearly 6,000 FIEs were established in China each year, and the realized FDI was more than US$ 3 billion. The vast majority of FDI was concentrated in the eastern coastal regions. Although the proportion of newly established FIEs in Guangdong and Fujian provinces in the national total (over 53%) was smaller than that in the previous stage, the share of realized FDI in these two provinces (nearly 43%) was about 10 percentage points higher than that in the previous stage.

Household appliances, communication equipment, light machinery and equipment, textile and garment, food and beverage processing and other manufacturing industries gradually became the main sectors of FDI. As a result, the secondary industry accounted for more than 80% of the total FDI in China.

Column 2 Volkswagen AG

Germany's Volkswagen Group is one of the earliest and most successful international companies, that has established a partnership with China's automotive industry for over 30 years during which China's automotive industry had ups and downs as well as rapid growth.

As early as 1978, the Volkswagen Group began to have business contacts with China. In October 1984, Volkswagen's first joint venture in China the SAIC Volkswagen Automotive Co., Ltd. was established. In February 1991, Volkswagen's second joint venture in China the FAW-Volkswagen Automotive Co., Ltd. was established. Volkswagen Group (China) currently has more than 20 companies, with over 95,000 employees in the production bases in Shanghai, Changchun, Dalian, Nanjing, Yizheng, Chengdu, Foshan, Ningbo, Changsha, Urumqi and Tianjin. It is now building new factories in Qingdao and other cities. At the end of 2016, Volkswagen Group (China) had about 3,000 authorized dealers, employing more than 380,000 people.

The Volkswagen Group produces and sells complete vehicles and components such as engines and gearboxes and provides corresponding services in China. A number of brands under this Group have operated their businesses in China, including Volkswagen, Audi, Skoda, Seat, Bentley, Bugatti, Lamborghini, Porsche, Ducati, Volkswagen Commercial Vehicles, Scania and MAN.

Since entering China, the Volkswagen Group has always been in the leading market position. In 2018, Volkswagen Group (China) and its two joint ventures, SAIC Volkswagen and FAW-Volkswagen, delivered a total of 4.21 million vehicles to customers in mainland China and Hong Kong, China. In recent years, in order to adapt to the rapid development of China's auto market, Volkswagen Group and its joint ventures have invested heavily in the development of more efficient products, powertrain technology, and more environmentally friendly production and sustainable development-related projects.

The Volkswagen Group not only provides quality products and reliable services to Chinese consumers, but also takes on social responsibility as an enterprise. In 2014, it started to invest RMB yuan 50 million to support corporate social responsibility projects in China. In 2016, it invested another RMB yuan 50 million to support corporate social responsibility projects promoting environmental education, sustainable transportation, social care, and cultural exchanges.

The Volkswagen Group will continue to bring the most environmentally friendly and advanced technologies and products to China, provide consumers with more satisfactory services, and work together with China's automotive industry to achieve sustainable development.

FDI started to manifest its promoting effect on China's national economic and social development. In 1991, there were accumulatively 21,000 FIEs operating business in China, with 2.1 million employees and industrial output of RMB yuan 124.1 billion. Foreign-related taxes, largely paid by FIEs, amounted to RMB yuan 7 billion. The imports and exports by FIEs in China were US$ 28.96 billion, accounting for 21.3% of the national total. Although the exports by FIEs accounted for only 16.7% of China's total exports, their export growth accounted for 43%. FIEs not only effectively boosted China's export growth, but also improved the structure of China's export industries as most of their exports were manufactured goods. In 1986, China established foreign exchange adjustment centers to allow eligible enterprises and FIEs to keep the balance of foreign currencies, and help FIEs that are capital- and technology-intensive and import-substitution-oriented to use foreign currencies to import capital and products. It only took FIEs one year to achieve overall balance and surplus of foreign currency transactions, and have a year-over-year increase in the net outflow of foreign currencies. These centers played a positive role in alleviating foreign currency shortage and improving foreign currency transactions.

1.2 Rapid Entry Stage (1992–2001)

In 1992, China's opening-up was brought to a climax after Deng Xiaoping, chief architect of China's reform and opening-up, made his famous speeches in South China. Multinationals' investment in China entered a stage of rapid development. China gradually opened its market to the world from its coastal cities to cities along major rivers, to inland cities, and to border cities, including 6 port cities along rivers such as Wuhu, 13 inland border cities such as Heihe, and 18 inland provincial capital cities such as Hefei. As the multi-level and comprehensive opening-up took shape, multinationals expanded from the coastal to the inland regions.

1.2.1 Rapid expansion

During this period, the amount of FDI from multinationals in China increased rapidly from US$ 19.2 billion in 1992 to US$ 49.67 billion in 2001, with an average annual growth of 11.1%. In 1993, the growth rate reached 102.9%. By the end of 2001, the cumulative FDI was US$ 568.59 billion, nearly five times more than that at the end of 1992.

In 1992, the number of newly established FIEs exceeded the total of the previous 13 years (1979–1991), and the realized FDI was 44% of the total of the previous 13 years. In these 10 years, an average of 34,700 FIEs were established every year, and the realized FDI was US$ 37 billion, which was 5.8 times and 11.7 times of those in the previous stage, respectively.

According to UNCTAD data, since 1992, China has been the largest recipient of FDI among developing countries for 27 consecutive years, and ranked among the top 10 countries/regions in terms of inward investment. With the rapid development of both new forms of investment enterprises, such as foreign-invested joint-stock companies, and functional enterprises, such as venture capital enterprises, and R&D centers, the quality and level of FDI were improved. In addition, as China continuously improved its investment environment, foreign investors had more confidence in their investment in China, and increased the number of FIEs (WFOEs or jointly foreign-owned enterprises) year by year. In 1997, the number of these newly established FIEs exceeded the number of Sino-foreign joint ventures. In 2000, the proportion of newly established FIEs exceeded 50% of all FDI, and the actual investment by FIEs exceeded that by joint ventures. In 2001, the actual investment by FIEs accounted for more than 50% of China's total.

Table 2 FDI in China, 1992–2001

Unit value: US$ 100 million

Year	Cumulative Actual FDI		Actual FDI in the Year	
	Total Amount	FDI	Total Amount	FDI
1992	988.3	343.6	192	110.1
1993	1,377.9	618.7	389.6	275.2
1994	1,810	956.4	432.1	337.7
1995	2,291.4	1,331.6	481.3	375.2
1996	2,839.4	1,748.8	548.0	417.3
1997	3,483.5	2,201.4	644.1	452.6
1998	4,069.1	2,656	585.6	454.6
1999	4,595.6	3,059.2	526.6	403.2
2000	5,189.2	3,466.4	593.6	407.1
2001	5,685.9	3,935.2	496.7	468.8

Source: *Foreign Economic and Trade Yearbooks 2001 and 2002.*

The average amount of actual FDI on a single project increased substantially. From 1992 to 2001, the average amount of actual FDI on the single project showed a sharp upward trend despite some fluctuations. The average amount increased year by year from only US$ 226,000 in 1992 to US$ 2.382 million in 1999, before declining to US$ 1.793 million in 2001, which was nearly 8 times that of 1992. This shows that during this period, multinationals were making substantive, strategic, and large-scale investment in China, a contrast to their initial investment in China which was exploratory, fragmented, and temporary.

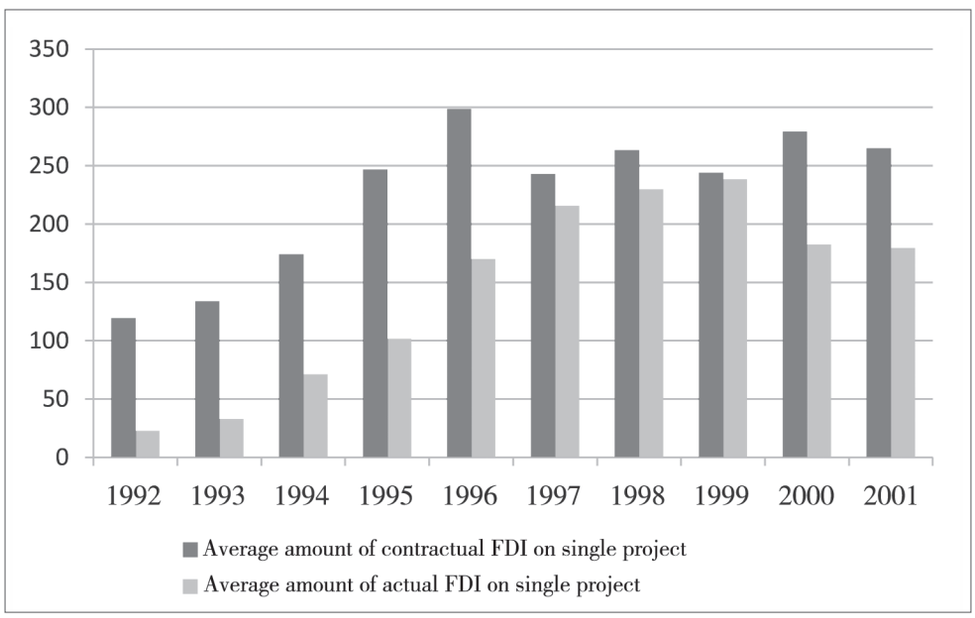


Figure 1 Average FDI on Single Project in China (US$ 10,000)

Source: *Foreign Economic and Trade Yearbooks 2001 and 2002.*

Column 3 Siemens

As one of the world's largest multinationals, Siemens has a long history of cooperation with China. Siemens provided China with the first pointer telegraph machine in 1872, and delivered the first steam generator and the first tramcar in China at the end of the 19th century. In 1985, Siemens signed a comprehensive memorandum of cooperation with the Chinese government, becoming the first foreign company to cooperate closely with China.

Siemens has been both a witness and a contributor to China's journey of reform and opening-up. In FY 2018 (from October 1, 2017, to September 30, 2018), Siemens' total revenue in China reached Euro 8.1 billion. With more than 33,000 employees in China, Siemens finds China to be its second largest overseas market.

After years of development, Siemens has become an integral part of China's society and economy. With its environmental business portfolio and innovative solutions, Siemens is fully committed to working with China to achieve sustainable development. As of FY 2018, Siemens had 21 R&D centers, nearly 5,000 R&D and engineering staff, and nearly

13,000 valid patents and patent applications in China. In Siemens' world-class innovation laboratories in Beijing, Shanghai, Suzhou, Nanjing, Wuhan, Wuxi, Qingdao and Chengdu, leading researchers contribute to China's efforts to pursue high-quality and sustainable economic development. Corporate Technology in China has become Siemens' largest research institution outside Germany where the headquarters of Corporate Technology is located.

1.2.2 Increasing share of FDI

China has been absorbing FDI through various channels including foreign borrowing and FDI. In the early stage of development, due to various reasons, foreign borrowing was the most important way for China to attract FDI. Since 1992, FDI has begun to replace foreign borrowing as China's most important way of attracting FDI. The proportion of FDI in China's actual inward investment gradually increased from 57.3% in 1992 to 94.4% in 2001, an increase of 37.1 percentage points. From 1992 to 2001, the average proportion of FDI in China's actual inward investment was 74.8%. Correspondingly, the proportion of foreign borrowing in China's actual inward investment declined year by year from 41.2% in 1992 to 28.7% in 1993, a decline of 12.5 percentage points. In 2001, its proportion further decreased to zero.

This shows that market-oriented investment by multinationals has been the main trend in China's inward investment.

Table 3 Types of Inward Investment in China by Year

Year	Foreign Borrowing		FDI		Other Types of Inward Investment	
	Amount (US$ 100 million)	Increase (%)	Amount (US$ 100 million)	Increase (%)	Amount (US$ 100 million)	Increase (%)
1992	79.1	41.2	110.1	57.3	2.8	1.5
1993	111.9	28.7	275.2	70.6	2.6	0.7
1994	92.7	21.5	337.7	78.2	1.8	0.4
1995	103.3	21.5	375.2	78.0	2.9	0.6
1996	126.7	23.1	417.3	76.1	4.1	0.7
1997	120.2	18.7	452.6	70.3	71.3	11.1
1998	110	18.8	454.6	77.6	20.9	3.6
1999	102.1	19.4	403.2	76.6	21.3	4.0
2000	100	16.8	407.2	68.6	86.4	14.6
2001	0	0.0	468.8	94.4	27.9	5.6

Source: *Foreign Economic and Trade Yearbook 1993–2002.*

1.2.3 Dominance of manufacturing investment

Due to limited statistics in industries, there had been a lack of detailed statistics on the structural changes in industries hosting investment from multinationals in China until the mid-1990s. However, basic statistics showed that, since 1992, manufacturing has become the major sector hosting investment from multinationals in China. From 1997 to 2001, the secondary industry absorbed 71.3% of China's total FDI, the tertiary industry27.1%, while the primary industry only 1.6%.

Table 4 Actual FDI in Primary, Secondary and Tertiary Industry

Unit Value: US$ 100 million

Year	Indicators	Primary Industry	Secondary Industry	Tertiary Industry
1997	Amount	6.3	325.7	120.6
	%	1.4	72.0	26.7
1998	Amount	6.2	313.3	135.1
	%	1.4	68.9	29.7
1999	Amount	7.1	277.8	118.3
	%	1.8	68.9	29.3
2000	Amount	6.8	295.7	104.6
	%	1.7	72.6	25.7
2001	Amount	9.0	348.0	111.8
	%	1.9	74.2	23.9

Source: *China Statistical Yearbook 1998-2002.*

Manufacturing had the largest industrial share of FDI in the 1990s. From 1997 to 2001, the amount of FDI in manufacturing increased from US$ 21.82 billion to US$ 30.91 billion, an average annual increase of 2.4%, accounting for 60.8% of the total FDI. In 2001, manufacturing investment accounted for 65.9% of the total FDI and 85.3% of actual FDI in the secondary industry. FDI in the real estate sector was the second largest industrial share. From 1997 to 2001, more than US$ 5 billion of FDI was in the real estate sector each year, accounting for an average of 12.4% of the total FDI. The real estate attracted the largest FDI among all service sectors. From 1997 to 2001, the real estate sector had 45.7% of FDI in the tertiary industry. The electricity, gas and water production and supply industry also absorbed a large FDI, with an average of US$ 2.68 billion each year, accounting for 6.2% of the total in the same period. In addition, the social service sector, which was dominated by the hotel industry, also attracted a large FDI, accounting for 5.6% of the total FDI from 1997 to 2001.

Table 5 Actual FDI by Industry

Unit value: US$ 100 million, %

Industries	1997		1998		1999		2000		2001	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Total	452.6	100	454.6	100	403.2	100	407.1	100	468.8	100
Agriculture, Forestry, Animal Husbandry, Fishing	6.3	1.4.	6.2	1.4.	7.1	1.8	6.8	1.7	9.0	1.9
Mining and Quarrying	9.4	2.1	5.8	1.3	5.6	1.4.	5.8	1.4.	8.1	1.7
Manufacturing	281.2	62.1	255.8	56.3	226.0	56.1	258.4	63.5	309.1	65.9
Electricity, Gas and Water	20.7	4.6	31.0	6.8	37.0	9.2	22.4	5.5	22.7	4.9
Construction	14.4	3.2	20.6	4.5	9.2	2.3	9.1	2.2.	8.1	1.7
Geological Exploration and Water Conservancy	N/A	N/A	N/A	N/A	N/A	N/A	0.1	0.0	0.1	0.0
Transports, Storage and Post	16.6	3.7	16.5	3.6	15.5	3.8	10.1	2.5	9.1	1.9
Wholesale, Retail, Trade, and Catering	14.0	3.1	11.8	2.6	9.7	2.4	8.6	2.1	11.7	2.5
Finance and Insurance	N/A	N/A	0.4	0.1	N/A	N/A	0.8	0.2	0.4	0.1
Real Estate	51.7	11.4	64.1	14.1	55.9	13.9	46.6	11.4	51.4	11.0
Social Services	19.9	4.4	29.6	6.5	25.5	6.3	21.9	5.4	26.0	5.5
Health, Social Security and Social Welfare	2.0	0.4	1.0	0.2	1.5	0.4	1.1	0.3	1.2	0.3
Education, Culture, Arts, Radio, Film and Television	0.7	0.2	0.7	0.1	0.6	0.2	0.5	0.1	0.4	0.1
Scientific Research and Integrated Technology Services	N/A	N/A	N/A	N/A	N/A	N/A	0.6	0.1	1.2	0.3
Other Industries	15.8	3.5	10.7	2.3	9.7	2.4	14.5	3.6	10.5	2.2.

Source: *China Statistical Yearbook 1998–2002.*

1.2.4 Faster growth of investment from multinationals of developed countries

China's Hong Kong and the province of Taiwan, Japan, the European Union, and the United States were China's most important sources of FDI. Hong Kong, Macao and Taiwan, especially Hong Kong, China have always been the most important sources of FDI in China.

From 1992 to 2001, the amount of investment in mainland China from Hong Kong and Macao increased from US$ 7.71 billion to US$ 17.04 billion, with an average annual growth rate of 9.2%. However, the proportion of investment from these two regions in China's total FDI declined gradually from 70% to 36.4%, a decrease of 33.6 percentage points. Although the amount of FDI from Taiwan, China increased from US$ 1.05 billion in 1992 to US$ 2.98 billion in 2001, an average annual increase of 12.3%, its proportion in national FDI showed a downward trend, declining from 10.5% in 1992 to 6.4% in 2001, a decrease of 4.1 percentage points.

At the same time, Japan's direct investment in China rose from US$ 710 million to US$ 4.35 billion from 1992 to 2001, an average annual increase of 22.3%. Its proportion in China's realized FDI gradually increased from 6.5% to 9.3%. The EU's direct investment in China soared from US$ 240 million in 1992 to US$ 4.18 billion in 2001, with an average annual growth rate of 37.4%. Its proportion in China's inward FDI significantly rose from 2.4% in 1992 to 8.9%, an increase of 6.5 percentage points. The U.S.'s investment in China also maintained rapid growth, from US$ 510 million in 1992 to US$ 4.43 billion in 2001, an average annual growth rate of 27.1%. Its proportion in China's realized FDI correspondingly increased from 4.6% to 9.5% and reached up to 10.8% in 2000.

In the 1990s, as China accelerated its pace of opening-up, its FDI policies and regulations and investment environment continued to be improved. As a result, multinationals from developed countries began to substantially increase their investment in China. In the early 1990s, small and medium-sized projects with investment from Hong Kong, Macao, and Taiwan dominated the FDI projects in mainland China. By 2001, multinationals from the United States, the European Union and Japan had already taken an important position in FDI in China. In 1992-2001, the proportion of FDI from Hong Kong, Macao, and Taiwan fell from 79.5% to 42.8%. Correspondingly, the proportion of FDI from the EU, the U.S. and Japan increased from 13.3% to 27.7%.

Table 6 Sources of Actual FDI in China by Year

Unit value: US$ 100 million, %

Year	Hong Kong and Macao, China		Taiwan, China		Japan		EU		US	
	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%
1992	77.1	70	10.5	9.5	7.1	6.5	2.4	2.2.	5.1	4.6
1993	178.6	64.9	31.4	11.4	13.2	4.8	6.7	2.4	20.6	7.5
1994	201.7	59.8	33.9	10.	20.8	6.2	15.4	4.6	24.9	7.4
1995	205	54.6	31.6	8.4	31.1	8.3	21.3	5.7	30.8	8.2

continued table

Year	Hong Kong and Macao, China		Taiwan, China		Japan		EU		US	
	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%
1996	212.6	51	34.7	8.3	36.8	8.8	27.4	6.6	34.4	8.3
1997	210.3	46.5	32.9	7.3	43.3	9.6	41.7	9.2	32.4	7.2
1998	189.3	41.6	29.2	6.4	34	7.5	39.8	8.8	39	8.6
1999	166.7	41.3	26	6.4	29.7	7.4	44.8	11.1	42.2	10.5
2000	158.5	38.9	23	5.6	29.2	7.2	44.8	11	43.8	10.8
2001	170.4	36.4	29.8	6.4	43.5	9.3	41.8	8.9	44.3	9.5

Source: *China Statistical Yearbook, 1993–2002.*

1.2.5 Growing significance of FDI

As FDI in China improves in size and quality, FDI plays an increasingly important role in China's national economy.

FDI has become an important source of China's investment in fixed asset (IIFA). The proportion of actual FDI in China's fixed assets investment gradually increased from 5.8% in 1992 to 11.2% in 1995 and reached a record high of 11.8% in 1996, before declining in 1997 when China increased domestic investment in fixed assets due to Asian financial crisis, averaging 8.2% between 1992 and 2001.

Table 7 Proportion of FDI in China's IIFA

Year	Realized FDI (RMB yuan 100 million)	Proportion in IIFA (%)
1992	468.7	5.8
1993	954.3	7.3
1994	1,769.0	9.9
1995	2,295.9	11.2
1996	2,746.6	11.8
1997	2,683.9	10.6
1998	2,617.0	9.1
1999	2,006.8	6.7
2000	1,696.2	5.1
2001	1,730.7	4.6

Source: *China Statistical Yearbook 2002.*

With the expansion of the scale of FDI, foreign-related taxes brought about by FDI increased rapidly, and became an important part of China's tax revenue. From 1992 to 2001, China's foreign-related tax revenue increased from RMB yuan 12.23 billion to RMB yuan 288.3 billion, an average annual increase of 42.7 percent, much higher than the 20.3 percent increase of the national average industrial and commercial tax revenue in the same period. The proportion of foreign-related taxes in China's total industrial and commercial taxes rose from 4.3% to 19.0%, an increase of 14.7 percentage points over the past decade.

Table 8 China's Foreign-related Taxation

Year	National Industrial and Commercial Tax		Foreign-related Tax		% of Foreign-related Tax
	Amount (RMB yuan 100 million)	Growth Rate%	Amount (RMB yuan 100 million)	Growth Rate%	
1992	2,876.1	N/A	122.3	N/A	4.3
1993	3,970.5	38.1	226.6	85.3	5.7
1994	4,728.7	19.1	402.6	77.7	8.5
1995	5,515.5	16.6	604.5	50.1	11.0
1996	6,436.0	16.7	764.1	26.4	11.9
1997	7,548.0	17.3	993.0	30.0	13.2
1998	8,551.7	13.3	1,230.0	25.9	14.4
1999	10,311.9	13.4	1,648.9	33.8	16.0
2000	12,665.0	12.7	2,217.0	35.5	17.5
2001	15,165.0	19.7	2,883.0	30.0	19.0

Source: Statistics of FDI in China.

The industrial output value created by FIEs, an important part of China's total industrial output value, increased from RMB yuan 206.56 billion in 1992 to RMB yuan 2,651.57 billion, an average annual growth rate of 32.7%, nearly 20 percentage points higher than the average growth rate of the national industrial output value in the same period. The proportion of FIEs' industrial output value in the national total rose from 7.1% in 1992 to 28.1% in 2001, an increase of 21 percentage points.

Table 9 Industrial Output Value of FDI

Year	Industrial Output Value of FIEs (RMB yuan 100 million)	Proportion in China's Total Industrial Output Value (%)
1992	2,065.6	7.1
1993	3,704.4	9.2
1994	8,649.4	11.3
1995	13,154.2	14.3
1996	15,077.5	15.1
1997	10,427.0	18.6
1998	14,162.0	24.0
1999	17,696.0	27.8
2000	23,145.6	22.5
2001	26,515.7	28.1

Source: Statistics of FDI in China.

FIEs became the engine of China's foreign trade. In 2001, both the total of import-export and the export itself by FIEs accounted for more than 50% of the national total. FIEs dominated China's imports (accounting for 51.7%), and became the main force in the export of mechanical and electrical products (about 70%) as well as high-tech products (about 80%), making important contributions to the expansion of export of high value-added and high-tech goods.

1.3 An Important Destination (2002-2012)

1.3.1 Steady growth

China's accession to the World Trade Organization (WTO) on December 11, 2001 marked a new development stage of China's opening-up when its market further opened up, rules became further in line with international regulations, and the economy rapidly integrated into the global economy. Multinationals, by taking advantage of those opportunities and a better environment, steadily increased their investment in China.

In an 11-year period from 2002 to 2012, a total of 373,000 new FIEs were established in China, bringing an actual FDI of nearly US$ 960 billion and an average annual realized FDI of US$ 87.1 billion, 2.4 times that of the previous period. The number of newly established FIEs was 34,000 in 2002, more than 40,000 each year from 2003 to 2006, averagely 27,000 per year from 2008 to 2011 and 25,000 in 2012, a decrease of 10.1% over the same period of last year. The capital intensity increased significantly, and the amount of enterprises' investment in

the single project increased from US$ 1.544 million in 2002 to US$ 4.482 million in 2012, 2.8 times as much as that in the previous period.

In terms of investment type, since China's regulations on mergers and acquisitions (M&A) came into effect in 2002, multinationals began to invest in China through M&A. In 2012, the proportion of investment through M&A in newly established enterprises and in the realized FDI was up by 4.9% and 4.1%, respectively.

In terms of the industrial structure of FDI, with China's continuous opening up of its service sector, the realized FDI in this sector increased rapidly from US$ 14.42 billion in 2002 to US$ 60.27 billion in 2012, an increase of 3.2 times. In 2008, 54.5% of newly established FIEs were engaged in the service sector, for the first time overtaking that in the manufacturing sector (42%). In 2012, the proportion of the realized FDI in the service sector (50.9%) in the national total overtook that in the manufacturing sector (46.9%). In addition, by the end of 2012, more than 480 of the world's top 500 multinationals had invested or operated in China, and more than 1,400 foreign-funded R&D centers had been established in China.

With regard to the investment process, the amount of FDI increased from US$ 55.01 billion in 2002 to US$ 111.72 billion in 2012. During this period, impacted by the global financial crisis, China's realized FDI decreased slightly by 2.6% year-on-year in 2009 before rebounding significantly to 17.4% in 2010, followed by small fluctuations and gradual growth. From 2002 to 2012, the annual compound growth rate of FDI was 7.8%, with an annual average FDI of US$ 80.08 billion, showing a stable growth trend.

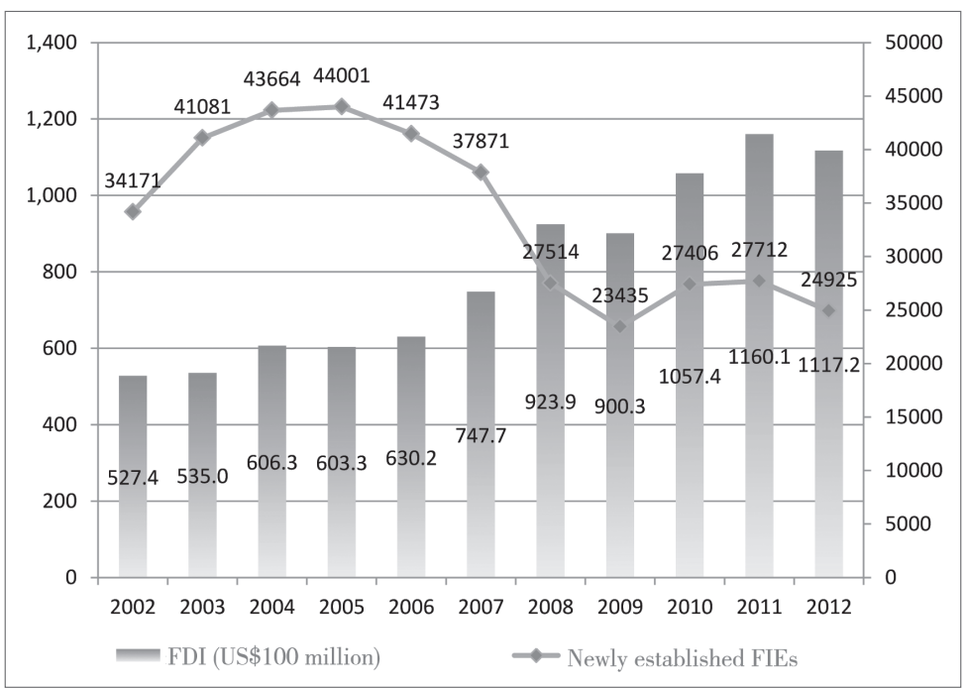


Figure 2 FDI in China, 2002–2012

Note: Data in banking, insurance and securities are excluded.

Source: FDI Statistics of MOFCOM

China has become a major country hosting the inward investment. After 2002, the share of China's inward FDI flows in the global total tended to be stabilized, with an annual average of 7.6% between 2002 and 2012. In 2002, China ranked third in the world in terms of inward investment. Although its global ranking fluctuated from 2003 to 2008, China finally secured second place for four consecutive years in 2009–2012, only after the United States, becoming the largest developing country hosting inward investment.

Table 10 Proportion and Ranking of China's FDI Flows in the World, 2002–2012

Year	Share of China's FDI Flows in the Global Total	China's Global Ranking in FDI Flows
2002	8.9%	3
2003	9.7%	1
2004	8.8%	2
2005	7.6%	4
2006	5.2%	3
2007	4.4%	7.
2008	7.3%	5
2009	8.1%	2
2010	8.4%	2
2011	7.9%	2
2012	7.7%	2

Source: UNCTAD database

1.3.2 Service attracts more investment than manufacturing for the first time

FDI structure has changed gradually since China's accession to the WTO. Surpassing the manufacturing industry, the service sector now attracts the most FDI. Between 2002 and 2012, service drew a total of US$ 336.87 billion of FDI, accounting for 38% of China's total. 55.5% of all FDI, or US$ 490.66 billion, went to the manufacturing industry in the same period. Specifically, in 2002 service attracted US$ 12.1 billion of FDI, accounting for 22% of the year's total, whereas in 2011, the proportion increased to 47.6%, outperforming the manufacturing industry by 2.71 percentage points. Since then, there has been a significant shift in China's FDI structure. In 2012, service drew 48.2% of China's total FDI whereas manufacturing attracted only 43.7%, a big drop against the 66.9% in 2002.

In 2012, service utilized US$ 53.84 billion of FDI, down by 2.6% year on year, yet still outperformed the manufacturing industry which utilized 48.87 billion. Judged by sector, in the FDI breakdown of 2012, 43.7% went to manufacturing, 21.6% went to real estate, 8.5% wholesale and retail, and 7.3% went to leasing and business-related services.

Column 4 Wal-Mart

Wal-Mart is the world's largest chain retailer. It has topped the Fortune Global 500 List and is recognized as the most valuable brand for many rankings. It has more than 11,300 branches and e-commerce websites under 58 brands in 27 countries. Its revenue in FY 2019 reached US$ 514.4 billion, and the total number of employees worldwide exceeded 2.2 million.

Wal-Mart is full of confidence in China's economy and market and is committed to long-term investment in China. Wal-Mart entered China in 1996 and opened its first shopping plaza and Sam's Club store in Shenzhen. For more than 20 years, Wal-Mart has been operating a variety of formats and brands in China, including shopping malls, Sam's member stores, Wal-Mart's Huishang supermarkets, etc. It has opened more than 400 shopping malls and about 20 distribution centers in more than 180 cities across the country with more than 100,000 employees.

Wal-Mart's operations in China have always insisted on local procurement. At present, Wal-Mart China has established partnerships with more than 7,000 suppliers, selling more than 95% of local products.

Wal-Mart China focuses on the localization of talents and encourages the diversification of talents, and is committed particularly to nurturing women leadership and including women employees in its management team. More than 99.9% of Wal-Mart China's employees come from China. The general managers of the malls are all local Chinese. Women employees account for about 66%, and the management team is nearly 50% female.

With the current momentum, Wal-Mart will continue to expand its investment in China, and will provide better services to customers in the future. At the same time, Wal-Mart will continue to upgrade existing stores, strengthen food safety, and achieve win-win development with local suppliers. Wal-Mart hopes to better adapt to the New Normal of China's economy, create more jobs, and become a good corporate citizen trusted by consumers while progressing with the Chinese economy.

1.3.3 Source of FDI became more concentrated

In the actual use of FDI, Hong Kong SAR is the most important source of FDI in mainland China. In 2002, it accounted for 33.9% of the total FDI inflows, and in 2012 it rose to 58.7%. Japan accounted for 7.9% in 2002 and ranked second in 2012, accounting for 6.6%. In 2012, Singapore became the third largest source of actual FDI in China, with a proportion of 5.6% and remaining unchanged over many years. South Korea dropped from 5.2% in 2002 to 2.7% in 2012, ranking fourth. Taiwan province fell from 7.5% in 2002 to 2.6% in 2012, ranking fifth. The United States accounted for 10.3% in 2002, and fell to 2.3% in 2012, dropped from the third to the sixth, the largest drop by a single investor among all sources of FDI

in China.

The top five countries or regions in 2002 (Hong Kong, Japan, Taiwan, South Korea) accounted for 64.8% of the total FDI in China. The top five countries or regions in 2012 (Hong Kong, Singapore, South Korea, Taiwan) increased their total proportion to 76.2%. In the past 10 years, with the exception of Hong Kong and Singapore, investment from all other countries or regions has shown a downward trend.

1.3.4 FDI by M&A on the rise

Greenfield investment was the main form of FDI in China. Cross-border M&A accounted for a relatively low proportion of FDI, but growing steadily year by year as a general trend.

From 2004 to 2012, foreign M&A in China increased rapidly in terms of transaction volume and the total amount. In 2004, 482 cross-border M&A transactions took place in China which accounted for 1.2% of total FDI projects, and the amount of M&A reached US$ 330 million, accounting for 0.5% of China's total. In 2012, 1,213 cross-border M&A deals were registered, accounting for 4.9% of all foreign-invested projects, and the transaction amount reached US$ 4.56 billion, accounting for 4.1%[①] of China's actual FDI.

M&A transactions were conducted mainly through equity mergers and asset acquisitions, most notably these M&As focused on non-SOEs (state-owned enterprises). In 2012, FDI was involved in 1,132 transactions of non-SOEs equity acquisition, utilizing US$ 4.05 billion of FDI, up by 31.4% year on year. There were also 55 foreign-capital-funded mergers in the non-SOE sector, using US$ 450 million, up 8.1% year on year. Foreign-funded equity acquisition and asset merger in the state-owned sector were relatively less, registering at 48 million and US$ 3 million respectively, both down by more than 95% against 2011.

M&As usually took the forms of Sino-foreign joint ventures or cooperative enterprises. In 2012, 712 M&A transactions were conducted in the form of Sino-foreign joint ventures, accounting for 58.7% of all M&As; the transaction amount was US$ 3.04 billion, accounting for 66.7% of the aggregated cross-border M&A amount. In 2012 there were 476 M&As in the form of Sino-foreign cooperative enterprises, totaling US$ 1.21 billion of FDI, accounting for 39.2% and 26.5% respectively.

M&A transactions mostly took place in China's eastern regions, both in terms of quantity and amount. In 2012, 82.6% of M&A transactions occurred in eastern regions, with Guangdong, Jiangsu and Shanghai ranking on top of the list, accounting for 63% of the total M&As; 68% of the M&A capital was concentrated in the eastern regions, with a value of US$ 3.1 billion. Guangdong, Jiangsu, Zhejiang, Shanghai, Liaoning and other five provinces and cities accounted for 75% of the total M&A capital in the eastern regions. The western regions

① Source: "*2013 Report on Foreign Investment in China*", same below.

of China accounted for 17% of the total amount, of which Sichuan accounted for 30% of the total in the western region; the central regions accounted for 15%, of which Jiangxi accounted for 40% of the total in the central region.

Column 5 Caterpillar

Shandong Shangong Machinery Co., Ltd. was established in 1958. Completed its shareholding restructuring in 2003, Shangong mainly produces loaders. In 2005, Caterpillar acquired a 40% share of Shangong. In 2007, it acquired the entire share of Shangong, thus Shangong became a wholly-owned subsidiary of Caterpillar. In November 2013, Shangong officially changed its name to "Caterpillar (Qingzhou) Co., Ltd.".

After the acquisition, Caterpillar regarded Shangong an important part of China's strategy, therefore continuously increased its investment, introduced new products, and improved product quality. At the same time, by applying advanced management models such as Caterpillar 6Sigma, CPS, TPM, 5S management and MQ12005 quality management, Shangong had successful integration of Chinese traditional culture and Caterpillar corporate management, injecting new vitality into the company.

In 2004, Shangong's registered capital reached RMB yuan 4.36 million. As the company grew, it went through six rounds of capital increases. To date, Caterpillar (Qingzhou) Co., Ltd. has a total investment of RMB yuan 2.56 billion and a registered share capital of RMB yuan 1.251 billion.

Caterpillar spared no effort in supporting Caterpillar (Qingzhou) Co., Ltd. Construction of the bulldozer factory started in 2012. In 2017, the CAT brand 950GC loader achieved sales of more than 1,000 units. At the same time, the CAT950GC T4 loader meeting the EU-4 emission standard was put into production, laying a foundation for high-end products to enter the European and American markets. The CAT brand grader, road roller and other products that began to be introduced in 2017 have gradually started mass production since 2018. The company's operation and profitability were greatly improved. In 2019, Caterpillar invested RMB yuan 165 million to introduce the CBS software system, the CAT mining project, and the CAT test base project. Caterpillar also built a world-leading R&D center in Qingdao, bringing together the world's top researchers to form an R&D team with high-level talents in order to constantly meet market demand with innovative products.

Prior to the acquisition by Caterpillar, the main products of Shangong were loaders, with annual sales of only RMB yuan 890 million, a loss of RMB yuan 64 million and an asset-liability ratio of 98%. After the merger with Caterpillar, the company's product varieties and specifications have gradually improved. At present, it mainly produces two major brands of "CAT" and "Shangong Machinery", including loaders, road rollers, graders, bulldozers, downhole scraper conveyors, etc. These products are sold to 69 countries and regions with

sales revenue in 2001 reaching RMB yuan 4.1 billion, the export volume reaching RMB yuan 1.7 billion, and total tax paid amounting to RMB yuan 100 million.

1.3.5 FDI remains concentrated in the eastern region

In 2012, a total of 21,000 FIEs were newly established in the eastern regions, accounting for 86.2% nationally, down by 8.9% year on year; the actual use of FDI hit US$ 92.51 billion, accounting for 82.8% of the country's total amount, down by 4.2% year on year. In the central region, 2,327 FIEs were established, accounting for 9.3% of the national total, down 14.7% year on year; the actual use of FDI reached US$ 9.29 billion, accounting for 8.3% of the national total, up 18.5% year on year. In the western regions, a total of 1,106 FIEs were set up, accounting for 4.4% of the country's total, down by 20% year on year; the actual use of FDI in the western region reached US$ 9.92 billion, accounting for 8.9%, down by 14.3% year on year. By provinces, Jiangsu, Guangdong, Shanghai, Zhejiang, and Beijing ranked as the top five, accounting for 70.6% of the total of enterprises set up; In terms of the actual use of FDI by provinces, the top five were Jiangsu, Guangdong, Shanghai, Zhejiang, and Liaoning, accounting for 64.3% of China's total.

1.4 High quality development of investment by multinationals in the New Normal (since 2013)

1.4.1 Steady development of FDI

Since 2012, when China's economy started its New Normal period, investment by multinationals in China has undergone an overall steady development, with their investment quality continuously improved.

During 2013–2018, the compound annual growth rate of FDI in China fell from 7.8% to 2.8%, compared with years between 2002 and 2012. Against the background of the domestic economic transformation and the increased risk of the international market, despite the slowdown of FDI in China, it has maintained a steady growth momentum. In 2018, 60,533 FIEs were newly established nationwide, a year-on-year increase of 69.8%; the actual use of FDI was US$ 134.97 billion, a year-on-year increase of 3%. In 2018, China was still the developing country attracting the largest FDI, ranking second in global cross-border investment, share of which increased from 7.6% in 2012 to 10.7% in 2018.

During this period, 33,000 FIEs were newly established each year, slightly lower than the average of the previous stage. The actual use of FDI increased from US$ 111.7 billion in 2012 to 138.31 billion in 2018. The average annual actual use of FDI was US$ 132.7 billion, an increase of 52% over the previous period. In 2018, the actual use of FDI was about 150 times that of the initial period of reform and opening-up. The service industry further increased its

share of total FDI. In 2018, among the total number of newly established FIEs, the service industry accounted for 88.7%, and the manufacturing industry accounted for 10.2%. Among the total actual use of FDI, the service industry and manufacturing industry accounted for 68.1% and 30.5%, respectively. However, the actual use of FDI in the manufacturing industry rebounded, with a year-on-year increase of 20.1%, and its share increased by 4.8 percentage points over the previous year. Among them, high-tech manufacturing increased by 35.1% year-on-year. According to the statistics of the Torch Center of China's Ministry of Science and Technology, at the end of 2018, there were 181,000 high-tech enterprises in the country, including 11,931 foreign-invested high-tech enterprises, accounting for 6.6%. Foreign investors set up 3,124 FIEs by M&A, and the actual use of FDI was US$ 17.81 billion, up by 51.2% and 18.7% respectively, accounting for 5.2% and 13.2% of the total FDI. The proportion of FDI actually used by M&A increased by 9 percentage points over 2011.

By the end of 2018, China had established a total of 961,000 FIEs, with the actual use of FDI of US$ 2.1 trillion. The number of existing FIEs accounts for about 3% of the total number of enterprises in the country. In 2018, FIEs realized a total import and export volume of US$ 1.9861 trillion, accounting for 42.6% of the national total, of which US$ 1,036 billion for export, and US$ 932.1 billion for import, accounting for 41.7% and 43.7% of the national total. The tax payment exceeded RMB yuan 3 trillion, accounting for 17.9% of the national tax revenue. Foreign-invested industrial enterprises achieved profits of nearly RMB yuan 1.7 trillion, accounting for 25.3% of the total profits of industrial enterprises.

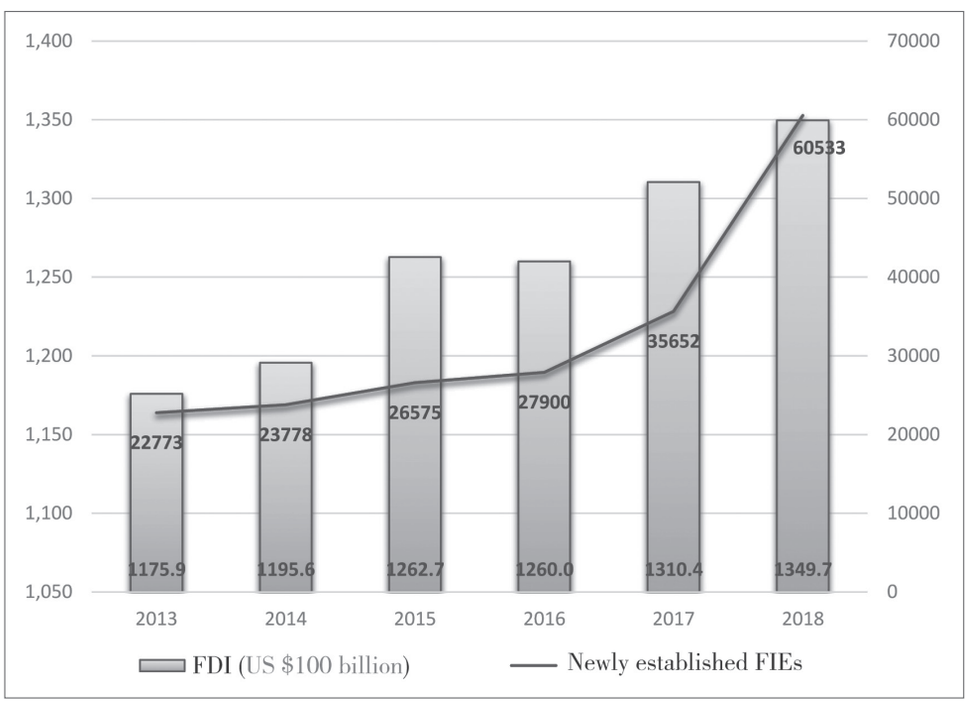


Figure 3 FDI in China during 2013–2018

Note: Statistics of banks, insurances and securities not included, same below.
Source: FDI Statistics of MOFCOM

After 2013, China's attraction of FDI has further increased in terms of global share, and has strengthened its position as a global capital destination. Between 2013 and 2018, the proportion of FDI in China to the global total increased from 7.6% during 2002–2012 to 8.6%. In 2013, China attracted the second largest amount of FDI in the world; in 2014, China ranked first in the world for the first time, then fell to third place during 2015–2016. But it quickly resumed its position in 2018, ranking second only to the United States.

Table 11 China's global share of FDI and its ranking

Year	China's global share of FDI (%)	Global ranking
2013	8.7	2nd
2014	9.6	1st
2015	7.1	3rd
2016	7.2	3rd
2017	9.5	2nd
2018	9.3	2nd

Source: UNCTAD database

1.4.2 China's investment environment remains continuous improvement

After 2013, China has explored implementing the pre-establishment national treatment system and the negative list management system, deepened the reform of "delegating power, streamlining administration and optimizing government service" in the FDI field, and achieved major progress in the management system. The utilization of FDI has grown consistently, and the overall quality has improved steadily.

Construction of the free trade pilot zone has accelerated, and so has the opening up. Since September 2013, China has established 11 free trade pilot zones in Shanghai, Guangdong, Fujian, Tianjin and other places, and has piloted the national treatment and negative list management model for FDI entry. In 2018, China announced that the entire Island of Hainan province would be built into a free trade pilot zone to explore the building of a free trade port. Starting from 2013 when the negative list system was announced, relaxing foreign market access has been a key task. The 2013 version of negative list had 190 special management measures for FDI entry, which has gradually been "slimmed down" over the years. By 2018, the negative list has been further shortened, with only 48 measures. The 2018 version of the negative list relaxed market access to all the first, second and third industries, involving finance, transportation, trade logistics, professional services, manufacturing, infrastructure, energy, resources, agriculture and other fields, a total of 22 major opening measures were also announced.

"Special Management Measures for Foreign Investment Entry (Negative List) (2018 Edition)" (hereinafter referred to as the "2018 negative list") is a revision of the Negative List in the "Foreign Investment Industrial Guidance Catalogue *(Revised 2017)*" which was released separately. In the 2018 negative list, market access was greatly relaxed, and the length of the list was reduced from 63 to 48. A total of 22 areas were opened. The 2018 negative list also outlined the timetable of openness for the automotive and financial sectors, which gradually increased the extent of open-up, allowed a given transition period for relevant industries and enhanced the expectation of opening-up.

The openness of the automotive and financial sectors has never been seen before. Share restrictions on foreign-invested special vehicles and new energy vehicle enterprises are canceled. In 2020, the share restrictions on foreign-invested commercial vehicle firms will be abolished. In 2022, passenger vehicles will also see their foreign share restrictions abolished, and the joint venture cap number of 2 will be removed, too. In 2018, the 20% restriction on FDI holding of Chinese banks and the joint holding restriction of 25% over Chinese banks is removed. Also in 2018, FDI was allowed to hold less than 51% share of securities companies and securities fund management companies, which according to previous regulations were controlled by Chinese capital; and in 2021, foreign share restrictions will be abolished for these two types of companies. The same goes for futures companies and life insurance companies, which in 2021 will have no holding restrictions for FDI.

The Communist Party of China (CPC) Central Committee and the State Council have attached great importance to the use of FDI and have made a series of major arrangements. China remains firmly committed to its opening-up to the outside world and actively using FDI. Over the past years, some important policies have been introduced to promote the use of FDI. In 2017, the State Council issued two important documents with an introduction of 42 new measures. State departments and local governments have intensified their work and issued supporting policies and regulations to ensure that specific measures such as liberalization of access, fiscal and taxation support, and protection of rights and interests are put in place. These measures have actively created an excellent business environment, optimized investment methods, and improved service quality and standards, which have thus effectively boosted the confidence of foreign investors. In May 2018, the State Council executive meeting adopted the "Notice on Several Measures for Active and Effective Use of Foreign Capital to Promote High-Quality Economic Development", which was an important measure to implement the CPC Central Committee's intention to expand China's opening-up and improve its investment environment. The main purpose of the Notice was to actively and effectively use FDI to promote high-quality economic growth, create a fair, transparent and convenient, more attractive investment environment, and to draw on the framework of internationally adopted policies. Specific measures were proposed in six aspects such as investment liberalization, facilitation, promotion, protection, optimizing the regional open-up layout and advancing the

innovation of national-level development zones.

The business environment in China continues to improve. According to the 2019 Global Business Environment Report released by the World Bank, China's business environment has increased by 32 ranking places compared with last year, ranking 46th among 190 economies. In the past year, China carried out a record number of reforms to improve the business environment for small and medium-sized enterprises (SMEs), ranking the top 10 globally in terms of business environment improvement this year. According to UNCTAD's survey with senior executives of multinationals, China ranked as the second-best investment destination from 2017 to 2019, and the best in developing countries, while the United States and India ranked first and third among the best FDI destinations in the world, which remained unchanged with the last year.

The service industry has great potential in utilizing FDI. On the one hand, market demand has accelerated. The Report to the 19th CPC National Congress laid out that the main contradictions of the Chinese society are between people's growing inspiration for a better life and the imbalanced, insufficient development. Such aspiration goes beyond the material scope and includes not only high-quality medical care, education, elderly care, culture, entertainment, tourism and other service areas, but also spiritual civilization, ecological civilization and other needs. The service industry in developed countries is very mature, with a high-quality, comprehensive service system. FDI will effectively improve the quantity and quality of the supply side of the service industry and make up for the imbalanced development of China's service industry. In the production-related service industry, China has created a large demand as it transitions to a "manufacturing power", such as through transformation and upgrading of R&D, design, finance, logistics management, and marketing network. In the life-service industry, the upgrading of China's consumption structure will also drive the rapid development of the market. The increase of high-income groups has raised more and higher demand for elderly care, medical care, education, tourism, culture and entertainment. On the other hand, the policy environment is constantly optimized. The "Outline of Service Industry Innovation and Development (2017-2025)" promulgated in June 2017 puts the service sector as the top priority of China's new round of opening-up, and puts forward the high requirement of doubling the added-value of the service industry in 10 years. The policy focuses on creating a market environment that embraces innovation and fair competition and proposed three key reform areas. First, deregulation and promotion of competition, which requires clearing and abolishing various regulations and practices that impede the markets and fair competition. The second is to expand openness and further integrate into the world. On the basis of adhering to the national security bottom line, China will deeply integrate into the global value chain of the service industry and open up to a higher level to enhance the internationalization of its service industry. The third is to improve mechanisms and raise standards. A standard system of coordination among government, market and enterprise needs to be established, and the

service industry will be continuously standardized. From the policy point of view, the opening of the service industry is unprecedented. Building a fair, competitive market environment and deeply integrating into the global service system will create favorable conditions for the rapid development of FDI in the service industry.

The state has already carried out an important strategic layout for the expansion of the service industry, and positive progress is seen in expanding and opening-up, which will effectively advance FDI in China's service industry. On May 5, 2015, the State Council approved of Beijing's carrying out a comprehensive pilot program for expanding and opening up the service industry, making Beijing the first and only pilot city in the country for such effort. Through opening more industries, cutting restrictions and expanding sectors, FDI now has much easier access to the Chinese market. The 141 tasks that have been assigned to Beijing have been completed in 2017. The pilot work in Beijing has achieved remarkable results, not only promoting the open development of Beijing's local service industry, but also generating a number of innovations that can be replicated and promoted throughout the country. In 2016, the added value of Beijing's service industry accounted for 80.3% of its total GDP. The service industry absorbed about 95% of the city's total FDI, and accounting for 13% of the country's total. Beijing has generated 10 new business models and 8 institutional innovation models that are scalable throughout the service industry. At present, although the pilot is only launched in Beijing at present, it plays a strategic demonstration role in the service industry's open test field in general.

1.4.3 FDI quality remains continuous improvement

The overall development of FDI presents a new feature that is consistent with China's economic transformation and upgrading. As China's economy enters a New Normal, FDI structure is also constantly being adjusted to match the domestic supply-side structural reform objectives, and the quality of FDI has made positive progress as well.

Since 2013, FDI in the high-tech industry has grown at an average annual rate of 11.7%. In 2016, 19.1% of FDI went to the hi-tech sector, an increase of 5 percentage points over 2012. The import and export of high-tech products by FIEs increased by 10.4% annually, and the average annual growth rate of exports was 17%, both higher than the national average. The number of foreign-invested R&D centers exceeds 2,400[①]. From January to July 2019, the actual use of FDI in the manufacturing industry was RMB yuan 154.8 billion, up 2.7% year on year; the actual use of FDI in the service industry was RMB yuan 371.57 billion, an increase of 9.3% year on year. The actual use of FDI in the high-tech industry increased by 43.1% year

① Data Source: website of the Ministry of Commerce: Creating Sound Business Environment and Upgrading Layout for Regional Opening-up

http://www.mofcom.gov.cn/article/zt_dlfj19/fbdt/201710/20171002656578.shtml

on year, accounting for 29.3% of total FDI in China. The actual use of FDI in the high-tech manufacturing industry was RMB yuan 59 billion, an increase of 19% year on year. Among them, the actual use of FDI in the aviation, spacecraft and equipment manufacturing industry, electronics and communication equipment manufacturing industry, and pharmaceutical manufacturing industry increased by 32.8%, 29.3% and 22% respectively. The actual use of FDI in the high-tech service industry was RMB yuan 97.39 billion, an increase of 63.2% year on year. Among them, inspection and testing services, R&D and design services, and scientific and tech commercialization services increased by 98.2%, 70% and 81%[①] respectively.

1.4.4 FDI overwhelmingly concentrates on the service sector

In 2011, the service industry first outperformed the manufacturing industry in the utilization of FDI. Since then, FDI in the service industry has been constantly increasing, and the proportion of FDI in these two sectors has been reversed, and now about 70% of FDI is taken by the service industry. From the perspective of FDI inventory, as of 2015, the secondary industry still dominated the distribution, reaching 55%. In recent years, FDI in services has accounted for about 70%, and the manufacturing industry accounts for less than 30%.

The service industry now dominates the use of FDI. From January to July 2019, the actual use of FDI in services was RMB yuan 371.57 billion, accounting for 69.69%, an increase of 9.3% year on year[②]. In the same period, the manufacturing industry utilized RMB yuan 154.8 billion of FDI, with a share of 29.04%, an increase of 2.7% year on year[③], and the service industry share was 2.4 times of the manufacturing industry.

The external environment and internal conditions of FDI have undergone profound changes, resulting in tremendous changes in the industrial structure of China's use of FDI. Since China's accession to the WTO, it has embraced the opportunity of global manufacturing transfer. The rapid development of FDI in the manufacturing industry transformed China into a global manufacturing power. With China's decreasing demographic dividend, rising factor costs, and increasing pressure on resources and environment, traditional manufacturing in China faces the challenges of overcapacity, transformation and upgrading. Labor-intensive FDI has withdrawn from China, resulting in a drop in FDI in manufacturing. During this period, FDI in services grew rapidly, which to some extent compensated for the decrease of FDI in manufacturing.

1.4.5 Sources of FDI remain concentrated

Despite the balancing trend, sources of FDI remain largely concentrated. Developed

① http://www.mofcom.gov.cn/article/i/jyjl/l/201908/20190802890857.shtml

② http://www.mofcom.gov.cn/article/i/jyjl/l/201908/20190802890857.shtml

③ The same as above

countries have shifted gears from a low momentum in investing China to a phase of explosive investment. In 2018, investment from developed economies grew rapidly. FDI from Singapore, South Korea, Japan, the United Kingdom, Germany, and the United States increased by 8.1%, 24.1%, 13.6%, 150.1%, 79.3%, and 7.7% respectively. The actual investment amount from the "Belt and Road" partner countries, the EU-28 and ASEAN increased by 13.2%, 22.6% and 13.8% respectively.

In 2018, ASEAN investment helped set up 1,735 new enterprises in China, an increase of 34.8% year on year. The actual amount of FDI from ASEAN was US$ 6.07 billion, an increase of 16.5% year on year. The EU-28 has invested 2,499 new enterprises in China, an increase of 33.4% year on year. The actual amount of FDI from the EU-28 was US$ 11.86 billion, an increase of 35% year on year. A total of 4,479 new enterprises were established in China with investment from countries supporting the "Belt and Road Initiative", an increase of 16.1% year on year. Their actual amount of FDI reached US$ 6.45 billion, an increase of 16% year on year[①].

In 2018, FDI from the top ten countries/regions (in terms of actual FDI) hit US$ 128.46 billion, accounting for 95.2% of the country's total FDI, an increase of 3.1% year on year. The top ten countries/regions investing in China are: Hong Kong SAR (US$ 96.01 billion), Singapore (US$ 5.34 billion), Taiwan province (US$ 5.03 billion), South Korea (US$ 4.67 billion), the United Kingdom (US$ 3.89 billion), Japan (US$ 3.81 billion), Germany (US$ 3.68 billion), the United States (US$ 3.45 billion), the Netherlands (US$ 1.29 billion), and Macao (US$ 1.29 billion).[②]

1.4.6 FDI has concentrated in the eastern region of China

Eastern China has always dominated FDI in the country. In terms of FDI flow, in 2017, the actual use of FDI in China's eastern, central and western regions was US$ 114.59 billion, US$ 8.31 billion and US$ 8.13 billion respectively, and some relevant sectors took US$ 5.28 billion, accounting for 84.1%, 6.1%, 6.0%, and 3.9%[③] respectively of the total FDI in China.

Judging from the cumulative use of FDI, as of 2017, total FDI in the central and western regions further increased over the previous year, reaching US$ 149.3 billion and US$ 127.07 billion respectively. The proportion was 7.9% and 6.7% respectively, which was 0.4 percentage points[④] higher than the 7.5% and 6.3% level in 2016.

The regional structure of FDI in China has been continuously optimized, with rapid growth in the central and western regions. In 2018, the actual use of FDI in the western region

① http://www.fdi.gov.cn/CorpSvc/Temp/T3/Product.aspx?idInfo=10000499&idCorp=1800000121&iproject=33&record=11806

② The same as above

③ Source: *Statistical Bulletin of FDI in China* 2018

④ Source: *Report of FDI in China* 2018

was RMB yuan 64.6 billion, an increase of 18.5%. The actual use of FDI in the central region was RMB yuan 64.8 billion, an increase of 15.4%[①]. From January to July 2019, the actual use of FDI in the western region was RMB yuan 39.94 billion, up 25.2% year on year; RMB yuan 457.11 billion went to the eastern region, up 6.3% year on year; and RMB yuan 36.09 billion went to the central region, up 3.5%[②] year on year.

To balance regional economic development, the Chinese government is working hard to continuously optimize the regional layout of FDI. Due to the long-term opening-up, the eastern region has formed an excellent business environment, a mature industrial ecological environment, high level of scientific and technological innovation, and high-quality talents, which are conducive to high-end manufacturing, high-tech services and other industries. That's why the eastern region enjoys a clear advantage in attracting FDI. To further balance the FDI structure in China, the Chinese government is constantly encouraging FDI to go to the central, western and northeastern regions. The "Catalogue of Encouraged Industries for Foreign Investment (2019 Edition)" newly implemented on July 30, 2019, the Central and Western Catalogue has further added some labor-intensive, advanced and applicable technology industries and supporting facilities, as a move to further channel FDI to the central and western regions. In Yunnan, Inner Mongolia, Hunan and other provinces with distinctive agricultural resources and labor advantages, new or modified agricultural product processing, textile and clothing, furniture manufacturing and other items were added. In the provinces of Anhui, Sichuan, Shanxi and other electronic industrial clusters, new integrated circuits, tablet computers, and communication terminals are added to the catalog. In Henan, Hunan and other transportation and logistics network-intensive provinces, new logistics and storage facilities, gas and LNG stations and other items are added. The encouragement policy of the previous edition of "Catalogue of Industries for Guiding Foreign Investment" and the "Catalogue of Priority Industries for Foreign Investment in the Central and Western Regions" will remain effective in the 2019 Catalogue.

While investing in China and expanding their business scales, multinationals also see China's industrial structure and regional layout improve, forming a new investment landscape.

① http://www.mofcom.gov.cn/article/ae/ah/diaocd/201902/20190202834121.shtml

② http://www.mofcom.gov.cn/article/i/jyjl/l/201908/20190802890857.shtml

Chapter 2 Benefits—Investment of Multinational Corporations in China

After investing in China for 40 years, multinationals have participated in China's magnificent reform and opening-up and found their new investment hotspot. The fast-growing Chinese market provides a rare opportunity for multinationals to develop; China's reform and opening-up provides a "China opportunity" for the global layout and growth of multinationals. Over the past 40 years, more than 900,000 foreign companies have invested in China. They have witnessed the historical achievements of China's reform and opening-up, made important contributions to China's economic and social progress, and also enjoyed the dividends brought about, and gained a vast market and considerable profits in China.

2.1 China is a major revenue source of multinationals

2.1.1 Great result in market expansion

In the past 40 years of reform and opening-up, multinationals have spread all over China's geographical regions and industries. For multinationals, China has become one of their fastest growing sources of income.

Foreign-invested industrial enterprises have a strong growth in operating income. According to the *"China Statistical Yearbook"*, among industrial enterprises, the owners' rights of Hong Kong, Macao and Taiwan-invested and FIEs (hereinafter jointly referred to as FIEs) increased from RMB yuan 973.041 billion in 1999 to RMB yuan 9,729.667 billion in 2016, an increase of nearly 10 times, achieving an average annual growth rate of 15%. Income generated by the main business increased from RMB yuan 1,796.655 billion in 1999 to RMB yuan 24,761.969 billion in 2017, an increase of nearly 13 times, achieving an average annual growth rate of 16%. The average income of a single enterprise's main business increased from RMB yuan 67.0394 million to RMB yuan 504.8246 billion, an increase of 6.5 times, and the average annual increase hit 13.2%. Thanks to the continuous improvement of labor efficiency in China, the productivity of per capita labor input by FIEs has been greatly improved, and the per capita income of the main business has increased by nearly 10% per year. In 2017, it reached a per capita income of US$ 1.2066 million, 4 times higher than the US$ 226,900 level in 1999. The main business income realized by per RMB yuan 100 of assets increased from

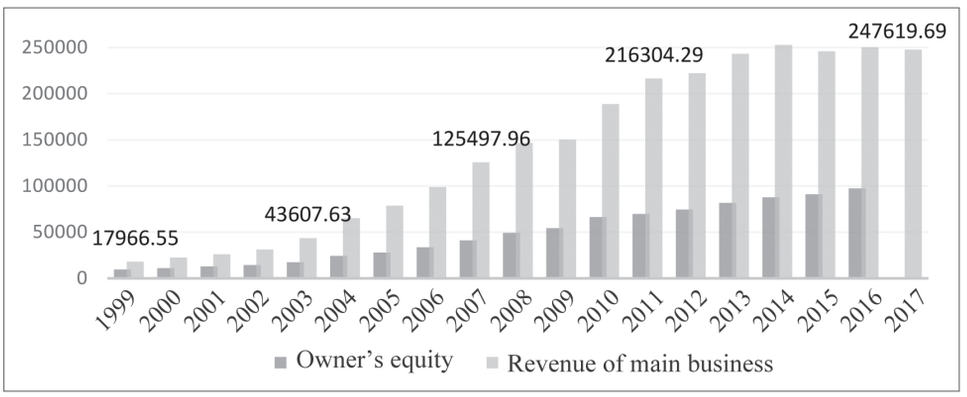


Figure 4 Income generated by the main business in foreign-invested industrial enterprises (RMB yuan 100 million)

Source: *China Industry Statistical Yearbook and China Statistical Yearbook*

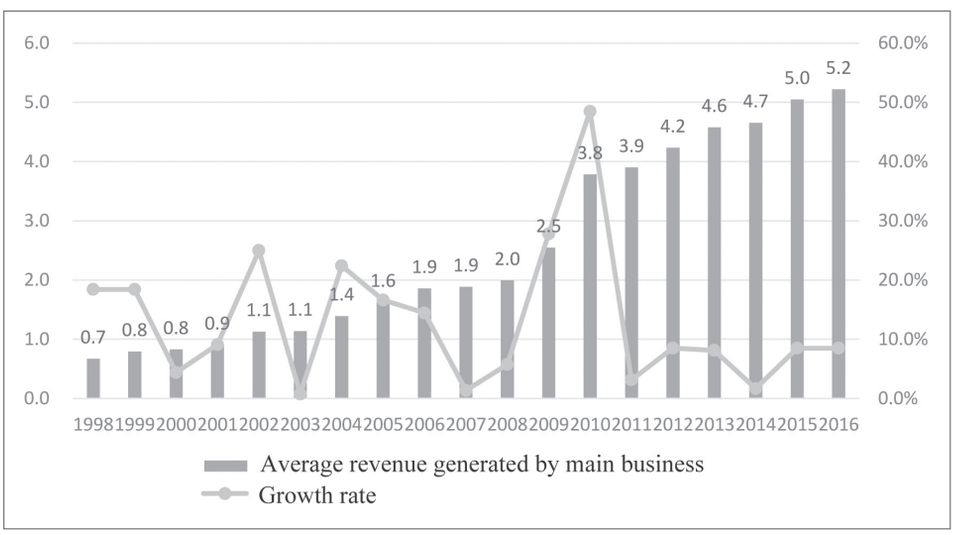


Figure 5 Average revenue generated by main business in foreign-invested industrial enterprises (Unit value: RMB yuan 100 million, %)

Source: *China Industry Statistical Yearbook* and *China Statistical Yearbook*

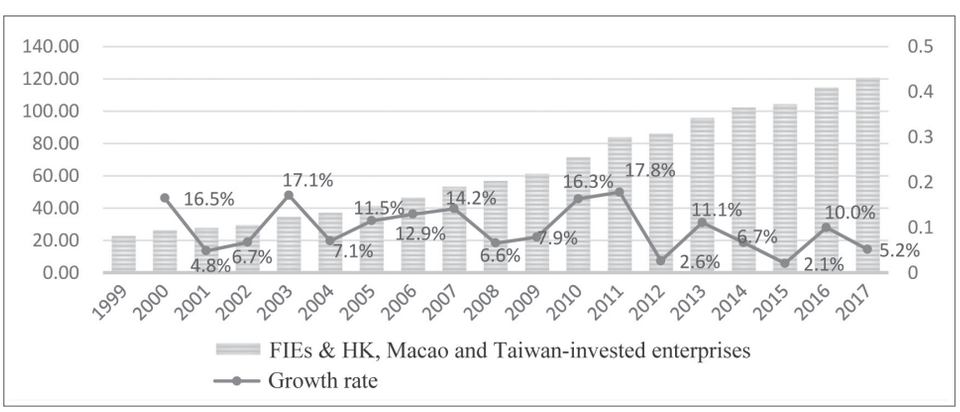


Figure 6 Average per capita income generated by the main business in the foreign-invested industrial enterprises (Unit value: RMB yuan 10,000, %)

Source: *China Industry Statistical Yearbook* and *China Statistical Yearbook*

RMB yuan 78.05 in 1999 to RMB yuan 130.74 in 2008, an increase of 67.5%. After 2008, despite the impact of the financial crisis, it remained at a relatively high level, reaching RMB yuan 114.04 in 2017, which is still 46.7% higher than that of 1999, and higher than the overall level of all industrial enterprises in China.

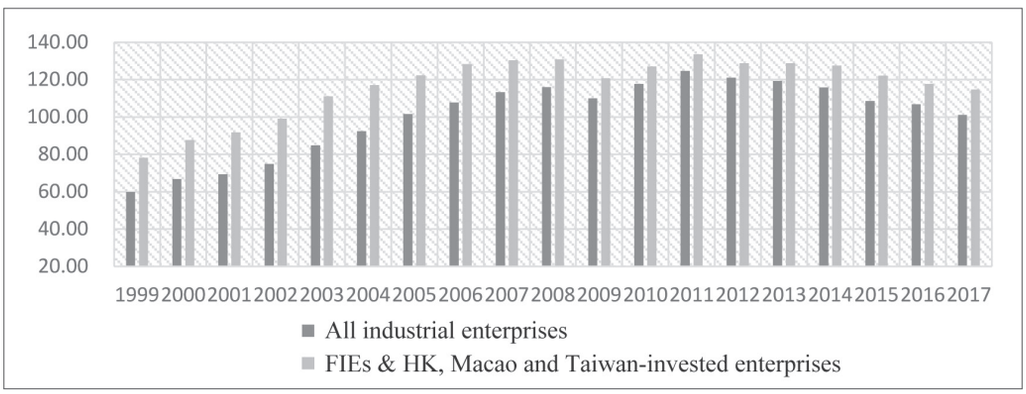


Figure 7 Average income generated by per RMB yuan 100 of the asset in foreign-invested industrial enterprises (Unit value: RMB yuan)

Source: *China Industry Statistical Yearbook* and *China Statistical Yearbook*

The performance of FIEs in the service industry is very outstanding. After China joined the World Trade Organization, it further expanded market access, further enhanced the investment software and hardware environment, and introduced a series of stimulating policies. FDI in the service industry has since grown rapidly, and the operating income of FIEs in the service industry has also been improved. Taking the wholesale and retail industries as an example, the operating income of the wholesale industry has increased by 182 times from RMB yuan 35.84 billion in 2000 to RMB yuan 6,563.64 billion in 2017, with an average annual growth rate of 45%. The retail industry grew by 28.5 times from RMB yuan 45.49 billion in 2000 to RMB yuan 1,342.47 billion in 2017, with an average annual growth rate of 25%.

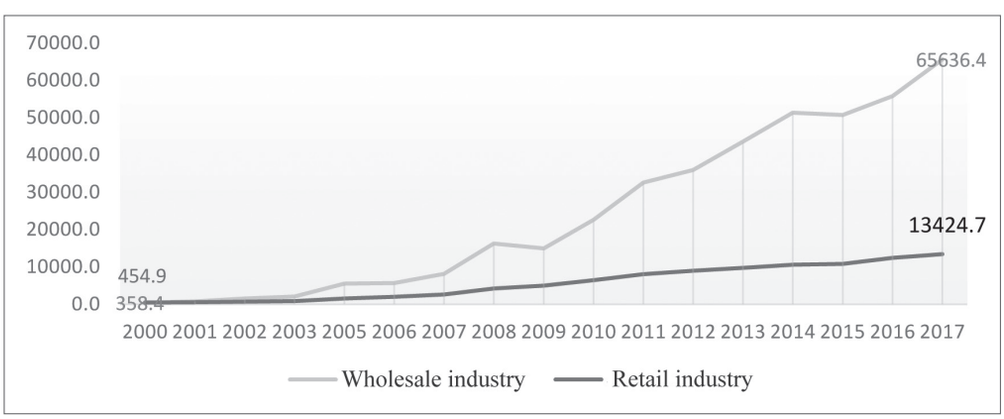


Figure 8 Income of main business in Chinese and foreign-invested wholesale and retail business during 2000–2017 (RMB yuan 100 million)

Source: *China Statistical Yearbook*

Among them, the number of FIEs in the wholesale industry increased from 114 in 2000 to 4,988 in 2017. The average income of the main business of individual enterprises increased from RMB yuan 314 million to RMB yuan 1.316 billion, an increase of 3.2 times, with an average annual growth rate of 10.2%; In 2017, the annual per capita income from the main business reached RMB yuan 8.9675 million, 3.2 times that of RMB yuan 2.7703 million in 2000, achieving an annual growth rate of 8.6%.

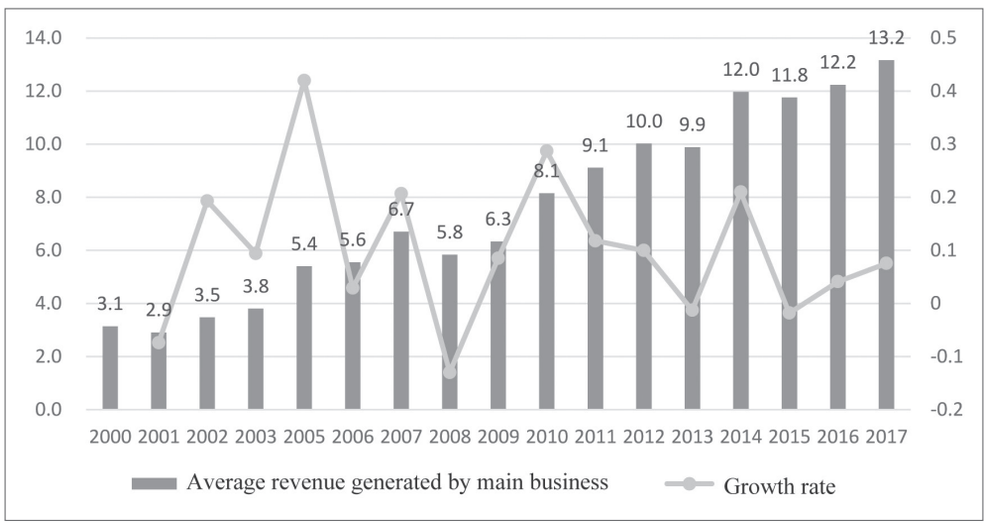


Figure 9 Average income of foreign-invested wholesale enterprises (Unit value: RMB yuan 100 million, %)

Source: Calculated according to the *China Statistical Yearbook*

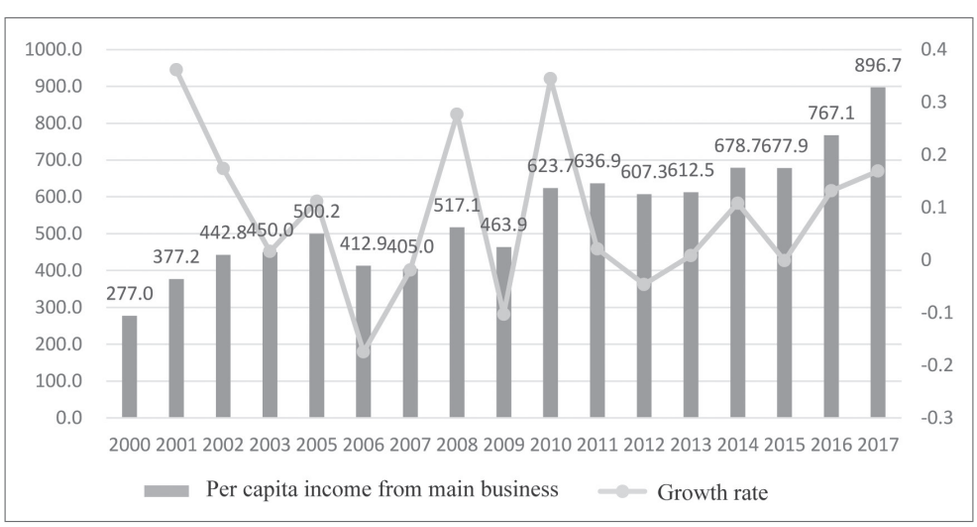


Figure 10 Average per capita income generated from the main business in the foreign-invested wholesale enterprises (Unit value: RMB yuan 10,000, %)

Source: Calculated according to the *China Statistical Yearbook*

2.1.2 Revenue of FDI in China has maintained consistent growth

According to the BEA statistics of the US Department of Commerce, as of the end of 2016, the number of US companies (with assets, sales or net income of more than US$ 25 million) in China was 1,657, with a total sales revenue of US$ 345.3 billion, an added value of US$ 65.14 billion, and a net asset of US$ 59.85 billion and a net income of US$ 26.03 billion. From the financial crisis in 2009 to 2016, the inventory assets of US multinationals overseas increased by 23.7%, but in China alone, it grew by 111.4%. Their overseas sales increased by 20.9% during the same period, but sales in China increased by 140.3%. The overseas net income of US multinationals increased by 30.4%, but increased by 151.3% in China alone. The growth rate in China is about 5 times of the global average.

Table 12 Operation of US-holding enterprises in China as of the end of 2018

Number of enterprises (with assets, sales or net income of more than US$ 25 million)	1,657
Total assets	US$ 403.58 billion
Total sales revenue	US$ 345.33 billion
Added value	US$ 65.14 billion
Capex	US$ 10.81 billion
Net asset	US$ 59.85 billion
Net income	US$ 26.03 billion

Source: BEA statistics of the US Department of Commerce

According to the report of German Federal Statistical Office, the annual turnover of German multinationals' overseas branches in China was approximately US$ 188.829 billion (Euro 170,639 million) in 2016, accounting for 7.6% of the annual turnover all German multinationals' overseas branches, ranking third next to only the US and the UK.

Table 13 Annual turnover of overseas branches of German multinationals

Unit value: Euro 1 million

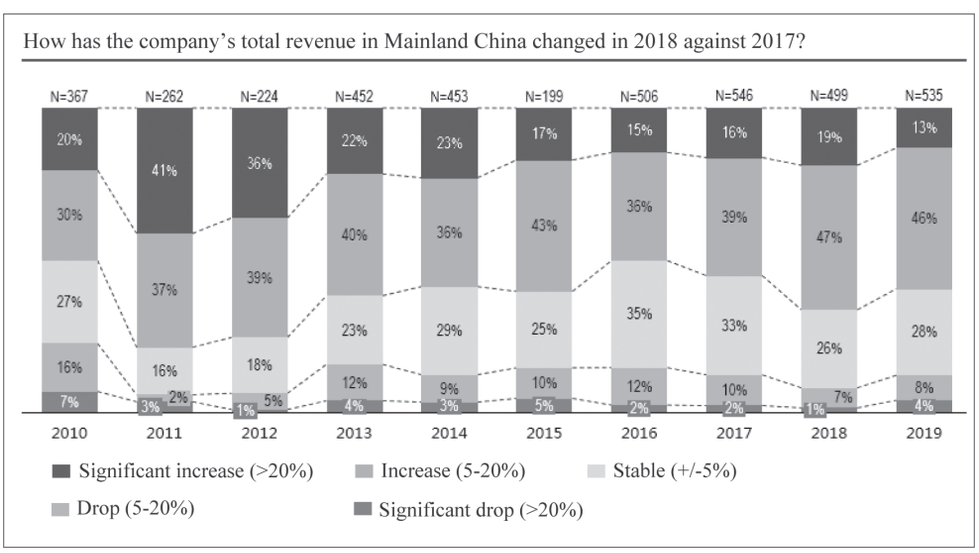
Region	2013	2014	2015	2016
Global	1,856,233	2,020,515	2,162,166	2,242,475
The US	353,969	430,921	502,145	512,720
The UK	163,964	178,902	193,667	177,572
China	121,931	151,442	162,245	170,639

continued table

France	125,643	122,057	127,440	131,622
Switzerland	79,459	82,556	86,645	88,200
Italy	72,555	77,394	79,738	84,573
Australia	70,328	73,268	74,015	77,610
Spain	60,129	65,720	68,229	72,742
Czech Republic	54,334	56,935	62,812	66,580
The Netherlands	56,672	57,018	58,920	65,074

Source: German Federal Statistical Office

According to a survey conducted by the EU Chamber of Commerce in China, more than 50% of surveyed enterprises believe their total income has increased in mainland China since 2010, the proportion could exceed 80% if adding the enterprises whose income is flat during the period. Even against the general backdrop of economic slowdown, 59% of European companies surveyed in 2019 believe their total revenue will increase.



Q: How has the company's revenue in mainland China changed in 2018 against 2017?

Figure 11 Revenue change in mainland China surveyed by the EU Chamber of Commerce

Source: *Business Confidence Survey 2019* by the EU Chamber of Commerce in China

2.1.3 Revenue on the Chinese market accounts for a big share of multinationals

According to public information, in 2017, the top 20 US integrated circuit companies harvested revenue of US$ 75 billion from the Chinese market, accounting for 35% of their total revenue. The top 10 US chip companies have a much larger dependence on the Chinese market, with a dependency ratio ranging from 23 % to 80%.

The examples of some renowned multinationals also attest to such findings. In 2017, Apple's revenue in the Chinese market reached US$ 44.7 billion, accounting for 19% of its global revenue; Boeing's revenue in China was US$ 11.9 billion, accounting for 13% of its global revenue; Intel and Qualcomm's revenue in China reached US$ 14.8 billion and US$ 14.6 billion respectively, accounting for 24% and 65% of their total revenue. The sales revenue of GM and Ford in China accounts for 42% and 18% respectively of global share. According to reports, in 2017, Samsung's revenue in the Chinese market was US$ 31.3 billion, accounting for 16% of its global revenue. Panasonic's revenue in China was close to US$ 9 billion, accounting for 12% of total revenue. Aisin Group had revenue of US$ 3.4 billion in China, accounting for 10% of its total revenue. 5.6% of the global revenue of Nissan Motors was from China. Australia's BHP Billiton Group harvested revenue of US$ 18.8 billion from China, accounting for 52% of its global revenue. Germany's Bosch Group registered revenue of US$ 16.5 billion in China, accounting for 19% of its global total. Siemens' China revenue is US$ 8 billion, accounting for 10% of its total. Sweden's Nestl é received about US$ 6.7 billion in China. British Anglo American's operating income in China hit US$ 6.4 billion, accounting for 22% of its total revenue.

Table 14 Revenue of multinationals in the Chinese market

Company	Source	Revenue from Chinese market (US$ 100 million)	Chinese market share in global market share (%)
APPLE	The US	447	19%
SAMSUNG	South Korea	313	16%
BHP	Australia	188	52%
BOSCH	Germany	165	19%
INTEL	The US	148	24%
QUALCOMM	The US	146	65%
WMT	The US	123	10%
BOEING	The US	119	13%
MICRON	The US	104	51%
Panasonic	Japan	90	12%
SIEMENS	Germany	80	10%
Nestl é	Sweden	67	N/A
Anglo-American	The UK	64	22%
P&G	The US	53	8%
F.I.A.T.	The US	47	4%

continued table

Company	Source	Revenue from Chinese market (US$ 100 million)	Chinese market share in global market share (%)
CAT	The US	40	7%
AISIN	Japan	34	10%
FAURECIA	France	30	N/A
H0NEYWELL	The US	29	N/A
AEON	Japan	25	3%
GMC	The US	N/A	42%
Nike (2016)	The US	11	13%
FORD	The US	N/A	18%
NISSAN	Japan	N/A	6%

Source: 2017 financial reports of multinationals

Note: Revenue amounts are calculated into US$ based on the exchange rate of the day when the statistics is disclosed.

2.2 Significant return on investment

Maximizing profits is the fundamental purpose of multinationals to operate globally. For 40 years, multinationals have leveraged on China's comparative advantages to arrange production and sales networks, and have succeeded in making huge profits.

2.2.1 Profitability of FIEs outperforms Chinese other enterprises

According to the *China Industry Statistical Yearbook*, among industrial enterprises, the operating profit of FIEs increased from RMB yuan 75.393 billion in 1999 to RMB yuan 1,841.238 billion in 2017, an increase of nearly 24 times, reaching an average annual growth rate of 21%. In 2017, among all industrial enterprises, FIEs had the highest profit margin, reaching 7.44%, followed by state-owned holding enterprises, which was about 6.49%, and private companies registered a profit margin of about 6.05%.

In the service industry of wholesale and retail, the operating profit of FIEs in the wholesale industry increased from RMB yuan 1.669 billion in 2000 to RMB yuan 746.2 billion in 2017, an increase of 447 times, registering an average annual increase of 58.3%; the profit rate increased from 4.7% to 11.4% and the average annual profit margin reached 10.7%. The operating profit of FIEs in the retail industry increased from RMB yuan 2.734 billion in 2000 to RMB yuan 259.968 billion in 2017, registering an average annual increase of 40.3%; the profit margin increased from 6.0% to 19.4%, and the average annual profit rate reached 12.8%.

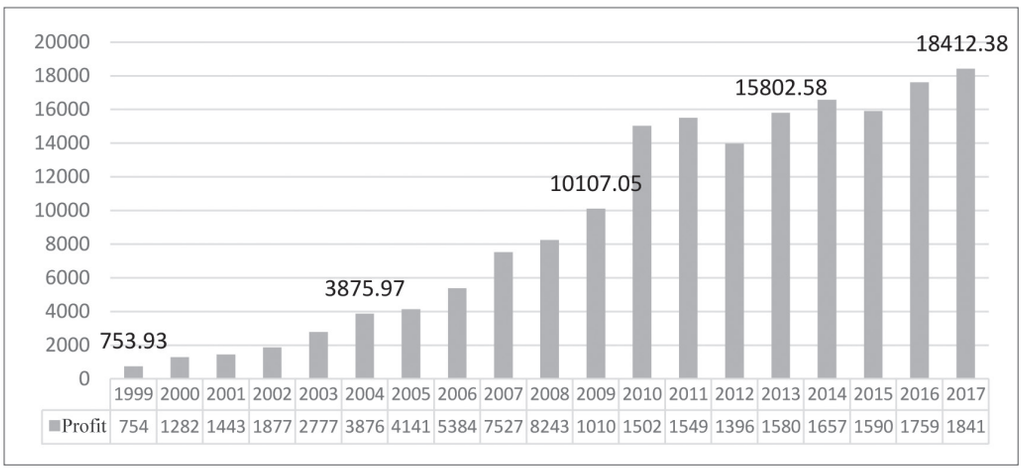


Figure 12 Profit of Chinese and Foreign-invested industrial enterprises during 1999–2017 (RMB yuan 100 million)

Source: Calculated according to the *China Industry Statistical Yearbook and China Statistical Yearbook*

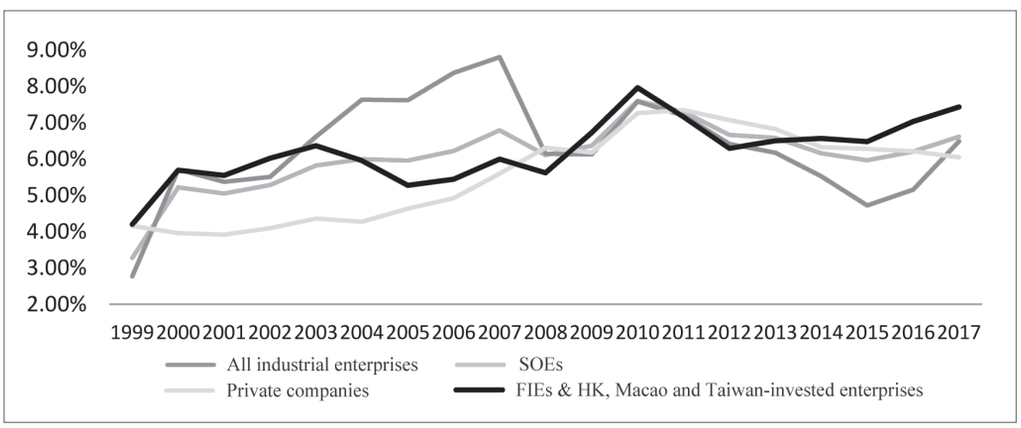


Figure 13 Profit margin of main business for industrial enterprises during 1999–2017 (%)

Source: Calculated according to the *China Industry Statistical Yearbook and China Statistical Yearbook*

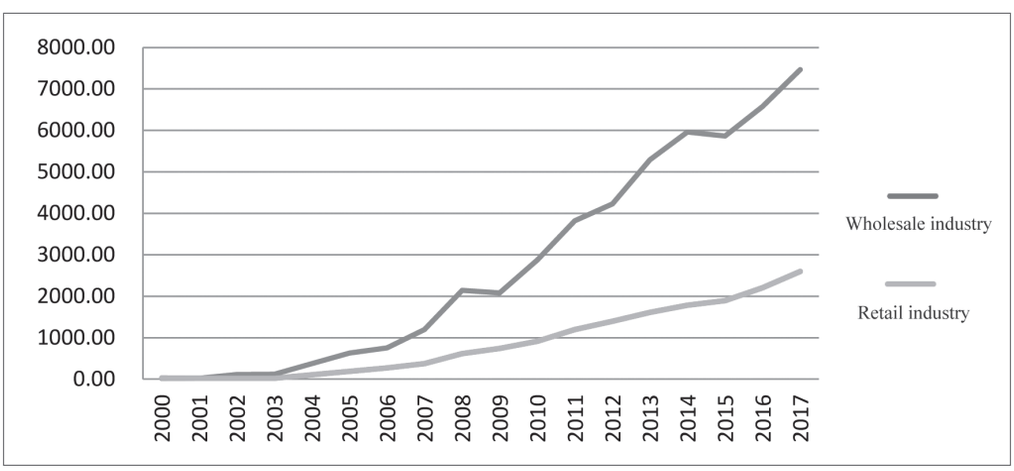


Figure 14 Profit of foreign-invested retail enterprises during 2000–2017 (RMB yuan 100 million)

Source: Calculated according to the *China Statistical Yearbook*

Table 15 Profit margin of the main business of foreign-invested wholesale/retail enterprises during 2000-2017

Year	Wholesale industry	Retail industry
2000	4.7%	6.0%
2001	3.4%	5.1%
2002	7.5%	3.6%
2003	5.9%	3.4%
2004	10.0%	9.4%
2005	11.5%	12.5%
2006	13.3%	13.9%
2007	14.8%	14.4%
2008	13.2%	14.9%
2009	14.0%	14.9%
2010	12.7%	14.3%
2011	11.7%	15.0%
2012	11.8%	15.6%
2013	12.1%	16.6%
2014	11.6%	17.0%
2015	11.6%	17.6%
2016	11.8%	17.8%
2017	11.4%	19.4%

Source: Calculated according to the *China Statistical Yearbook*

2.2.2 Most multinationals have an ROI in China higher than their global average

The white paper The Facts and China's Position on China-US Trade Friction shows that in 2017, US-invested enterprises had sales revenue of US$ 700 billion in China and their profits exceeded US$ 50 billion.

According to the BEA statistics of the US Department of Commerce, US companies' return on investment (ROI) in China in 2000 exceeded their global average. In 2014, the ROI in China reached 16.5%, which was 5.5 percentage points higher than its global average. Despite the global economic downturn, in 2018, when Sino-US trade frictions escalated, the ROI of US companies in China still reached 11.2%, which was 2.2 percentage points higher than the 8.9% ROI in the world.

According to the US Chamber of Commerce's White Paper 2019, despite the uncertainties in the global political and economic environment and the slowdown of China's economy, in

2018, 69% of the companies surveyed said they were profitable, and another 21% reaching break-even. The American Chamber of Commerce in South China's 2019 *White Paper on Business Environment in China* shows that although China's economic growth rate is slowing down, the Chinese market is still in a period of sustained growth, so most US companies can achieve profitability in China and have confidence in the market.

Table 16 The return on direct investment of US in China during 1995–2018

Unit: %

	1995	2000	2005	2010	2011	2012	2013	2014	2015	2016	2017	2018
Global	12.5	10.2	12.1	11.2	11.1	9.9	9.8	9.0	8.2	7.7	7.8	8.9
China	7.2	10.9	19.8	15.1	15.1	11.0	16.0	16.5	11.6	12.4	12.5	11.2

Source: BEA statistics from the US Department of Commerce

The ROI of 40% of European companies in China is higher than their global average. According to a survey of the European Union Chamber of Commerce, in 2018, despite the overall slowdown trend of income growth, 40% of European companies still said that the profit level of their operations in China is higher than their global average, which is also the highest level since 2012. Since 2009, more than 60% of European companies have maintained a positive rate of return in China, and such proportion has increased year by year, reaching 75% in 2018, and another 16% of surveyed companies have shown that they have broken even. The survey also shows that since 2010, more than 50% of European companies recognize China as one of the Top 3 new investment destinations. In 2013, such a figure reached a peak of 86% and remained at 61% by 2018. Since 2008, the proportion of companies considering expanding their business in China has remained above 40%, reaching a maximum of 65% in 2013 and a

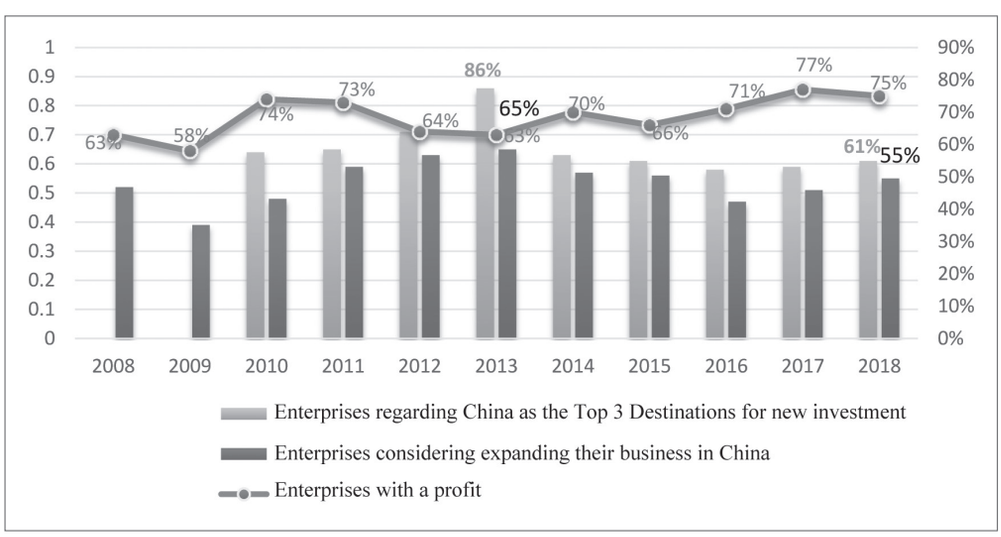


Figure 15 Profitability survey of European enterprises operating in China (%)

Source: *Business Confidence Survey 2019* by the EU Chamber of Commerce in China.

higher proportion of 55% in 2018.

More and more Japanese-invested enterprises have positive ROI in China. According to a survey conducted by the Japan External Trade Organization (JETRO) for Japanese-invested enterprises in China, since 2006, the proportion of Japanese- invested enterprises that forecast "profitable" has remained above 50%, and it basically shows a steady and rising trend. By 2017, the proportion of Japanese-invested companies that are expected to make profits has exceeded 70%, and the figure remained at 71% in 2018. The survey also showed that the proportion of enterprises that answered "expanding" in the trend of business development in the next 1-2 years was 48.7%, an increase of 0.4 percentage points over the previous year, and the proportion of enterprises that answered the "break-even" was 44.8%. More than 90% of surveyed enterprises responded with either "expanding" or "break-even".

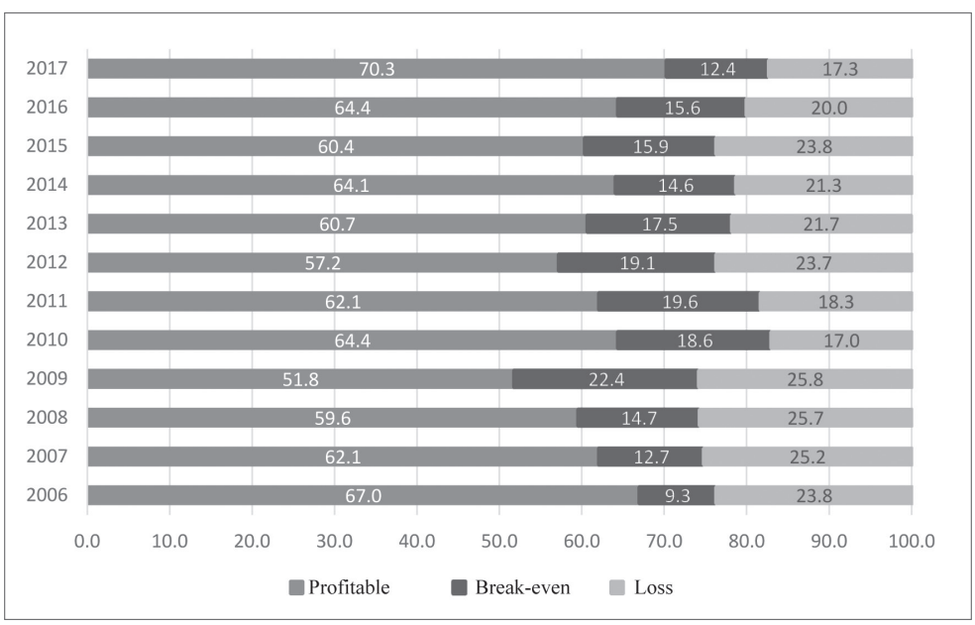


Figure 16 Profit expectations of Japanese enterprises in China (%)

Source: *White Paper on the Chinese Economy and Japanese Enterprises 2018*

2.3 Multinationals leveraging the factor cost advantage by investing in China

The benefits of multinationals are measured not just in the amount of profit or ROI, but also whether the company reaches its strategic objectives, such as reducing costs, occupying markets and research and development output. According to different strategic objectives, the theoretical community divides multinationals into cost-seeking, market-seeking, and innovative asset-seeking. This section will provide a preliminary analysis of different types of multinationals achieving their strategic objectives in China.

2.3.1 Multinationals reduce production cost by investing in China

Reducing costs is a strategic goal of cost-seeking multinationals. By investing in China, multinationals acquired the factor cost advantage, especially in the period before China's reform and opening-up.

Cost-seeking multinationals, also known as efficiency-seeking multinationals, carry out efficiency-driven FDI to reduce the cost of producing labor-intensive processes, products or value chains. The main reason behind their investment in China is that capital, technology and information-intensive value-added activities are concentrated in developed countries, while labor and resource-intensive activities are concentrated in developing countries. Processing trade is a typical cost-seeking FDI. This kind of investment first entered China with China's reform and opening-up, and used China's population and policy dividends to successfully reduce production costs and make huge profits.

After the reform and opening-up, China has adopted an export-oriented economic development strategy, established export processing zones in coastal areas, and provided incentives for FIEs with fiscal, tax, capital, and land concessions. At the same time, the country had a large amount of cheap labor, sound infrastructure and low-cost energy resources. Multinational companies place low-value-added, low-profit assembly and processing lines in China to reduce production costs, especially labor costs.

Processing trade is a typical business of cost-seeking FDI. More than 50% of China's exports in the processing trade category are produced by FIEs. In 2000, the import and export volume of processing trade of FIEs was US$ 165.77 billion, accounting for 72% of the total processing trade in the country, and the export volume was US$ 97.227 billion, accounting for 70.6% of the country's processing trade exports. Taking the most typical global value chain of Apple phones as an example, according to a research report written by three professors at the University of California and Syracuse University, "*Capturing Apple's Profit in the Global Supply Network*", Apple takes 60% of the profit for each iPhone it sells while China only takes 1.8%, despite contributing Apple with huge benefit in labor cost.

Column 6 Foxconn

Foxconn Technology Group is a high-tech enterprise specializing in R&D and manufacturing of 3C products such as computers, communication and consumer electronics. It is in the business of digital content, automotive components, channels, cloud computing services, new energy and new materials development and application.

Foxconn has grown rapidly since it invested in mainland China in 1988. It has more than one million employees and boasts the world's top customer bases. It is the world's largest service provider in electronics technology manufacturing. Since 2002, it has been ranking first

among the Top 200 Chinese enterprises in exporting (the total import and export volume accounts for 4.1% of the mainland China in 2018). Since 2005, it has been listed among the Fortune Global 500 companies (23rd in 2019).

Foxconn Technology Group continues to enhance its R&D design and engineering technology service capabilities, and gradually establishes a global presence centering on mainland China and extending to the rest of the world.

In the Pearl River Delta region, Foxconn is in Shenzhen, Foshan, Zhongshan, Dongguan, Huizhou, Guangzhou and other places focusing on technology research and development, e-commerce, electronic module, large-scale trade, new product development and talent training. It strives to become the main driving force for industrial transformation and upgrading in the Pearl River Delta region.

In the Yangtze River Delta region in Kunshan, Shanghai, Nanjing, Huai'an, Hangzhou, Ningbo, Jiashan and other places, Foxconn has formed a system aggregating industrial chains and supply chains, such as precision connectors, wireless communication components, liquid crystal displays (LCD), Netcom equipment components, semiconductor equipment and software technology development, to enhance the optimization and upgrading of the regional industrial structure.

In the Bohai Rim region in Beijing, Tianjin, Yantai, Heze, Langfang, Qinhuangdao, Shenyang, Yingkou, Changchun, etc., Foxconn is engaged in wireless communication, consumer electronics, cloud computing, nanotechnology, computer components, servo motors, precision machine tools and environmental technology, exerting great energy for regional economic development in a technological and manufacturing manner.

In the central and western regions, Foxconn is in Taiyuan, Jincheng, Zhengzhou, Jiyuan, Hebi, Puyang, Lankao, Wuhan, Changsha, Hengyang, Nanning, Chongqing, Chengdu, Guiyang, Kaili, Liupanshui, Lanzhou and other places, focusing on the development of precision molds, automation equipment, magnesium alloys, auto parts, mechanical modules, smartphones, tablets, smart TVs, etc., to promote the implementation of the "Rise of Central China" and "Western Development" strategies.

2.3.2 Cost-seeking multinationals face new challenges

With the rapid increase in the cost of China's labor and other factors, the profits of processing trade are getting lower and lower. Some enterprises have indicated that the gross margin has dropped from 10% more than 20 years ago to less than 3%. More and more FIEs are closed in the southeast part of China. Foreign-invested factories in trade processing operating in China's southeast coast are either moving to the hinterland or moving out of the country, even the remaining production enterprise often faces enormous pressures of rising costs. According to the statistics of the General Administration of Customs, with the weakening of the traditional advantages of China's processing trade, the proportion of processing trade

in the export of FIEs has been slowly decreasing, from 88.1% in 1994 to less than 63.2% in 2018, down by about 25 percentage points.

According to the survey of the US, European and Japanese Chamber of Commerce, in 2012, 80% of Japanese companies, 80% of US companies and 86% of European companies investing in China expressed their intention to expand their operations, and in 2016, they have dropped to 60%, 60% and 47% respectively. Among them, 25% of US companies surveyed said they have moved out or are preparing to move their production capacity out of China; 11% of European companies surveyed said they have planned to transfer their investments to other countries and regions, and 41% said they plan to cut the cost of projects in China. In 2017, 64.7% of Japanese companies surveyed believed that "increased labor cost" was the main problem facing their operations in China. In 2019, the American Chamber of Commerce's White Paper shows that the long-term challenges of "increased labor costs" (48%) and "lack of qualified employees" (28%) are still among the top five challenges facing companies in 2018, the same as the last three years, among which the labor cost increase has been ranking second for a long time.

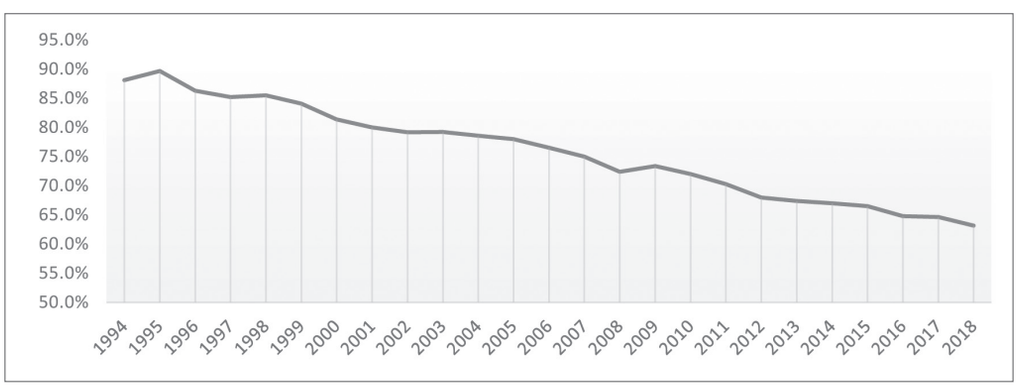


Figure 17 Proportion of processing trade in the import and export of FIEs

Source: Calculated according to data in the *Customs Statistical Yearbook*

2.3.3 Cost-seeking multinationals still have room for development

Although cost-seeking multinationals have been under great pressure due to the rising cost of China's labor and land in recent years, in the long run, China still has a relative factor cost advantage. China has a large population, and different regions within China vary greatly in economic development. There is still much room for maneuver in factor costs. In particular, deepening reforms in many areas can further reduce factor cost by optimizing resource allocation and improving resource allocation efficiency. For example, China is greatly reducing the tax burden of enterprises and individuals, and efforts are made to improve the social security system, which will reduce the labor costs of enterprises to a certain extent. On a global scale, China's factor costs remain competitive in the long run. From this perspective, the cost-seeking multinational investment can still achieve its own investment value in China.

2.4 Multinationals have gained enormous market in China

2.4.1 Investing in China helps multinationals find emerging market

"Occupying the market" is the strategic goal of market-seeking FDI, and this type of multinational has also achieved great success in China.

Market-seeking FDI is a multinational investing in a particular country or region to develop new markets and increase existing market share, increase or maintain competitive advantage, and provide goods and services to markets in these countries or regions or their neighbors. Market-seeking FDI occurs mostly in the manufacturing and service industries, such as retail, catering, chemical, automotive, and service industries. The FDI in the service industry is generally market-seeking. Most of the products or services in these industries are directly produced and sold locally for the purpose of serving the local market.

Based on China's huge consumer market and human resources, market-seeking multinationals have good profitability, achieve revenue growth, and are optimistic about future profit prospects. They intend to expand their business in China or transfer to China their production bases and high value-added or high-tech products and technology. At present, more than 70% of the world's 50 largest retail companies are landing in China. Almost all major international auto companies have joint ventures in China. Driven by the new open policy, FDI has covered most of the service industry.

2.4.2 Multinationals constantly improve their positions in the Chinese market

With the growth of FDI, the market share of FIEs in some fields has continuously increased.

In the electronics, automotive, machinery, instrumentation and other industries, the products produced by FIEs have occupied more than one-third of the domestic market. In the auto parts market, the market share of FIEs reached 49.25% in 2017, with a small number of companies but a large market share. In the mobile phone CPU market, Qualcomm's market share reached 53% in 2018. In the printer market, HP has almost 50% market share.

According to the China Industry Statistical Yearbook, in the manufacturing industry in 2017, the industries with higher market share by FIEs were: electronics and communication equipment manufacturing (55%), automobile manufacturing (46%), metal products, machinery and equipment repair industry (41%), leather, fur, feather and its manufacturing (31%), instrumentation manufacturing (28%), cultural and educational/sporting goods manufacturing (28%), textile and apparel (26%), general equipment manufacturing (24%), food manufacturing (24%), chemical raw materials and chemical manufacturing (22%), electrical machinery and

equipment manufacturing (21%), rubber and plastic manufacturing (21%), and pharmaceutical manufacturing (20%).

Table 17 Proportion of FIEs' revenue and profit in various industries in 2017

RMB yuan 100 million, %

Industry	Revenue from the main business			Total profit		
	All industrial enterprises	FIEs	Share	All industrial enterprises	FIEs	Share
Total	1,133,160.8	247,619.7	22%	74,916.3	18,412.4	25%
Coal mining and washing	24,870.6	639.5	3%	2,952.7	175.3	6%
Oil and natural gas extraction	7,560.1	477.4	6%	326.4	184.9	57%
Ferrous metal extraction	4,064.4	198.2	5%	159.9	7.1	4%
Non-ferrous metal extraction	5,104.2	108.7	2%	533.2	20.5	4%
Non-metal extraction	4,239.9	77.2	2%	330.1	6.3	2%
Agricultural and food processing	59,894.4	9,013.4	15%	3,101.2	422.4	14%
Food manufacturing	22,140.9	5,393.3	24%	1,840.7	564.8	31%
Wine, beverage and tea manufacturing	17,096.2	3,714.7	22%	2,006.9	317.7	16%
Tobacco manufacturing	8,890.9	8.0	0%	971.5	0.9	0%
Textile	36,114.4	4,851.4	13%	1,914.0	298.1	16%
Textile clothing, garment	20,892.1	5,446.5	26%	1,213.4	290.6	24%
Leather, fur, feather product	14,105.6	4,410.3	31%	910.3	322.7	35%
Furniture manufacturing	8,787.9	1,743.5	20%	568.6	121.4	21%
Paper-making and paper products	14,840.5	3,949.6	27%	1,016.4	385.6	38%
Printing and recording medium manufacturing	7,857.7	1,141.3	15%	542.2	94.3	17%
Culture, arts, sports and entertainment products	15,931.0	4,501.1	28%	905.8	232.1	26%
Petroleum processing, coking and nuclear fuel processing	40,331.5	4,093.0	10%	2,205.3	412.7	19%
Chemical raw materials and chemical manufacturing	81,889.1	17,769.1	22%	5,840.6	1,584.7	27%
Pharmaceutical manufacturing	27,116.6	5,503.0	20%	3,324.8	840.9	25%
Chemical fiber manufacturing	7,916.6	1,538.5	19%	436.6	115.5	26%

continued table

Industry	Revenue from the main business			Total profit		
	All industrial enterprises	FIEs	Share	All industrial enterprises	FIEs	Share
Rubber and plastics manufacturing	30,526.7	6,427.7	21%	1,798.1	377.0	21%
Non-metal mining equipment manufacturing	59,194.5	5,027.9	8%	4,383.1	489.8	11%
Ferrous metal smelting and rolling processing	64,571.8	7,100.8	11%	3,442.9	431.9	13%
Non-ferrous metal smelting and rolling processing	54,091.1	5,936.8	11%	2,011.5	256.4	13%
Metal product manufacturing	35,952.0	5,726.6	16%	1,983.7	309.9	16%
General equipment manufacturing	45,611.1	11,156.8	24%	3,121.9	922.4	30%
Professional equipment manufacturing	35,835.2	6,509.3	18%	2,481.6	582.7	23%
Auto manufacturing	84,637.1	38,767.3	46%	6,890.9	3,617.6	52%
Railroad, ships, aerospace and aviation and other transportation equipment manufacturing	16,921.1	2,256.6	13%	948.8	200.7	21%
Electrical machinery and equipment manufacturing	71,683.4	15,538.2	22%	4,657.5	991.7	21%
PC, communication and other electronic device manufacturing	106,221.7	58,074.0	55%	5,741.7	2,707.9	47%
Instrumentation manufacturing	9,999.5	2,756.4	28%	887.4	264.6	30%
Other manufacturing	2,623.2	551.8	21%	174.8	35.3	20%
Waste resource utilization	3,898.2	469.2	12%	227.2	45.3	20%
Metal products, machinery and equipment repairing	1,077.7	442.7	41%	60.6	19.5	32%
Power, thermal production and supply	57,414.4	2,866.1	5%	3,469.9	347.2	10%
Gas production and supply	6,305.8	2,158.4	34%	577.8	268.4	46%
Water production and supply	2,399.6	372.4	16%	290.3	90.6	31%

2.4.3 More and more multinationals target the Chinese market

According to a survey from chambers of commerce of various countries, 80% of Korean companies investing in China in 2016 are directly targeting the Chinese market; one-third[①] of US companies in China have over half revenues generated from local design, development or customized services and products. Among all US enterprises planning to invest additional money in China, 36% of them plan to target the Chinese market. 71%[②] of EU companies in China say they will continue to stay in China for the purpose of serving the Chinese market, two-thirds of EU companies say China's middle class has expanded in size and the income levels have increased, which represents the biggest opportunity.

According to the "*Report on Overseas Business Development of Japanese Manufacturing Enterprises*", China has been ranked first in the countries and regions where the medium-term business potential is developing in 2017, with an interval of 5 years since 2012. Regarding the reasons for such projection, the top-ranking feedback is "the future growth of the local market" (68.5%), and the second is "the existing size of the local market" (61.4%).

The Japan External Trade Organization (JETRO)'s "*White Paper on the Chinese Economy and Japanese Enterprises 2019*" shows that companies that would further "expand" their business in China in 2018 planned to expand their "sales capacity" (59.5%) and "production (high added value)" (37.4%) when asked about "what functions to expand".

According to a survey conducted by the AmCham China annual white paper "2019 *American Business in China*", US companies in China mainly focus on "developing core business" (79%), "launching new products and services" (59%) and "targeting new customer

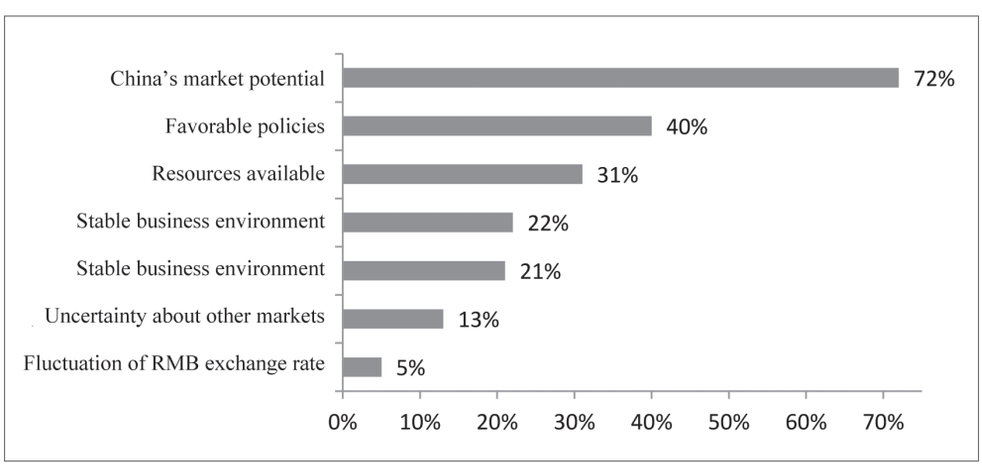


Figure 18 Reasons why FDI in 2018 exceeded that of 2017 and some investment shifted to China

Source: *2019 White Paper on Business Environment in China* by the American Chamber of Commerce in South China.

① Source: China Chamber of Commerce in Korea and Beijing Office of Japan External Trade Organization

② Source: *2016 American Business in China White Paper*

bases" (47%). Same as the past few years, "the growth of domestic consumption and the rise of the affluent middle class" remain the biggest opportunity for US companies in China.

According to the American Chamber of Commerce in South China's 2019 *White Paper on Business Environment in China*, 72% of the surveyed companies believe that "China's market growth potential" is the first reason among such reasons as their investment in 2018 outperformed 2017 and they shifted investment from other markets to China.

2.4.4 FDI in the service industry mainly targets the Chinese market

In terms of industrial structure, the service industry has become the mainstay of China's use of FDI, which mainly serves the Chinese market. According to the statistics of the Ministry of Commerce, the proportion of FDI in the service industry has increased from 40.57% in 2009 to 85.83% in 2018. In 2018, the number of FIEs in the service industry increased by 78.94% year on year, and the contracted FDI increased by 18.85% year on year. In the future, the use of FDI in services will continue to be at a high level in China's investment structure.

The proportion of domestic sales of FIEs continued to increase. According to the statistics of the Ministry of Science and Technology, since 2012, among industrial enterprises above designated size, the revenue share of products exports for FIEs has shown a downward trend. That is to say, for FIEs, their domestic sales of new products are increasing.

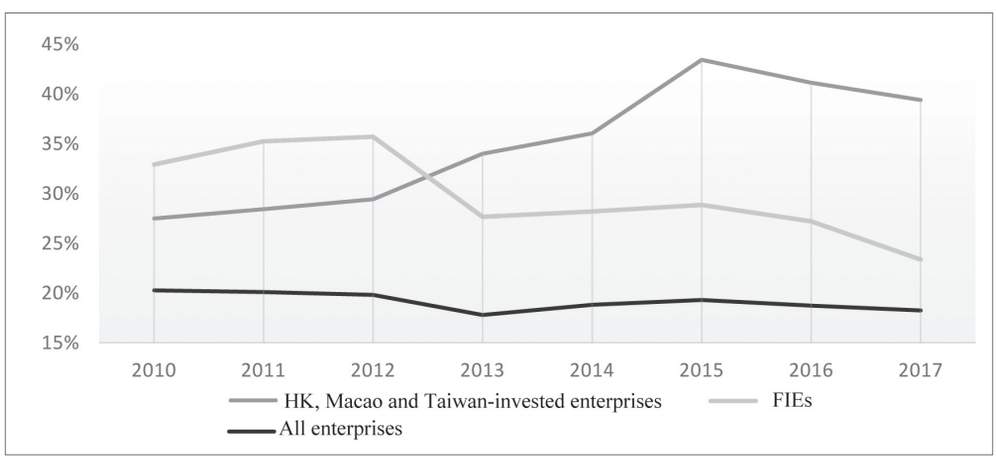


Figure 19 Proportion of new products exports among industrial enterprises above designated size (%)

Source: Collated according to *China Statistical Yearbook on Science and Technology*

2.5 Innovative asset-seeking multinationals benefited from investment in China

2.5.1 Innovative-asset seeking multinationals aim at innovating production

In a globalized economy, multinationals engage in innovative asset-seeking FDI as

the primary means of improving the company's competitiveness. Innovative assets can be tangible such as production equipment, sales networks, and communication facilities. It can also be intangible assets such as trademarks, goodwill, technology, and connections with the government. Innovative asset-seeking FDI is mainly aimed at the innovation of new technologies and new products. Representative industries include high-tech industries such as pharmaceutical manufacturing, electronics and communication equipment manufacturing, instrumentation, new energy, new materials, and fine chemicals.

In recent years, with the improvement of China's innovation capability and the optimization of its innovation environment, more and more innovative asset-seeking FDI has either expanded investment in China or entered the Chinese market. According to the statistics of the Ministry of Commerce, the number of FIEs in high-tech service industry increased by 108.17% year on year in 2018, the contracted FDI increased by 32.74% year on year; the number of high-tech manufacturing enterprises increased by 43.22% year on year, and the contracted FDI increased by 16.59% year on year. From January to June 2019, FDI accelerated its concentration on China's high-tech industries. The actual use of FDI in the high-tech industry increased by 44.3% year on year, accounting for 28.8%. The actual use of FDI in high-tech manufacturing was RMB yuan 50.28 billion, an increase of 13.4% year on year. Among them, the actual use of FDI in the pharmaceutical manufacturing, electronics and communications equipment manufacturing industries increased by 12.8% and 25% year on year respectively. The actual use of FDI in the high-tech service industry was RMB yuan 87.56 billion, an increase of 71.1% year on year. Among them, information services, R&D and design services, and scientific and technological achievements transformation services increased by 68.1%, 77.7% and 62.7% year on year respectively.

2.5.2 Multinational corporations value innovation in China

Multinationals generally believe that innovation will become an important booster for China's economic growth in the future, and fully recognize the importance of R&D in China, and believe that innovation is the key to their growth in China.

In the survey report of the American Chamber of Commerce in China, most member companies regard innovation as the focus of business development. Respondents stated that member companies have a competitive advantage in branding, technology and intellectual property, development and innovation compared to Chinese domestic competitors. In order to innovate in China, US companies recruit talents and provide training in China and establish cooperative relationships with Chinese organizations or companies. Large companies have also invested in R&D centers. In 2016, 43% of companies with more than 250 employees in China have set up R&D centers. More than one-third of respondents say they have established

partnerships with Chinese institutions or companies. ①

European companies are generally optimistic about China's innovation potential and believe that China is an important destination for future R&D investment. The EU Chamber of Commerce in China's Business Confidence Survey 2019 shows that in 2019, 38% of respondents believe that China's innovation and R&D environment is better than the world average. In comparison, only 15% of respondents held this view in 2016. 81% of respondents believe that China's road to innovation can bring business opportunities. In technology and R&D–intensive industries, nearly 63% of companies list China as one of the three major investment destinations. In 2017, this figure was only 51%. European companies have seen a significant increase in their participation in the industries covered by "Made in China 2025", and the proportion of European companies able to participate in the program has increased from 42% in 2018 to 53% in 2019.

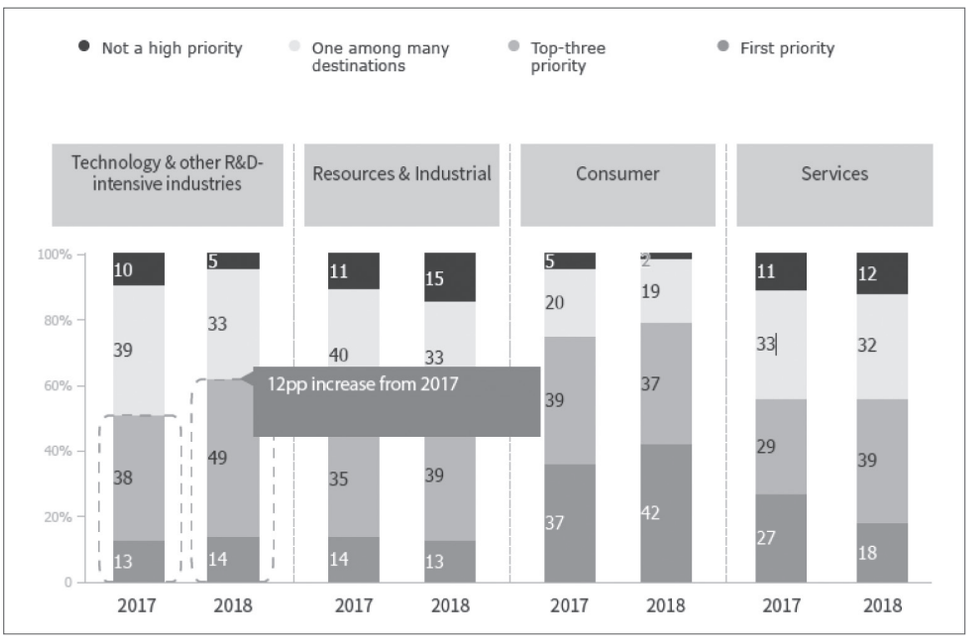


Figure 20 China's importance in your company's latest global investment plan

Source: *2019 American Business in China*, from the annual white paper released by the American Chamber of Commerce in China.

2.5.3 Multinationals constantly add more R&D centers in China

The R&D activities and institutions of early multinationals were generally concentrated in their home country. By the 1980s, the trend of R&D globalization for multinationals became more obvious. Since the mid–1990s, multinationals have accelerated the setup of R&D institutions in China, and after entering the 21st century, there has been more rapid development. On the one hand, this allows multinationals to directly use China's brainpower to

① He Manqing, *Business Choices Balancing Foreign Capital Quality and Efficiency – A Quantitative Analysis*, Social Science Journal, Edition 1, 2017

serve their global strategy, and engage in global R&D with the vast number of Chinese high-tech talents. On the other hand, it can capture growth opportunities in new consumer sectors and gain market share quickly.

Column 7 3M

3M China was incorporated in China in November 1984 and is the first wholly foreign-owned enterprise (WFOE) in China established outside the Shenzhen Special Economic Zone. Up to now, 3M has invested more than US$ 1 billion in China, and has established 9 production bases, 26 offices, 4 technical centers and 2 R&D centers with more than 8,200 employees.

As one of the WFOEs that entered China early, 3M China has been grasping the development pulse of China's economy over the past 30 years, adhering to the strategy of "taking root in China and serving China", and relying on diversified technologies and solutions. It has been actively supporting the Chinese economy. From infrastructure construction to the rise of manufacturing, from "made in China" to "created in China", from export to domestic demand, 3M closely links the company's development strategy with China's development pace, supporting the rapid development of the Chinese market. This also makes 3M one of the successful localization stories in China.

In 1994, 3M China's first Innovation Center was established in Shanghai to provide and develop products and solutions that better suit the needs of Chinese customers. In 2002, the high-voltage power laboratory of 3M China Innovation Center was fully launched, mainly focusing on the development of medium and high voltage products. In 2006, 3M headquarters established an ultra-high-voltage laboratory in China and put it into use in the same year. The laboratory is the first and only 110KV ultra-high-voltage R&D and test base in the world, with a total area of 600 square meters, and covering a test area of 375 square meters. In 2006, 3M China R&D Center, one of the world's four largest R&D centers that expanded based on the 3M China Innovation Center was officially completed with a building area of approximately 16,000 square meters, with more than 40 laboratories and more than 600 researchers. In 2015, 3M China Northwest R&D Center was established. In 2017, 3M China West Region Technical Center opened in Chengdu.

Recognized as a pioneer in the R&D field, 3M has laboratories in 37 countries and employs 8,100 people. Obviously, China is one of the key investment countries and plays an important role in 3M's global strategy.

In 2003, the Ministry of Science and Technology's survey – *"Multinationals' R&D Globalization and Its Implications for China"* showed that only two of the top 1,000 companies listed in *Business Weekly* had two R&D institutions in China in 1994, but by the year 2000,

28 companies had established 32 R&D institutions in mainland China. By the end of 2002, multinationals had established more than 400 R&D institutions in China.[①]

According to the statistics of *China Statistical Yearbook on Science and Technology*, in 2012, the number of R&D institutions set up by Hong Kong, Macao and Taiwan-invested enterprises and FIEs reached 14.5 times and 11.3 times respectively against that of 2002. In 2016, the two figures increased by 12% and 54.3% respectively.

For researchers, in 2016, the number of R&D personnel in Hong Kong, Macao and Taiwan-invested and FIEs reached 10 times that of 1998. The EU Chamber of Commerce in China believes that as economic development and productivity increase with cross-country learning, more people in the future will be able to participate in innovation.

2.5.4 Innovation-related output of multinationals has grown rapidly in China

For multinationals, the R&D of new technologies and products and the absolute control of core patents are important means to maintain competitiveness and can guarantee long-term profit sources in fierce international competition, which also constitute the most important innovation output.

On the one hand, new products and services are an important innovation output of multinationals. By applying innovative knowledge, new technologies, and new processes, multinationals develop and produce new products and new services to occupy the market and realize market value. According to statistics from the Ministry of Science and Technology, the sales revenue of new products of multinationals has increased since 1998. As shown in Figure 10, in 1998, among the industrial enterprises above designated size, the sales revenue of new products invested by Hong Kong, Macao and Taiwanese businessmen was RMB yuan 35.58 billion, and the sales revenue of new products of FIEs was RMB yuan 86.78 billion, but in 2016 they reached RMB yuan 2,162.6 billion and RMB yuan 3,213.907 billion respectively, which were 60 times and 37 times that of 1998.

On the other hand, the valid patents of multinationals in China have grown rapidly. Multinationals regard patents, especially core patents, as important strategic resources in their business activities. With these resources, multinationals continue to increase R&D investment in China, focusing on the application of invention patents, and paying more and more attention to intellectual property protection. At the same time, multinationals gain control of the high-end market by building technical barriers to ensure their long-term profit sources. The patent strategy of multinationals has achieved great results. In terms of the number of valid invention patents, in 2017, among industrial enterprises, Hong Kong, Macao and Taiwan-invested enterprises obtained 81,769 valid invention patents, and FIEs obtained 81,151 valid invention

① Pu Yan, Liu Xiaobo, *Opportunities and Challenges of Multinationals Localizing R&D*, Business Modernization, Edition 451, December 2005

patents, which were 6 times and 4 times respectively than that of 2010. In terms of projected worth, these patents are expected to bring about very high value. For example, in 2016, domestic enterprises accounted for 22.2% of the income of more than RMB yuan 1 million, and Hong Kong, Macao and Taiwan-invested enterprises and FIEs accounted for 27.3% and 28.2% respectively. As for the distribution of foreign invention patents in China in 2014, Japan, the United States, Germany and South Korea ranked as the top four, and the number of invention patents held by Japanese businesses reached 200,736, far outperforming other countries.

Table 18 R&D by HK, Macao and Taiwan-invested enterprises (HMT) and FIEs

Year	Researcher		R&D institution		Valid patents	
	HMT	FIE	HMT	FIE	HMT	FIE
1998	40,905	41,909	327	246	N/A	N/A
1999	44,213	48,122	334	287	N/A	N/A
2002	62,143	75,310	393	401	N/A	N/A
2009	198,824	284,389	1,447	1,853	N/A	N/A
2010	185,933	296,827	1,991	2,484	12,897	18,443
2011	270,023	347,479	3,310	3,534	41,595	52,711
2012	333,878	438,267	5,698	4,448	28,136	39,759
2013	352,698	459,052	4,627	5,741	31,086	43,487
2014	372,545	466,689	4,787	6,202	42,508	55,244
2015	374,799	432,978	5,203	6,252	58,214	59,862
2016	395,713	432,762	6,377	6,864	68,740	78,574
2017	427,185	422,535	7,479	6,987	81,769	81,151

Source: Collated according to *China Statistical Yearbook on Science and Technology*

Table 19 Projected worth of patents by different types of enterprises (%)

	Domestic	HMT	FIE	Total
<= 50,000	14	12.7	11.7	13.8
50,000–100,000	18.5	11.9	15.2	18.1
100,000–500,000	26.8	27.3	23	26.7
500,000 – 1 million	18.4	20.8	21.9	18.7
1–5 million	13.5	15.4	14.3	13.6
Above 5 million	8.7	11.9	13.9	9.1
Total	100	100	100	100

Source: *China Patent Investigatory Report 2017*

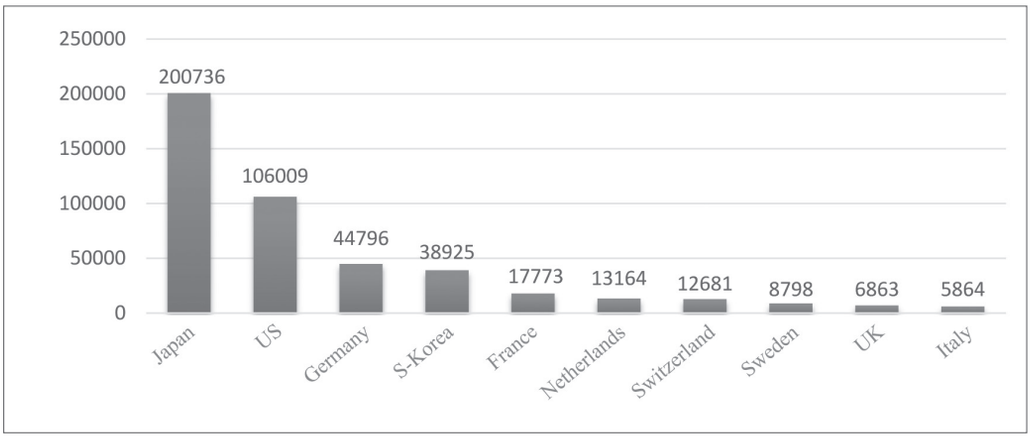


Figure 21 Top 10 countries in number of valid patents in China 2014

Source: *China Valid Patent Report 2014* by National Intellectual Property Administration (CNIPA)

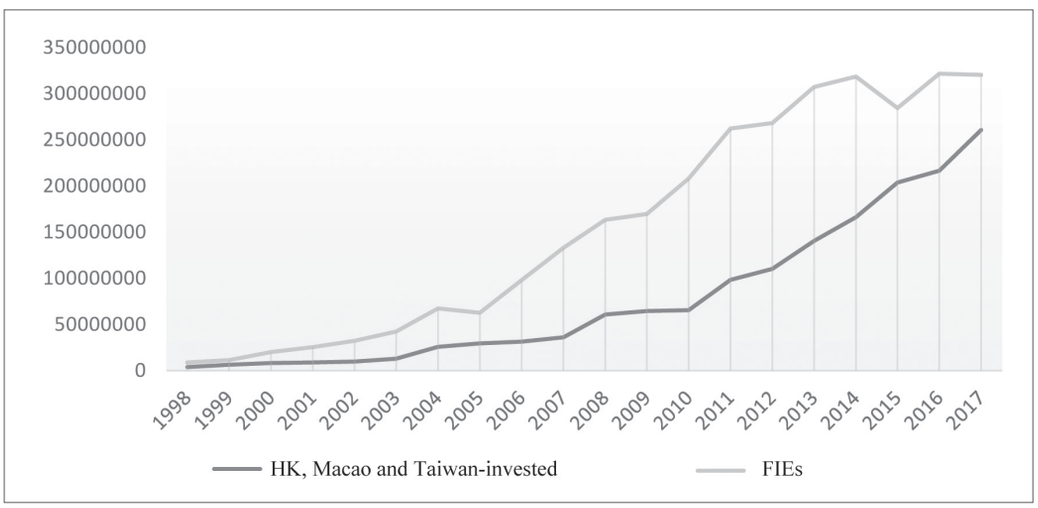


Figure 22 Sales of the new products by enterprises above designated size during 1998–2016 (RMB yuan 10,000)

Source: Collated according to *China Statistical Yearbook on Science and Technology*

Chapter 3 Multinationals Contributing to China's Development via Investing in China

3.1 FDI Increased China's supply of factors

FDI can promote economic development in many ways. On the one hand, capital is one of the factors that promote economic growth. FDI entering China will increase the total amount of capital provision, hence promoting economic growth. On the other hand, FDI brings about advanced production and management techniques and improves labor productivity, hence promoting economic growth. In addition, the spillover effect of FDI, and its impact on the overall institutional environment and the market environment will eventually drive the economic development of the host country. That's why all countries attach great importance to attracting FDI.

Among many driving forces of economic growth, investment and exports are particularly prominent in China. After the reform and opening-up, FDI has become an important part of China's economic growth. Initial FDI focused heavily on the industrial sector, which quickly transformed China into the "world factory". The regional differences of FDI in China have also partially caused the imbalanced regional development of China. FDI has contributed to China's taxation and other aspects as well, strengthening the country's financial strength. On the whole, FDI is highly correlated with China's economic growth and has become one of the main driving forces for China's economic growth over 40 years.

3.1.1 FDI has helped China form its capital market since the reform and opening-up

The shortage of funds is one of the important factors that have long restricted China's economic growth. At the beginning of the opening-up policy, China's economy was in a severe shortage of resources, and domestic investment at the time was insufficient to generate many opportunities. Therefore, the direct purpose of allowing FDI in China is to use it as a supplementary source of funding. On the micro level, joint ventures and cooperative firms solved the shortage of funds that plague most Chinese enterprises, advanced their technological capacity, and enhanced the market competitiveness and global competitiveness of Chinese enterprises. On the macro level, FDI eased the bottleneck issue of fund shortages which was constraining China's economic development.

Prior to the reform and opening-up policy, the capital was understood in China with an old ideological mindset which recognized capital as a tool of exploitation. After the economic system of public ownership was established, a distinction was made between "fund" and "capital", and the state allocated social funds to actively engage in investment, which later formed "fixed asset", in other words – "materialized capital". After the reform and opening-up, due to the diversification of the Chinese economy, the theoretical field redefined the nature of capital and recognized what important role it could play in advancing China's socialist economy. Understanding the different social natures of capital, the government grasped with its business functional nature, and quickly started to bring in FDI to advance China's economic growth.

After the founding of the People's Republic of China in 1949, the capital sources fueling China's economic development have two levels, both domestically and globally, though it has gone through a transition from the former to the latter. Over the course of China's reform and opening-up, it actively leveraged and used resources from both the domestic and international markets. By actively bringing in FDI and expanding capital sources, economic activities were effectively stimulated.

Domestically, the capital mainly came from five sources: 1) agricultural tax and profit gained from the price difference between industrial and agricultural products; 2) the profit, tax and depreciation fund paid by SOEs; 3) social savings; 4) public debt and corporate debt; and 5) stock market. Outside China, the capital mainly came from 1) loans from other countries or institutions; 2) FDI and 3) funds fundraised from the overseas capital market.

China's capacity attracting FDI in the initial stage of reform and opening-up was fairly low. After a couple of milestone events such as Deng Xiaoping's inspection visit to the South in 1992, China's accession to the WTO in 2001 and the financial crisis in 2008, China has made significant breakthroughs in attracting FDI, and now it has already become one of the main destinations of the cross-border investment.

Between 1979 and 1991, China's annual FDI was maintained at a level of less than US$ 5 billion. Despite the small scale, the growing trend was fairly stable. After Deng Xiaoping's inspection visit to the South in 1992, FDI in China saw a drastic increase between 1992 and 1997, rising from US$ 4.366 billion to more than US$ 40 billion. Since 1992, China's FDI has ranked on top of all developing countries for 26 consecutive years. After China joined the WTO, FDI grew from US$ 46.88 billion in 2001 to US$ 134.97 billion in 2018.

Table 20 China's actual use of FDI, 1983–1989

Year	Actual use of FDI (US$ 100 million)	Year on year growth (%)	Newly established FIEs	Year on year growth (%)
1983	9.20	0	470	0
1984	14.20	54.35	1,856	294.89
1985	19.56	37.75	3,073	65.57
1986	22	14.72	441,498	–51.25
1987	23.14	3.12	2,233	49.07
1988	31.94	38.03	5,945	166.23
1989	33.92	6.2	5,779	–2.79

Source: Business Data Center

Table 21 China's actual use of FDI, 1990–1999

Year	Actual use of FDI (US$ 100 million)	Year on year growth (%)	Newly established FIEs	Year on year growth (%)
1990	34.87	2.8	7,273	25.85
1991	43.66	25.21	12,978	78.44
1992	110.08	152.13	48,764	275.74
1993	275.15	149.95	83,437	71.10
1994	337.67	22.72	47,549	–43.01
1995	375.21	11.12	37,011	–22.16
1996	417.26	11.21	24,556	–33.65
1997	452.57	8.46	21,001	–14.48
1998	454.63	0.46	19,799	–5.72
1999	403.19	–11.31	16,918	–14.55

Source: Business Data Center

Table 22 China's actual use of FDI, 2000–2009

Year	Actual use of FDI (US$ 100 million)	Year on year growth (%)	Newly established FIEs	Year on year growth (%)
2000	407.15	0.98	22,347	32.09
2001	468.78	15.14	26,140	16.97
2002	527.43	12.51	34,171	30.72
2003	535.05	1.44	41,081	20.22
2004	606.30	13.32	43,664	6.29
2005	603.25	–0.5	44,001	0.77
2006	630.21	4.47	41,473	–5.75
2007	747.68	18.64	37,871	–8.69
2008	952.53	21.6	27,514	–27.40
2009	918.04	–3.62	23,435	–14.83

Source: Business Data Center

Table 23 China's actual use of FDI, 2010–2018

Year	Actual use of FDI (US$ 100 million)	Year on year growth (%)	Newly established FIEs	Year on year growth (%)
2010	1,088.21	18.54	27,406	16.94
2011	1,160.11	9.72	27,712	1.12
2012	1,117.16	–3.7	24,925	–10.06
2013	1,175.86	5.25	22,773	–8.63
2014	1,195.60	1.7	23,778	4.40
2015	1,262.70	5.6	26,575	11.80
2016	1,260.00	–0.2	27,900	5.0
2017	1,310.40	4	35,652	27.80
2018	1,349.7	3	60,533	69.8

Source: Business Data Center

3.1.2 China has taken a growing share of multinationals' global investment

The table below indicates that from 1983 to 1991, China's actual absorption of FDI only accounted for a limited portion of global FDI, at around 1% – 3% of the share. After Deng Xiaoping's inspection visit to the South in 1992, China's attraction of FDI exceeded the

US$ 10 billion mark, accounting for 6% of global FDI. In 1994, the proportion increased to 13.25%, reaching its peak since the reform and opening-up. After China's accession to the WTO, the proportion has maintained a steady growth. In particular, in 2003, it reached 9.72% of the world's total FDI, a peak in the period of 2000-2017. Between 2012 and 2018, despite the unstable and relatively low growth in FDI, its proportion to the global total has maintained steady growth.

Table 24 Proportion of actual absorption of FDI to FDI in-flow of the year since 1978

Unit value: US$ 100 million

Year	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Global FDI	342.43	418.95	543.96	695.80	582.22	503.93	561.60	558.31	866.95	1,368.66
China FDI						9.20	14.20	19.56	22	23.14
%						1.83	2.53	3.50	2.54	1.68
Year	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Global FDI	1,642.28	1,969.36	2,049.05	1,539.73	1,629.24	2,201.10	2,549.20	3,415.15	3,888.16	4,814.92
China FDI	31.94	33.92	34.87	43.66	110.08	275.15	337.67	375.21	417.26	452.57
%	1.94	1.72	1.70	2.84	6.76	12.49	13.25	10.98	10.73	9.39
Year	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Global FDI	6,906.94	10,763.19	13,586.13	7,726.62	5,898.36	5,506.33	6,925.98	9,489.33	14,035.48	18,938.15
China FDI	454.63	403.19	407.15	468.78	527.43	535.05	606.30	603.25	630.21	747.68
%	6.58	3.74	3.0	6.07	8.94	9.72	8.75	6.35	4.49	3.95
Global FDI	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
China FDI	14,852.05	11,790.64	13,719.19	15,676.77	15,747.12	14,253.77	13,385.32	19,213.06	18,675.33	14,298.07
%	952.53	918.04	1,088.21	1,160.11	1,117.16	1,175.86	1,195.60	1,262.70	1,260.00	1,363
Global FDI	6.41	7.78	7.93	7.40	7.09	8.25	8.93	6.57	6.75	9.53

Source: The in-flow of global FDI is based on the UNCTAD database. The actual absorption of FDI is based on the data of the Business Data Center.

3.1.3 FDI has increased China's IIFA

IIFA is the amount of work in construction, acquisition of fixed assets and other relevant costs indicated in the form of money, which also includes other fixed investments such as basic construction, renovation, repairs, etc. In terms of sources of funds, China's IIFA is mainly supported by national budgetary, bank loans, FDI, self-raised funds and other investments.

The proportion and role of FDI to IIFA vary in different periods of time. FDI accounted for a small proportion of China's IIFA in the early years of reform and opening-up. Between 1981 and 1987, FDI accounted for 3%-4% of China's IIFA, during 1988-1992, it increased to 5%-6%, still lower compared to other fund resources. During 1992-1998, the proportion increased rapidly and FDI's role also became more important. In particular, after 1992, the significant amount of funds invested by multinationals has eased China's funding pressure for some major projects. Between 1993 and 1998, the share of FDI in IIFA continued to grow rapidly, reaching its peak level of 11.8% in 1996 and FDI became the fastest growing funding source during that period.

From 1999 to 2014, the amount of FDI in fixed assets increased, but its proportion declined year by year. Due to the structural adjustment of FDI, domestic fund increased its investment in fixed assets. In contrast, foreign-invested fixed assets reached a peak of RMB yuan 531.19 billion in 2008. But then the amount has declined gradually to more than RMB yuan 400 billion, with a shrinking share dropping to 0.9% in 2013. The impact of FDI on IIFA has also gradually weakened.

During 2015-2016, the scale and proportion of FDI in fixed assets fell sharply. Due to the openness of China's service industry in recent years, FDI has shifted from the manufacturing industry that focuses on IIFA to a light asset-oriented service industry, and the share of FDI in manufacturing fell to around 30%. Newly established FIEs are mostly the service industry, with little or no IIFA. Coupled with the closure and transfer of some FIEs in recent years, foreign-invested fixed assets fell sharply to more than RMB yuan 200 billion during 2015-2017, accounting for 0.3%-0.5% of IIFA. At a time when China is improving the quality and efficiency of FDI and channeling it to high-end manufacturing, the shrinking scale of FDI in fixed assets is noteworthy.

Table 25 Fund source of China's IIFA (1981–2017)

Unit value: RMB yuan 100 million, %

Year	State budgetary fund	Domestic loans	FDI	Self-raised funds and other channels	The proportion of FDI to IIFA (%)
1981	269.8	122.0	36.4	532.9	3.8
1982	279.3	176.1	60.5	714.5	4.9
1983	339.7	175.5	66.6	848.3	4.7
1984	421.0	258.5	70.7	1,082.7	3.9
1985	407.8	510.3	91.5	1,533.6	3.6
1986	455.6	658.5	137.3	1,869.2	4.4
1987	496.6	872.0	182.0	2,241.1	4.8
1988	432.0	977.8	275.3	2,968.7	5.9
1989	366.1	763.0	291.1	2,990.3	6.6
1990	393.0	885.5	284.6	2,954.4	6.3
1991	380.4	1,314.7	318.9	3,580.4	5.7
1992	347.5	2,214.0	468.7	5,050.0	5.8
1993	483.7	3,072.0	954.3	8,562.4	7.3
1994	529.6	3,997.6	1,769.0	11,531.0	9.9
1995	621.1	4,198.7	2,295.9	13,409.2	11.2
1996	625.9	4,573.7	2,746.6	15,412.4	11.8
1997	696.7	4,782.6	2,683.9	17,096.5	10.6
1998	1,197.4	5,542.9	2,617.0	19,359.6	9.1
1999	1,852.1	5,725.9	2,006.8	20,169.7	6.7
2000	2,109.5	6,727.3	1,696.3	22,577.4	5.1
2001	2,546.4	7,239.8	1,730.7	26,470.0	4.6
2002	3,161.0	8,859.1	2,085.0	30,941.9	4.6
2003	2,687.8	12,044.4	2,599.4	41,284.8	4.4
2004	3,254.9	13,788.0	3,285.7	54,236.3	4.4
2005	4,154.3	16,319.0	3,978.8	70,138.7	4.2
2006	4,672.0	19,590.5	4,334.3	90,360.2	3.6
2007	5,857	23,044.2	5,132.7	116,769.7	3.4
2008	7,954.8	26,443.7	5,311.9	143,204.9	2.9
2009	12,685.7	39,302.8	4,623.7	193,617.4	1.8
2010	13,012.7	44,020.8	4,703.6	224,042.0	1.6
2011	14,843.3	46,344.5	5,062.0	279,734.4	1.5

continued table

2012	18,958.7	51,593.5	4,468.8	334,654.7	1.1
2013	22,305.3	59,442.0	4,319.4	405,545.8	0.9
2014	26,745.4	65,221.0	4,052.9	447,461.2	0.7
2015	30,924.3	61,054.0	2,854.4	489,366.0	0.5
2016	36,211.7	67,200.3	2,270.3	511,251.2	0.4
2017	38,741.1	72,435.1	2,146.3	526,046.3	0.3

Source: *China Statistical Yearbook*

3.2 FDI has promoted China's economic restructuring

3.2.1 FDI has advanced regional economic development

FDI helped flourish China's regional economic development, but the difference of the scale and quality of FDI between different regions has also led to the varying speed of regional economic growth.

Since the implementation of the economic structural reform and opening-up policy in the late 1970s, FDI has mainly concentrated in the eastern part of China. There was little FDI in the central and western regions. This has also led to the varied contribution of FDI to economic output and exports in different regions. Between 1985 and 1999, FDI contributed to about 90% of the difference in GDP growth rate between China's eastern and western regions. FDI in the eastern region has always accounted for more than 85% of China's total. The central and western regions have less FDI, therefore FDI contributed less to local economic output and exports, actually far less than the national average and the eastern region. Since 2004, FDI has shifted to the west, therefore its FDI share nationally has gradually increased. The unique advantages of cheap labor resources and other factors of production in the western region are the main factors attracting FDI, and when FDI has flown in, a positive and cumulative circle of much FDI and better regional economic growth is formed.

In contrast, since 2000, the proportion of FDI in the eastern region has declined slightly in some years, but it has been remained at above 80%. While the proportion of actual use of FDI in the central and western regions is unstable, neither region has exceeded 10%. For example, the actual use of FDI in the eastern, central and western regions in 2012 accounted for 82.8%, 8.3%, and 8.9% respectively of China's total. In 2015, the proportions stood at 83.8%, 8.3%, and 7.9% respectively. In 2016, the proportions were 86.7%, 5.6%, and 7.7% respectively.

The large-scale inflow of FDI has promoted the rapid economic development of the eastern coastal areas by increasing capital formation, expanding exports and creating employment. At the same time, the rapid economic growth in the eastern coastal areas has

increased the income level of residents in the region, expanded the market size, improved external conditions, and generated agglomerated economic benefits, thereby further stimulating the inflow of FDI and forming a positive, cumulative causal effect. In the central and western regions, despite the high social impact of investment, the immediate return on investment is generally lower. Therefore, the overall scale and proportion of FDI in the central and western regions are smaller, which is also one of the important factors that caused the regional gap in China.

The difference in regional distribution of FDI is an important factor affecting the economic marketization of China's eastern, central and western regions. FDI is closely linked to the development of China's market economy. Attracting more than 85% of FDI, the market economy of the eastern region is relatively better than that of the rest. Lagging behind in FDI, the central and western regions are also lagging behind in terms of economic marketization.

3.2.2 FDI has promoted changes in regional industrial structures

Since 2000, FDI accounted for less than 3% of total capital formation, and less than 1% of IIFA. Compared with the historic-high record in the 1990s, both indicators have dropped by about 10 percentage points. However, the overall impact of FDI has not weakened. Over the past 40 years since the reform and opening-up, FDI in China has set up more than 2,800 regional headquarters and R&D centers. Though accounting for less than 3% of China's total number of enterprises, FIEs account for 10% of China's total urban employment, 20% of tax revenue, 25% of total industrial output, and nearly half of import and export—FDI played a significant role in advancing China's real economy and promoting China's supply-side structural reform.

FIEs are the major players in some industries in China. According to statistics in 2013, in the computer, communications and other electronic equipment manufacturing industries, FIEs accounted for 59% of total assets and 40% in the automotive industry. In that same year, foreign-invested industrial enterprises accounted for 22% of China's total industrial assets. High-end manufacturing industry and the service industry will become the focus of a new round of FDI.

The most important part of the value of a FIE is very difficult to quantify. FDI has brought about a wide range of catalytic and spillover effects to the country, such as promoting China's industrial modernization, nurturing local suppliers and distributors, improving R&D and technological development, promoting management training and modernizing education, improving the financial system, and bringing in regional and global management methods. It is particularly important to emphasize that attracting FDI is an important way for China to build an open economy and integrate into economic globalization. By "advancing reform through openness" and leveraging the impact of FDI, China quickly improved its overall economic performance and underlying structures.

Column 8 PepsiCo

PepsiCo was one of the first US companies entering China, and its products have been in China for 36 years. Over the past 30 years, PepsiCo's cumulative investment in China has exceeded RMB yuan 17 billion, it has built a successful food and beverage business, and is actively investing in China's development process.

In 1981, PepsiCo kicked off its investment in China by setting up its first bottling plant in Shenzhen. On March 31, 2012, PepsiCo and Tingyi (Cayman Islands) Holding Corp. established a strategic alliance and created a leading beverage production network with approximately 100 bottling plants in China, whose sales channels cover the entire country.

The concept of environmental sustainability has been integrated into all aspects of Pepsi's production, including production facilities, equipment, and packaging. PepsiCo Greater China Region was awarded the title of "Outstanding Enterprise 2014 in China's Beverage Industry for Practice of Social Responsibilities". Four factories have been awarded the "Green Factory" certification by the internationally recognized LEED (Leadership in Energy and Environmental Design) standard, making Pepsi a leader in the sustainable development of the industry for a long time.

Pepsi Food has also promoted China's agriculture, benefiting tens of thousands of farmers. PepsiCo supported the establishment of a sustainable demonstration farm and introduced effective water-saving drip irrigation and sprinkler irrigation model to the farm, which can save up to 50% of water compared to traditional irrigation approaches. In 2011, PepsiCo Greater China Region and the Chinese Ministry of Agriculture signed an MOU on cooperation to promote sustainable agricultural projects in China.

In 2012, PepsiCo launched the Pepsi Asia R&D Center in Shanghai, the largest R&D center outside of North America and the center for innovation in the new products, packaging, and equipment throughout Asia.

The PepsiCo Foundation and PepsiCo Greater China Region actively carried out and supported a series of social welfare projects, including the "Water Cellar for Mothers" project, which provides safe drinking water for the water-scarce areas in the central and western regions for more than ten years. The "PepsiCo Nutrition in Action" helped support impoverished regions in China's west to improve people's nutrition. Pepsi's plants across China and its farm workers launched awareness campaigns and also donated money and provided emergent assistance to areas hit by natural disasters. Up to now, PepsiCo Foundation, PepsiCo Greater China Region, and their employees have donated more than RMB yuan 141 million to China's public welfare undertakings.

3.3 FDI has optimized China's industrial structure

3.3.1 FDI has promoted China's technological progress

In the early days of reform and opening-up, most of China's capital-intensive industries were, to some extent, developed under the protection of the domestic market. Due to low technology, lack of competitive pressure from the outside, these industries developed very slowly for a very long time, and there is a big gap with developed economies at the time. Since the 1990s when large multinationals started to invest in China, a number of advanced and practical technologies were also brought to China, filling in the gap of many technological and product gaps and driving the upgrading of products in many sectors. At present, more than 480 of the world's top 500 multinationals have invested in China. The emerging industries invested by FDI such as processing trade improved the quality of the labor in the process of exploration, which narrowed the gap between China's manufacturing and developed countries, and laid the foundation for the mass production of China's self-developed products.

3.3.2 Multinationals have brought in advanced technologies

FDI promoted China's technological advancement in three aspects: First, FIEs invest in more advanced technologies in China, which directly brings advanced technology to China. Second, technology spillover effects of FIEs, through the demonstration effect, competition mechanism, cross-sector linkages and flow of personnel to improve technological and innovative capabilities, will inject a strong impetus into various industries, thereby effectively improving the technical capacity of domestic industries. Third, by setting up R&D centers in China, FDI brought the research capacity to the country. In recent years, multinationals have invested in projects in China with design and R&D functions, many of which are nationwide independent R&D centers.

FDI plays a very important role in bringing in technologies to China. With the rapid expansion of scales, FDI has become one of the main channels for China to bring in external technologies. Through technology transfer and investment in devices, FDI advances China's technology in a direct manner. FDI is conducted in China mainly through joint ventures, cooperative operation, cooperative development, and sole proprietorship. Correspondingly, in technology trade undertaken by FDI, technologies flow into China through cooperative production, joint technology licensing, joint investment in equipment, and tech-licensing with proprietary capital.

3.3.3 FDI has shifted from labor-intensive to high-tech industries

With the constant upgrading of FDI structures and with FDI driving the rapid development of relevant industries, FDI in China is shifting from labor-intensive to capital-intensive and high-tech industries.

There is a gradual improvement in the technology spillover effect generated by FDI. Before 1985, FDI was mainly concentrated in China's textile, light industry, processing trade, manufacturing and other labor-intensive industries, the high-tech industry only had a limited share of China's total FDI, given the small overall size of which, FDI at the time only had a limited impact over China's technological advancement. In the contracted amount of FDI in 1984, labor-intensive industries accounted for 39.2%, while industries with higher technical content such as chemical, pharmaceutical manufacturing, electronics and communication equipment accounted for only 9.9%.

After 1985, with the rapid expansion of the FDI scale, the FDI structure was also optimized, featuring growing investment in chemical, pharmaceutical manufacturing, machinery manufacturing, transportation equipment, electronics and communication equipment, instrumentation, etc., which greatly contributed to the development of China's high-tech industry. At the same time, FDI in culture, education, health, scientific research and comprehensive technology development also increased significantly, from US$ 62.41 million in 1985 to US$ 73.96 million in 1990. The contribution of FDI to labor quality and scientific research increased following the expansion of its scale. During that period, the technology spillover effects of FDI also gradually increased.

During the period from 1991 to 1996, with the rapid growth of FDI, FDI in China's technology-and-capital-intensive industries also grew rapidly. The contracted investment amount expanded rapidly from US$ 2.72 billion in 1991 to US$ 14.62 billion in 1996. The industry's share of China's total FDI also increased to 19.5% in 1996. As an example, the large-scale direct investment by large multinationals in the communication industry in China played a vital role in advancing China's electronic communication industry.

Since 2000, FDI has entered a period of structural adjustment and industrial upgrading. In terms of the total number of high-tech enterprises in China, FIEs account for more than 30%. Key exporters of high-tech products are all FIEs. Especially when European and US products enter the Chinese market, FDI brought a large amount of advanced and mature technologies, which undoubtedly advanced China's technological progress. The technology transfer such as technical assistance and training of FIEs to cooperative enterprises also plays an important role in promoting the technological progress of related enterprises.

Since 2014, China's policy has placed greater emphasis on improving the quality and efficiency of FDI utilization, and FDI has grown in high-tech industries. The actual absorption of FDI of China's high-tech industry increased by 61.7% year on year. In 2017, China's FDI structure continued to optimize, the absorption of FDI by the high-tech industry increased by 61.7% year on year, accounting for 28.6% of China's total FDI, up 9.5 percentage points against the end of 2016. The actual use of FDI in the high-tech manufacturing industry was RMB yuan 66.59 billion, an increase of 11.3% year

on year. The actual use of FDI in the high-tech service industry was RMB yuan 184.65 billion, an increase of 93.2% year on year. In 2018, China's use of FDI remained stable with high quality. The structure of FDI utilization continued to optimize, the proportion of FDI in manufacturing increased to 30.6%, and the use of FDI in high-tech manufacturing increased by 35.1%. Tesla, BMW and other projects made positive progress. There were nearly 1,700 large projects with a contracted investment of more than US$ 50 million, an increase of 23.3%.

3.3.4 Foreign-invested R&D centers have boosted China's independent innovation capabilities

Encouraging foreign investors to set up R&D centers in China is an important strategy for China in its drive to continually bring in FDI and improve its quality. The multinationals investing R&D centers in China help to improve the technical level of Chinese companies. Through technology alliances, domestic enterprises may benefit from advanced technologies and techniques. The new products and new technologies displayed in the R&D center in China will inspire the innovation of domestic enterprises. The cross-sector linkage may also help relevant enterprises improve their technology.

R&D centers of multinationals in China have grown rapidly. As of 2017, the number had reached more than 2,800, mainly concentrated in Beijing, Shanghai, Guangzhou, Shenzhen and other cities with developed economies and a strong education. At present, there are multinationals from the United States, Japan, Germany, France, Canada, the Netherlands, Denmark, Russia, South Korea and other countries and regions which have set up R&D centers in China. Companies such as Microsoft, Oracle, IBM, Siemens, DuPont, GE, General Motors, Volkswagen, Procter & Gamble, Honda, Hitachi, and Nestle have all established R&D centers in China according to their global business strategies. Most of these research centers are focusing on technology-intensive industries such as electronics and communications equipment manufacturing and transportation equipment manufacturing, pharmaceutical manufacturing, chemical raw materials and chemical manufacturing, agriculture and food industries.

In addition to the technological spillover effects on China, foreign-invested research centers have, more importantly, enhanced China's independent innovation capability. Through joint research and development, commissioned development, R&D outsourcing, etc., some technologies are spilled over to domestic enterprises and research institutions. And through information exchanges, sharing of R&D resources, more knowledge is spilled over to China. R&D centers also gather a large number of high-end talents with a sound training system, which cultivates and trains the domestic R&D team.

3.4 FDI promotes China to become the world factory

3.4.1 FDI in manufacturing has accelerated China's industrialization

The most obvious progress China has made after reform and opening-up is the accelerated pace of its industrialization, and multinationals' investment has played a major role in driving such development.

In 1978, major adjustments were made in China's industrialization strategy. Abandoning the old mindset of focusing on heavy chemical industries, China embraced an industrialization strategy that puts people's livelihood first, seeks comprehensive industrial development, opens the economy to the outside world and supports the shared growth of all economic factors. Manufacturing is the first sector in China that was opened to the outside world. According to existing statistics, China's manufacturing industry includes a total of 31 industries: 9 industries of raw material processing and manufacturing, 14 industries of consumer goods processing and manufacturing, and 8 industries of equipment manufacturing. In the process of opening up to the outside world, competitive businesses such as general processing and manufacturing, labor- and resource-intensive industries were among the first to be opened. The opening of some important industries followed the step-by-step approach, where the central government held the control right and approval power. At the beginning of reform and opening-up, China provided preferential treatment in land use, taxation and financing to foreign-oriented processing and manufacturing industries. In addition to the "two exemptions and three reductions", as long as the annual export of enterprises accounted for more than 70% of the total sales, their corporate income tax would be reduced by half.

In the mid-1990s, China adopted an industrial guidance catalog to guide FDI structures. Since then, the catalog has been adjusted according to the needs of economic construction in different periods. In the 1990s in particular, China used FDI to accelerate its economic growth, and FDI at the time mainly went to the manufacturing sectors. In 2001, the manufacturing industry absorbed 66% of all FDI, which mainly was channeled to the manufacturing of electronic and communication equipment, electrical machinery, and transportation equipment, textiles and clothing, etc.

After China joined the WTO in 2001, "Made in China" products have widely integrated into the world. The low-cost advantages and professional industrial clusters won China a large number of OEM orders, making China a base for international manufacturing outsourcing, and FIEs in manufacturing have grown significantly in output and export. In 2007, the industrial added value of FIEs accounted for 28% of the national industrial added value. Among the total exports of China's mechanical and electrical products and high-tech products, FIEs accounted for 73% and 87% respectively. Since 2009, China has become the world's largest

manufacturing power. Among the world's 500 major industrial products, China is the world's No.1 producer for 220 products.

According to the National Bureau of Statistics, at the end of 2018, the number of industrial enterprises invested by Hong Kong, Macao and Taiwan above designated size reached 23,000, employing a total of 9.56 million people and generating total revenue of RMB yuan 9.9 trillion with their main businesses. The number of foreign-invested industrial enterprises above designated size reached 25,000, employing 9.31 million people and generating RMB yuan 14 trillion of revenue with their main businesses. Though accounting for less than 3% of the country's total number of enterprises, FIEs have contributed a quarter of the profits of industrial enterprises above designated size and one-fifth of China's total tax revenues. They have played an important role in promoting the domestic real economy and advancing the supply-side structural reform.

Table 26 Overall utilization of FDI by China's manufacturing

Year	Utilization of FDI by manufacturing (US$ 100 million)	Share in total FDI (%)
1985	23.8	37.7
1990	55.7	84.4
1995	616.5	67.5
2000	258.4	63.5
2005	424.5	58.6
2006	400.8	57.7
2007	408.7	48.9
2008	499.0	46.0
2009	467.7	49.7
2010	495.9	43.2
2011	521.0	42.0
2012	488.7	40.4
2013	455.6	36.8
2014	399.4	31.1
2015	395.4	29.2
2016	354.9	26.5
2017	335.1	26.9
2018	11.7	30.6

Source: China Business Yearbook (data between 1985 and 1995 is amount outside contract)

Table 27 Growth of industrial added value of FIEs above designated size

Year	Growth of national industrial added value (%)	Growth of industrial added value by FIEs above designated size (%)
1992	21.0	48.8
1993	20.0	46.2
1994	18.8	28.0
1995	14.0	19.0
1996	12.5	13.1
1997	11.3	13.4
1998	8.9	12.7
1999	8.6	12.9
2000	9.9	14.6
2001	8.7	11.9
2002	10.0	13.3
2003	12.8	20.0
2004	11.6	18.8
2005	11.6	16.6
2006	12.9	16.9
2007	14.9	17.5
2008	10.0	9.9
2009	9.1	6.2
2010	12.6	14.5
2011	10.9	10.4
2012	8.1	6.3
2013	7.7	8.3
2014	7.0	6.3
2015	6.0	3.7
2016	6.0	4.5
2017	6.4	6.6
2018	6.1	4.8

Source: *Statistical Bulletin of FDI in China in 2019*

Column 9 KONKA

KONKA, known as Konka Group Co., Ltd., was founded on May 21, 1980. It was formerly known as "Guangdong Guangming Huaqiao Electronic Industry Co., Ltd." and was the first Sino-foreign joint venture electronics company born after China's reform and opening-up.

On March 15, 1979, under the auspices of the head of Overseas Chinese Affairs Office of the State Council, the Guangdong Overseas Chinese Farm Management Bureau and Hong Kong Town Electronics Co., Ltd. signed a cooperation agreement named "Guangming Huaqiao Electronic Factory Cooperation Agreement" in Beijing. Then more than 50 returned overseas Chinese workers began to process tape recorder in the Guangming Huaqiao livestock farm. The net profit for that year reached RMB yuan 830,000. In December of the same year, the joint venture parties signed the "Joint Venture Agreement of Guangdong Guangming Huaqiao Electronic Industry Co., Ltd." and set up the first board of directors, and this being China's first Sino-foreign electronics joint venture.

In May 1980, Guangming Huaqiao Electronic Factory officially kicked off joint operation in the Shahe Industrial Zone of Shenzhen Special Economic Zone. In that year, it produced 304,000 sets of recorder movements, earned RMB yuan 1.12 million and reached a net profit of RMB yuan 830,000. At the end of 1987, it obtained the last license for domestic sales of color TV from the Electrical and Mechanical Services Department (EMSD), which comprehensively upgraded its production. In 1989, Konka became the first joint venture electronics company in the country to receive a National Grade 2 Enterprise Certificate. In 1991, Konka was reorganized into a Chinese and foreign public joint-stock company. In 1992, Konka A and B shares were listed on the Shenzhen Stock Exchange. In 1999, Konka Group became a local enterprise with a production value of over RMB yuan 10 billion in Shenzhen. In 2013, its output value exceeded RMB yuan 20 billion, and its operating income reached RMB yuan 46.1 billion in 2018. On July 18, 2019, Konka ranked 21st among China's top 100 electronic information companies.

3.4.2 FDI in processing trade is a major propeller of China's industrialization

Over the past 40 years of reform and opening-up, China's processing trade has achieved leap-forward development, the total volume has been continuously expanded, and the industrial performance has gradually improved. The import and export volume of processing trade has increased from US$ 1.67 billion in 1980 to US$ 1,266 billion in 2018. The development of processing trade has played an important role in expanding employment,

optimizing the industrial structure, promoting technological progress, maintaining close economic and trade relations with Taiwan, Hong Kong and Macao, and promoting China's economic and social development.

China's processing trade has been gradually developed along with its reform and opening-up, and has gone through stages of start-up, development and acceleration. At the beginning of reform and opening-up, China was in the early stage of industrialization, with a shortage of funds and technology, and a large number of idle labors. In July 1979, the State Council formulated a pilot scheme to encourage "Three Import and Compensation Trade". Due to the speedy construction and production and a short ROI cycle, this business grew fairly rapidly. In December 1987, the General Office of the State Council re-circulated the Ministry of Foreign Trade and Economic Cooperation's *"Proposal on Further Developing External Processing and Assembly."* The following year, Guangdong Province and the Ministry of Foreign Trade and Economic Cooperation issued further relaxation policies to encourage processing trade and assembly business. In 1992, Comrade Deng Xiaoping inspected the South and delivered an important speech. The State Council quickly made arrangements and decided to further relax restrictions on foreign merchants. The government implemented an incentive policy for FDI and processing trade, and provided preferential tariff treatment.

Throughout the 1990s, the coastal areas seized the opportunity of international production structure adjustment, giving full play to the advantages of abundant labor resources and good industrial base, and vigorously developed the processing trade of raw material supply and product sales market. Shenzhen is the earliest area of China's processing trade with a large scale and relatively standardized management. By the end of 1998, there were 14,615 processing trade enterprises in Shenzhen, accounting for about 70% of the total industrial enterprises in the city, and processing trade exports reached US$ 22.77 billion, among which high-tech products accounted for 32.8%, accounting for more than 95% of the city's total, and 66.1% of the country's total exports of high-tech products.

Small and medium-sized FIEs engaged in processing trade mainly focused on the light industry such as textiles, clothing, shoes, toys, small household appliances, etc., which were widely distributed in coastal towns and villages. Such enterprises played a very important role in helping the country to profit from the global market, absorbing surplus rural labor, and changing the landscapes of backward areas.

Table 28 Imports and exports of foreign-invested processing trade enterprises

	1997	2007	2018
Imports/exports of foreign-invested processing trade enterprises (US$ 100 million)	1,114.9	8,311.3	10,310.8
Proportion to the imports/exports of China's processing trade (%)	65.7	84.3	81.3
Proportion of China's total imports/exports (%)	34.3	38.2	22.3

Source: Statistics from China General Administration of Customs

With processing trade getting bigger, the industrial clustering effect extended to the upstream and downstream of the industry, thereby incorporating domestic enterprises into production activities. The development of foreign-invested processing trade has cultivated a large number of skilled labor and technical and management talents that are suitable for large-scale industrialized production. A large amount of profit obtained from processing trade exports provided funds for importing advanced equipment necessary for China's industrialization.

As an important way for China to undertake the industrial transfer from developed countries, processing trade put China's comparative advantages in labor-intensive production activities in full display, solved the contradictions of the dual economic structure existing in the primary stage of socialism, and enhanced the international competitiveness of the industry. It also accelerated domestic industrial upgrading and technological progress, and promoted the leap-forward development of China's export-oriented economy and made tremendous historical contributions to China's industrialization process.

3.4.3 FDI has promoted the structural changes in China's manufacturing

Among China's many industries, FDI is mostly in manufacturing, with a higher proportion in processing, and a higher proportion of light industry than heavy industry. Beginning with the light-processing manufacturing industry, through large-scale use of FDI, China started with the processing of consumer goods, and then transitioned to product manufacturing and gradually expanded the width and in-depth of its participation in the global production system, before securing the position as a big producer of industrial products and big exporter.

In the process of China's manufacturing development, the spillover effect of FDI is very significant, and it has become an important factor driving the structural changes in China's manufacturing industry and the expansion of the consumer goods industry. The positive role of FIEs in the structural transformation of China's manufacturing industry is reflected in three aspects:

Unleashing China's production factor advantages

The process of using FDI in manufacturing is also a process through which China releases its comparative advantages in all aspects. China's labor, land, natural resources and other factors of production are rich and cheap, which plays a key role in absorbing manufacturing,

especially export-oriented FDI; the Chinese market is broad, the per capita consumption level is low, and the market is far from being developed, by bringing in FDI and allowing them to use these domestic factors, a high-speed economic growth is achieved.

Cultivating manufacturing sectors with large-scale export capabilities

By attracting FDI, industries such as electronics, communications, and household appliances integrated into the international supply chain in a relatively short period of time, enabling China to form a manufacturing platform that meets the requirements of the international market and establishing diversified export-oriented, labor-intensive industries. China rapidly emerged to become the world's largest industrial manufacturing and assembly base. China's foreign trade structure has thus transformed from primary products to labor-intensive, light industrial products and then to labor-intensive mechanical and electrical products.

Table 29 Industrial distribution of FDI in manufacturing 2017

	Actual use of FDI (RMB yuan 100 million)	Year on year change (%)
Manufacturing	335.1	-5.6
Agricultural and food processing	5.0	-27.9
Oil, coal and other fuel processing	4.5	81.4
Chemical raw materials and chemical products	23.8	6.5
Non-metal mineral	11.8	-32.6
General equipment	28.9	-0.6
Railroad, ships, aviation/aerospace and other transportation means	5.8	140.5
Computer, communication and other electronic devices	59.0	2.6

Source: *Statistical Bulletin of FDI in China in 2018*

Table 30 Major economic indicators of foreign-invested industrial enterprises above designated size in 2018

Number of enterprises (10,000)	4.8
Total asset (RMB yuan 100 million)	224,353.2
Main business revenue (RMB yuan 100 million)	238,538.1
Accumulative growth of main business revenue (%)	5.4
Total profit (RMB yuan 100 million)	16,775.5
Operational cost (RMB yuan 100 million)	205,575.6
The profit margin of main business (%)	7.03
Asset-to-liability ratio (%)	54.1
Number of enterprises in loss	10,144
Growth of industrial added value (%)	4.8

continued table

Accumulative growth of ROI (%)	–12.6
Growth of FDI in IIFA (%)	6.1

Source: National Bureau of Statistics

Promoting the development of China's high-tech industry

In recent years, FDI has increasingly invested in high-tech industries in China. In the capital-intensive emerging industries such as communications and electronics manufacturing, transportation equipment manufacturing, and general equipment manufacturing, FDI has become a driving force for rapid development. It also promoted the upgrading of China's manufacturing industry to high-processing and technology-intensive industries. The spillover effect, demonstration effect and competitive effect of FDI in high-tech industries have provided a good foundation for China's independent innovation, which has effectively promoted the overall technical level of related industries.

Since 2013, the utilization of FDI in high-tech industries has grown at an average annual rate of 11.7%. Among the national high-tech enterprises, 25% are FIEs, and nearly 50% of the output value comes from FIEs. In 2018, the use of FDI in high-tech manufacturing increased by 35.1% year on year. From January to July 2019, the actual use of FDI in the high-tech industry increased by 43.1% year on year, accounting for 29.3% of China's total FDI. The actual use of FDI in the high-end technology manufacturing industry reached RMB yuan 59 billion, an increase of 19% year on year. Among them, the actual use of FDI in aviation, spacecraft and equipment manufacturing, electronics and communication equipment manufacturing, and pharmaceutical manufacturing increased by 32.8%, 29.3% and 22% respectively.

Table 31 Utilization of FDI by advanced technology manufacturing industry 2018

	Number of enterprises	Year on year (%)	Actual use of FDI (US$ 10,000)	Year on year (%)
Pharmaceutical	139	10.32	131,208	–38.74
Aviation, aerospace equipment	18	500	8,976	18.67
Electronics and communication devices	968	55.38	897,929	40.35
Computer and office facilities	70	52.17	66,289	77.16
Medical equipment and instrument	281	21.65	270,880	212.01
Chemical products	2	–33.33	3,938	5.21
Total	1,478	43.22	1,379,220	39.39

Source: Ministry of Commerce, PRC.

Column 10 Shanghai Bell

Founded in 1984, Shanghai Bell Co., Ltd. is one of the pillar enterprises of China's modern communications industry. It was originally funded by China National Posts and Telecommunications Industry Corporation (PTIC), Belgian Bell Corporation and the Cooperative Development Foundation of the Kingdom of Belgium. Alcatel later merged with Belgian Bell Corporation and inherited the Belgian Bell Corporation's stake in Shanghai Bell.

Bell's growth coincided with the great development of China's communications industry. In the 15 years since its establishment, Shanghai Bell has grown from scratch and small to large, and has gradually grown into one of the largest telecom equipment suppliers in China, and has been one of the world's largest manufacturers of switchers for a long time. Shanghai Bell has trained a large number of communication talents. In 1995–1998, Shanghai Bell ranked among the top 10 of the country's 500 largest FIEs for four consecutive years.

In 2001, Shanghai Bell's reorganized its share structure, the Chinese side gave up the controlling stake, and the Sino-foreign joint venture was transformed into a foreign-invested company, renamed as "Alcatel Shanghai Bell Co., Ltd.", and it was the first foreign-invested company in China's high-tech sector. In 2017, after Nokia acquired Alcatel-Lucent, the company was once again named "Nokia Shanghai Bell Co., Ltd.".

Nokia Shanghai Bell Co., Ltd. is the only joint venture under the direct supervision of the State-owned Assets Supervision and Administration Commission of the State Council, and is also the exclusive operating platform of Nokia in China. At present, it has about 15,000 employees, and the domestic sales and service network covers 31 provinces and cities. Its international business covers more than 50 countries and regions. The company has strong R&D capabilities and professional expertise in a number of fields, providing end-to-end information communication solutions and high-quality services for operators and non-operator customers, and in IP networks, optical networks, fixed networks and next-generation 5G networks. It's a leading player in many fields.

In the list of China's top 100 electronic information companies in 2019, Nokia Shanghai Bell Co., Ltd. ranks 39th.

3.5 FDI is a major force promoting China's economic restructuring and upgrading in the New Era

3.5.1 Understanding new industrialization in the new era

In 2002, on the basis of summing up China's industrial development and industrialization experience, the 16th National Congress of the Communist Party of China officially proposed that China should follow the "new path of industrialization" according to China's national

conditions, that is, "to insist on driving industrialization with information technology, and promoting informatization with industrialization, and walk an industrialized road with high technology content, good economic returns, low resource consumption, less environmental pollution, and full utilization of China's human resources advantages".

The report of the 19th National Congress of the Communist Party of China once again emphasized the new industrialization and pointed out that "promoting the simultaneous development of new industrialization, informatization, urbanization, and agricultural modernization." The focus of new industrialization in the new era is to seize the opportunity of a new round of scientific and technological and industrial revolution, promote overall technological progress, accelerate the breakthrough of common technologies and key core parts production in several strategic industries, and focus on revitalizing the real economy, and solve the problem of insufficient and imbalanced development.

Multinationals' investment is therefore still indispensable and irreplaceable in this process.

3.5.2 Understanding the new situation of economic restructuring and upgrading

The external environment for China's manufacturing growth has become increasingly severe. The International Yearbook of Industrial Statistics 2017 published by the United Nations Industrial Development Organization (UNIDO) shows that global industrialization has slowed down in recent years, and manufacturing production growth in developing countries and emerging economies has been relatively weak. The potential impact of the Brexit on global investment and trade and the uncertainty of the world economy triggered by Trump's New Deal have led to a worrying global outlook for manufacturing growth. Developed countries are pushing manufacturing to return to their home country. The use of smart technology has reduced the dependence of manufacturing on human labor. The manufacturing value-added (MVA) of developed economies fell to less than 1% in 2016. As the world's largest manufacturer, China's MVA growth fell from 7.1% from 2015 to 6.7% in 2016. It is particularly noteworthy that emerging economies such as India and Vietnam have used their relatively lower factor costs to rapidly advance industrialization. The comparative advantage of China's manufacturing production has weakened, and international capital has begun to look for more competitive investment locations.

Overcapacity and technological backwardness are major obstacles to China's manufacturing industry. After the export-oriented model and the focus on the heavy chemical industry, China's manufacturing industry has rapidly formed huge production capacity, and now troubled with a serious surplus in the face of changing market demand. At the same time, the international competitiveness of China's manufacturing industry is still mainly reflected in manufacturing costs. Manufacturing in China is highly dependent on low-end processing and assembly, it lacks technological innovation and branding, and a considerable number of

manufacturing companies are in operational difficulties.

In recent years, FDI has also, to some extent, left the real economy and gone to the virtual economy field. The proportion of FIEs in the real economy, especially manufacturing, has decreased, and it has been so obvious in some regions and certain industries. This situation is extremely unfavorable for China—a country wishing to change its economic development model, optimize and adjust the industrial structure, and switch from old to new economic drivers. The only way out for China's manufacturing industry lies in the transformation and upgrading. In an open environment, the "three-step" development strategy proposed by "Made in China 2025" can only be realized with full participation in international competition and cooperation, effectively utilizing FDI, and foreign companies in the fields of R&D, technology, capital and talent which will greatly shorten the process of transformation and upgrading.

3.5.3 FDI is still indispensable to the transformation and upgrading of China in the New Normal

Manufacturing is the foundation of a country, and a strong manufacturing base can bring long-term sustainable economic development. First, increasing FDI in manufacturing can stabilize employment, industrial output, and fiscal revenue, which is like a 'stabilizer' in economic reforms. Second, the advanced manufacturing industry brought by FDI can effectively increase the high-end supply of the manufacturing industry and help China's manufacturing to transform and upgrade, which is precisely the direction of China's supply-side structural reform. It will also play a demonstrating and guiding role to overall industrial development while meeting the need for consumption upgrading. Third, FDI in manufacturing will help drive capital into the real economy sector, help build a benign industrial eco-environment by attracting upstream and downstream enterprises to the real economy. Therefore, China needs to redouble its effort attracting FDI in manufacturing, and promote industrial cooperation from processing and manufacturing links to high-end links such as cooperative R&D, joint design, marketing, and brand cultivation.

Reform dividend is constantly being released. In recent years, China has deepened reform in FDI's management system, and the pre-establishment national treatment system plus negative list management system have been fully implemented; FDI access restrictions have been greatly reduced, and market space open for FDI has been expanded; the openness layout at regional level has been optimized, and 18 pilot free trade zones have been established. The Lingang New Area of the Shanghai Pilot Free Trade Zone is established, and efforts are made to accelerate the building a free trade port in Hainan. With the continuous release of the above-mentioned reform dividends, China's manufacturing industry is also expected to break through the bottleneck and enter a new stage of development.

Improving the legal system and policy environment. The first is to improve the legal system and the transparency and certainty of the law. Advancing the rule of law in all respects

is an important part of the "Four-pronged" Strategy. It is necessary to accelerate the formation of a complete legal system and an efficient system for implementing the rule of law. Many laws and regulations are closely related to foreign investors, such as the *Foreign Investment Law, the Patent Law, the Anti-Monopoly Law, the Environmental Protection Law, and the Contract Law.* It is necessary to streamline the inconsistent, incomplete, unclear part of different laws and improve their transparency. A smooth communication mechanism is needed to refine and clarify the relevant interpretation of the law, make law enforcement more standardized, and avoid selective law enforcement. The second is to improve the process of policy formulation and maintain the stability, uniformity and predictability of the policy. Under the new economic normal, policy formulation should also be adjusted according to the specific conditions at the current stage. Before the introduction of policies, full investigation and consultation should be carried out, policy guidance and positive incentives should be exerted, the arbitrariness of policy implementation should be reduced, and the stability and predictability of policies should be maintained. The third is to relax market access, and specific implementation rules must be put in place to prevent the "glass door" phenomenon.

Creating an innovative environment for the use of FDI in manufacturing. First, encouraging FDI to integrate into China's manufacturing innovation system, participate in "Made in China 2025", such as Industrial Consolidation Action Plans, smart manufacturing and other related plans, programs and special projects, encouraging Chinese and foreign joint research and development, and making full use of global wisdom. Second, protecting and safeguarding the healthy and orderly development of the intellectual property market, strengthening the construction of innovative service platforms, promoting the smooth transfer of technology and transactions, and providing standardized and professional services for R&D in manufacturing. Third, creating a good innovation infrastructure, facilitating international scientific and technological information exchange and cooperation, and strengthening the international competitiveness of the investment environment for the real economy.

Encouraging foreign companies to participate in research and development and promoting cooperation between Chinese and foreign scientific research institutions. First, implementing the preferential policies for FDI in research and development. In encouraging R&D policies, FDI is treated in the same way as Chinese companies, such as tax incentives for high-tech companies, pre-tax deductions for research and development expenses, and preferential policies for setting up R&D centers. Second, creating more conditions for the cooperation of Chinese and foreign scientific research institutions. Building a public R&D cooperation platform, an IT commercialization platform, and a high-tech business incubator to continuously enhance China's international scientific and technological cooperation. Third, guiding the formation of an open cooperation mechanism for foreign R&D institutions. Most foreign-invested R&D institutions operate independently in a closed loop. They should be encouraged to open to domestic institutions, innovate Chinese-foreign R&D institution

cooperation mechanisms and intellectual property sharing mechanisms, accelerate joint innovation and transformation of results, promote talent training exchanges, and enable Chinese and foreign innovation cooperation to produce better social and economic benefits.

Reducing the cost of FDI in manufacturing. At present, international capital competition is intensifying. The tax reduction adopted by the United States will have spillover effects on other countries and have a transmission effect. It may have an important impact on the international capital flow pattern. China should take measures to reduce the operating costs of manufacturing investment. It must be emphasized that this is not only to strengthen the competitiveness of China's FDI, but also to strengthen the competitiveness of Chinese enterprises themselves. At present, many manufacturing enterprises in China have made large-scale FDI. The manufacturing investment cost of developed countries such as the United States is lower than that of China in many aspects, which has already highlighted the urgency of reducing manufacturing costs.

3.6 FDI increases China's job opportunities

In the era of economic globalization, increasing employment has become one of the main goals of investment-driven economic growth. This is especially important for a country with a large labor force such as China. Over the past 40 years, the scale of China's use of FDI has continued to expand, and FDI has played a significant role in increasing the number of jobs, improving the quality of employment, and improving the employment environment in China.

3.6.1 FDI provides hundreds of millions of jobs

In the past 40 years, the large labor force has been one of the comparative advantages of China, and it is also a huge employment pressure for the Chinese government. Developing the economy, providing stable and adequate employment and high-income jobs, and improving people's lives are long-term tasks of the government. FDI has played a huge role in increasing employment. The impact of FDI on the number of jobs in the host country is two-fold: on the one hand, creating new jobs and avoiding job losses through employment creation effect and employment transfer effect; on the other hand, causing job losses through crowding-out effect and employment loss effect. In recent years, many empirical studies have shown that FDI in China has a significant role in promoting non-agricultural employment.

Directly driving job creation:

It refers to the increase in the number of employed people in FIEs in China, mainly through the business model, scale and the industry of FDI.

From the perspective of investment methods, FDI flowing into China has always been dominated by greenfield investment, and the direct employment effect is relatively large. Greenfield investment directly creates new jobs, while M&A have the potential to reduce

employment. For many years, China has not only been a big country that uses FDI, but also a major host country for greenfield investment. According to the *2018 World Investment Report* released by the United Nations Conference on Trade and Development, since 2003, China has been the world's leading greenfield investment destination in terms of amount and number of projects.

In terms of scale, first of all, the scale of China's absorption of FDI has increased rapidly. In 2002, China surpassed the United States for the first time and became the world's largest country to attract FDI, which provides a financial basis for expanding employment. Second, a single FIE is relatively large in scale and has a strong employment absorption capacity. China's labor laws and regulations for FDI are relatively loose. FIEs have no unnecessary restrictions in the process of construction, development and scale expansion, so that the employment absorption capacity of FIEs has been fully released. According to the National Bureau of Statistics' 2018 Statistical Yearbook data, in 2017, FIEs absorbed an average of 96 employees per household, while domestic enterprises absorbed about 10 people per household, which is roughly 1/10 of the former. From the average value, FIEs have a higher ability to absorb employment than domestic enterprises.

Labor-intensive industries dominate China's FDI. This is linked to the fact of China's abundant labor resources and the pursuit of low-cost labor by multinationals. The industries invested in China before 1992 were mainly concentrated in labor-intensive industries. At that stage, FDI had a large direct impact on job creation. After 1992, as multinationals began to transfer production and assembly to China, FDI in this stage shifted to technology and capital-intensive industries, and the direct impact of job creation decreased. However, after 1992, the scale of FDI in China has expanded rapidly, and the expanded case offset the insufficient job-creation impact of FDI.

Column 11 P&G

Founded in 1837, Procter & Gamble is one of the world's largest consumer goods companies, headquartered in Cincinnati, Ohio, USA. P&G has been able to sustain growth for 180 years by insisting on beautifying consumers' lives every day in a subtle but meaningful way. Procter & Gamble operates in approximately 70 countries and regions around the world. P&G has factories or branches in more than 80 countries around the world, and its products of over 65 brands are sold in more than 180 countries and regions. Its product portfolio includes hairdressing, health and beauty, fabrics and home care, infants, women, and family care, etc.

P&G serves approximately 5 billion people worldwide through its brand. In 1988, P&G settled in Guangzhou and established P&G's first joint venture in China, Guangzhou Procter & Gamble Co., Ltd., and began its business expansion in China. P&G Greater

China is headquartered in Guangzhou and currently has several branches and factories in Guangzhou, Beijing, Shanghai, Chengdu, Tianjin, Dongguan and Jiangsu. P&G has been in China for nearly 30 years, and the Chinese market has grown into one of P&G's fastest-growing markets worldwide. Procter & Gamble has also been fulfilling its responsibilities for the sustainable development of Chinese society through a series of efforts in environmental protection and social responsibility.

P&G has invested more than US$ 1.7 billion in China and is China's largest consumer goods company with more than 8,000 employees, more than 98% of which are local employees. Indirect employment has registered at tens of thousands.

According to the National Bureau of Statistics, in 1987, the number of employees of FIEs in China's cities and towns reached 210,000. In 2016, the number reached 26.66 million, accounting for 6.44% of the urban employment in the same year, up by nearly 126 times in 30 years. In 2017, the number of employees in FIEs declined, but still accounted for 6.07% of the urban employment size.

Table 32 Employment size of FIEs in China during 1987–2016

Unit: 10,000 people

Year	Total urban employment	HK, Macao and Taiwan-invested firms	Foreign-invested firms	Total
1987	13,783	1	20	21
1988	14,267	2	29	31
1989	14,390	4	43	47
1990	16,616	4	62	66
1991	16,977	69	96	165
1992	17,241	83	138	221
1993	17,589	155	133	288
1994	18,413	211	195	406
1995	19,040	272	241	513
1996	19,922	265	275	540
1997	20,781	281	300	581
1998	21,616	294	293	587
1999	22,412	306	306	612
2000	23,151	310	332	642
2001	24,123	326	345	671
2002	25,159	367	391	758

continued table

Year	Total urban employment	HK, Macao and Taiwan-invested firms	Foreign-invested firms	Total
2003	26,230	409	454	863
2004	27,293	470	563	1,033
2005	28,389	557	688	1,245
2006	29,630	611	796	1,407
2007	30,953	680	903	1,583
2008	32,103	679	943	1,622
2009	33,322	721	978	1,699
2010	34,687	770	1,053	1,823
2011	35,914	932	1,217	2,149
2012	37,102	969	1,246	2,215
2013	38,240	1,397	1,566	2,963
2014	39,310	1,393	1,562	2,955
2015	40,410	1,344	1,446	2,790
2016	41,428	1,305	1,361	2,666
2017	42,462	1,290	1,291	2,581

Source: *China Statistical Yearbook*

Indirectly promoting employment

In addition to directly driving employment, FDI also creates jobs indirectly.

First, FDI drives national economic growth at the macro level, thereby increasing employment opportunities in the country[①]. On the one hand, investment has a multiplier effect, which increases the total social demand by stimulating national income, thereby promoting the national economy and increasing employment opportunities accordingly. FDI also has a multiplier effect and creates indirect employment opportunities. On the other hand, national income growth will also drive investment growth. FDI will inevitably lead to an accelerated expansion of domestic investment. The expansion of investment will provide new employment opportunities.

Second, the inter-industry and intra-industry linkage effect creates jobs. This refers to the impact of FIEs on the employment of other manufacturers in the same industry or upstream and downstream manufacturers, such as the increase in demand for supporting services or

① Sang Baichuan: *Employment Contributions of FDI to China,* Open Journal, Edition 4, 1999

manufacturing products. According to the World Investment Report 1994, every time an employee in an overseas branch of a multinational is hired, 1–2 associated jobs are created locally. The ILO's empirical research shows that FIEs create jobs that are 2–3 times higher than the number that's directly employed. Therefore, the employment opportunities indirectly created by FIEs through the correlation effect are often far greater than the employment opportunities created directly by them.

Judging from the employment landscape of FDI in China, direct job creation has weakened since 1992, but the correlation employment effect has strengthened. After 1992, the total amount of FDI increased rapidly, but the growth rate of employment was lower than that of FDI. This is related to the distribution of FDI in the industry. Since 1992, more FDI has begun to shift from labor–intensive industries such as light industry and textiles to heavy chemicals, automobiles, electronics, household appliances, and communication equipment and other capital–intensive and technology–intensive industries. Secondly, there emerged a transition from greenfield investment to M&A, the latter may lead to a decrease in direct employment.

Over time, the direct employment effect of FDI began to decrease. But this change in FDI has brought more related employment to China. FDI in industries such as automobiles and electronics has strong industrial relevance. FIEs brought investment opportunities to domestic enterprises, attracting many small and medium–sized enterprises (SMEs) to gather around FIEs and provide support services. In this way, SMEs that were not internationally competitive can participate in the global business of multinationals by providing production support or related services. The employment driven by these SMEs is often many times that of FDI's direct job creation.

3.6.2 FDI improves job quality

The most direct impact of FDI on the quality of employment in China is the increase in workers' wages, and the important factor behind this is the emphasis of FIEs on human capital.

FDI invests heavily in human capital, which improves the situation of China's human capital.

As a developing country, China has a huge labor base, but skilled and educated laborers are relatively insufficient. At the beginning of reform and opening–up, FIEs leveraged mainly China's labor resources and low wage costs. As China's marketization continues to deepen, simply using cheap labor will fall short in meeting demand. The competitive advantage of technology and capital–intensive enterprises is their high–quality human resources. In order to effectively implement their technology and equipment and effective management policies, they bring in modern business concepts and train local talents with management knowledge and technical capabilities. FIEs have paid much attention to the training of technical and managerial talents, encouraged employers to pursue education, and invested heavily in China's human capital, contributing to the development of human capital in China. Generally speaking,

FIEs attach great importance to cultivating Chinese local technology and management personnel. Large multinationals have a comprehensive set of employee training programs that help Chinese employees quickly improve their work and management skills. Better job skills and management skills mean better jobs and higher pay. In the past 40 years of reform and opening-up, FIEs have trained a large number of skilled workers, professional and technical personnel and management talents in China. Multinationals have promoted human capital in China through training effects, demonstration effects, competitive effects and linkage effects[①].

Increased wage income

The compensation system of FIEs is market-oriented. Because FDI has relatively intensive capital input and advanced technology, the employed people have higher human capital, they are paid relatively higher, and accept performance-based wages. In the case of China, FIEs (excluding Hong Kong, Macao and Taiwan-invested enterprises) can provide high-paying income for the employed. From the perspective of the average salary of employed persons, the average wage in FIEs in urban areas is much higher than the average wage level of urban employed persons. According to the China Statistical Yearbook, since 1993, except for a number of years (2009-2012) when the average wage of urban employees in FIEs were lower than that in limited liability companies, the average wage of urban employees in FIEs has been higher than the average wages of urban employees in all types of enterprises, including SOEs, urban collective enterprises, joint-stock cooperative firms, joint ventures, and limited liability companies. In 2017, the number of employed persons in FIEs was 12.91 million, accounting for 3.04% of the total number of urban employment in the country, but its contribution to pay rise is considerable.

Table 33 Average wage of non-private-sector workers in urban areas of China during 1998-2016

Unit value: RMB yuan

Year	The average wage of urban workers	Limited liability companies	FIEs
1998	7,446	8,829	12,927
1999	8,319	9,734	14,353
2000	9,333	11,105	15,692
2001	10,834	12,333	17,553
2002	12,373	13,815	19,409
2003	13,969	15,738	21,016
2004	15,920	18,136	22,250

① Luo Liangwen, Kan Daxue, *An Empirical Study of the Impact of Foreign Trade and Foreign Direct Investment on China´s Human Capital Stock㊀Based on Ridge Regression Analysis, World Economic Research,* Edition 4, 2011

continued table

Year	The average wage of urban workers	Limited liability companies	FIEs
2005	18,200	20,272	23,625
2006	20,856	24,383	26,552
2007	24,721	28,587	29,594
2008	28,898	34,026	34,250
2009	32,244	38,417	37,101
2010	36,539	44,118	41,739
2011	41,799	49,978	48,869
2012	46,769	56,254	55,888
2013	51,483	61,145	63,171
2014	56,360	67,421	69,826
2015	62,029	72,644	76,302
2016	67,569	78,285	82,902
2017	74,318	85,028	90,064

Source: *China Statistical Yearbook*

3.6.3 FDI has improved the employment environment

The entry of FDI contributes to the advancement of the labor market system, and improves the employment environment in China, mainly in the following three aspects:

Firstly, FIEs hire employees under labor contracts which have broken the barriers of urban and rural identity and ownership system. Such an employment mode features a clear market and law-based labor-capital relationship, and adopts a series of market-based and efficient systems of human resources recruitment, evaluation and compensation management. It is closely linked with the human capital endowment of each employee and the commitment to their work.

Secondly, FDI has fueled the intra-regional movement of labor in China. The concentration of FDI in the eastern coastal areas has promoted industrial agglomeration in the region. The abundant labor reserve in eastern coastal areas is also conducive to the establishment and development of a large number of FIEs in these areas. The rapid industrialization of the entire coastal region has triggered the flow of labors from Central and Western China to Eastern China. On the one hand, it alleviates the employment of surplus labor in central and western regions. On the other hand, it satisfies the needs of rapid economic development in the eastern region. The transfer of population from the central and western regions to the eastern coastal areas has become a considerable "phenomenon" in China.

Lastly, FDI has sped up the pace of China's labor market system to dock with international

standards. In 2002, China acceded to the WTO and began to fully integrate into the global economy. Accelerating to meet international rules becomes an important factor for enhancing the competitiveness of Chinese enterprises in the world. FIEs implement an internationally standardized labor and employment system, which provides China with an example and learning platform. Domestic enterprises and government departments are thus able to refer to the spillover effects of the FIEs' labor system, learn from successful experience, and promote institutional reforms.

Column 12 Samsung

In 2015, Samsung China responded to China's call of exploring a new model of targeted poverty alleviation. Samsung China partnered with China Foundation for Poverty Alleviation to launch the "Beautiful Village – Samsung Sharing Village" project, an initiative to alleviate poverty through industries. It invested 30 million yuan for local poverty alleviation and development in Shierpan Village (Xue Town, Fuping County, Shaanxi Province), and Nanyu Village (Laishui County, Baoding City, Hebei Province). Nanyu Village successfully created a high-end homestay brand of Mamahua's Hillside through targeted tourism poverty alleviation model supported by infrastructure construction and development of related industries.

Located in Sanpo Town, Laishui County, Hebei Province, Nanyu Village boasts an enjoyable surrounding environment and rich tourism resources; however, it was once a typical circum-capital poverty-stricken village. In 2015, there were 224 households with 656 people in Nanyu Village, of which 103 people in 59 households were living under the poverty line, indicating an incidence of poverty reaching 16%. As a result, quite a number of young people had to leave their hometown and seek for their future as a "drifter" in Beijing not far away from.

In April 2016, China Foundation for Poverty Alleviation and Samsung China jointly launched the "Beautiful Village – Samsung Sharing Village" project to alleviate poverty through industrial development. A targeted tourism poverty model was adopted in Nanyu Village, Hebei Province to prosper the village with scenic areas and support the villagers by those who were capable. Infrastructure construction, industrial support and other measures were taken to improve the production and living environment in the village. Further, actions were taken to effectively integrate rural tourism, scattered resources of the village, and centralized management of cooperatives to help villagers embark on the road of entrepreneurship and a well-off life. Nanyu Village Sharing Project – Mamahua's Hillside boutique homestay was thus born in this background.

Since its launch in 2016, Nanyu Village has built 8 boutique homestay projects, which officially opened in June 2017. In January 2019, Nanyu Village held its third profit sharing gathering after project operation. In 2018, the homestay turnover of the village exceeded 2

million yuan, of which more than 500,000 yuan of the dividends was distributed to all the villagers according to their share of investment. Each person received a dividend of 700 yuan, and those under the poverty line gained 1400 yuan, indicating an average of 2,267 yuan per household, which was 40% higher than that in 2018. In addition to dividends, villagers participating in the management and service provision of the homestay earned 3,000–4,000 yuan as the wage and bonus every month. In just over two years, the village has undergone tumultuous changes like being enchanted. The young people yet to leave won't go, and those who left are eager to come back. So far, among the more than 70 young and middle-aged migrant labors in Nanyu Village, 25 have returned and joined the cooperative.

Nowadays, homestay in Nanyu Village has become the first destination for tourists to visit the village, and the surrounding scenic spots are more or less playing a supporting role. Since the homestay project opened for business six months ago, the average booking rate has remained above 70%. During the summer vacation and the National Day holiday, it will be difficult to find a room, and online booking has to be suspended. The homestay project has brought visibility to the name of Nanyu Village which is named as National 100 Beautiful Villages. The Beautiful Village–Nanyu Village Project has also become a pilot project for tourism poverty alleviation of the State Council Leading Group Office of Poverty Alleviation and Development. The agricultural ministers from seven countries including Ethiopia, South Africa and Cambodia also visited Nantun Village to learn about tourism poverty alleviation experience.

3.7 FDI has increased fiscal revenue in China

As the scale of FDI continues to expand in China, the foreign economy also contributes more tax revenue, while rapidly expanding its scale of output value. It has long been one of the important sources of fiscal revenue.

3.7.1 Taxation related to FIEs is an important part of national taxation

As the scale of FDI expands and many FIEs enter into the harvest period, foreign-related tax revenue has gradually become an important part of taxation in China.

Since the beginning of the 1990s, China has been in a stage of rapid development in the use of FDI. The practice of the "market-for-technology" strategy has led to a continuous large-scale influx of FDI. The scale of taxation from FIEs has expanded rapidly and presents an overwhelming growing momentum in contributing to China's fiscal revenue over the same period. In the 10 years to 2001, the average annual growth rate of tax revenue from FIEs reached 42.1%, and its share in national tax revenue jumped from 3.96% to 19.94%. At the end of 2001 when China acceded to the World Trade Organization (WTO), the Chinese economy began to fully integrate into the world economy. Since 2002, China has been a major

country of attracting FDI. In the 11 years to 2012, the proportion of tax revenues from FIEs in the national total maintained at above 20%. In 2013, the Third Plenary Session of the 18th CPC Central Committee kicked off the new round of the reform and opening-up in China. Since then, the domestic and international environment in which China absorbs FDI has undergone major adjustments, and China has begun to comprehensively improve the quality of FDI with the focus on attracting investment, technology as well as talents. Further, local enterprises are contributing more to tax revenues. These measures make the proportion of taxation generated by FIEs begin to decline.

Table 34 Tax statistics of FIEs from 1992 to 2017
(excluding customs duties and land fees)

Unit value: RMB yuan 100 million

Year	National tax revenue	Increase (%)	Tax revenue from FIEs	Increase (%)	The proportion in the national total (%)
1992	3,084.16	–	122.26	–	3.96
1993	3,998.83	29.66	226.56	85.31	5.67
1994	4,854.2	21.39	402.64	77.72	8.29
1995	5,746.21	18.38	604.46	50.12	10.52
1996	6,607.98	15	764.06	26.4	11.56
1997	7,914.55	19.77	993	29.96	12.55
1998	8,949.76	13.08	1,230	23.87	13.74
1999	10,120.35	13.08	1,648.86	34.05	16.29
2000	11,831.03	16.9	2,217	34.46	18.74
2001	14,460.86	22.23	2,883	30.04	19.94
2002	16,932.18	17.09	3,487	20.95	20.59
2003	19,094.18	12.77	4,268	22.4	22.35
2004	23,121.91	21.09	5,355	25.47	23.16
2005	27,712.37	19.85	6,391.34	19.35	23.06
2006	33,662.57	21.47	7,976.94	24.81	23.7
2007	44,189.4	31.27	9,972.6	25.02	22.57
2008	52,453.84	18.7	12,118.93	21.52	23.1
2009	58,037.78	10.65	13,615.22	12.35	23.46
2010	71,182.96	22.65	16,389.91	20.38	23.03
2011	87,179.27	22.47	19,638.1	19.82	22.53
2012	97,830.35	12.22	21,768.81	10.85	22.25

continued table

Year	National tax revenue	Increase (%)	Tax revenue from FIEs	Increase (%)	The proportion in the national total (%)
2013	107,900.09	10.29	22,574.93	3.7	20.92
2014	116,331.9	7.81	24,920.6	10.39	21.42
2015	124,892	4.8	24,817.2	–0.4	19.87
2016	140,504	3.3	25,659.2	3.39	18.26
2017	155,739.3	10.8	29,185.1	13.7	18.7

Data source: *Statistical Bulletin of FDI in China (2018)*

3.7.2 Corporate income tax of FIEs takes up a large share in the national total

In China, the corporate income tax of FIEs has witnessed a steady increase, with a continuously expanding scale. In 1985, such a type of corporate income tax was only RMB yuan 147 million, and it increased to RMB yuan 883 million in 1991[①]. After 1991, the income tax of FIEs entered a period of rapid growth, reaching as high as RMB yuan 812.8 billion in 2017, an increase of more than 900 times in 27 years. In the 17 years between 2001 and 2017, the proportion of income tax generated by FIEs in China's total corporate income tax maintained between 1/4 and 1/3. Its proportion in China's overall tax revenue has been experiencing a long-term increase and has maintained at above 5% since 2008.

Table 35 Ratio of income tax of FIEs to that of Chinese enterprises/national tax revenue (1994–2017)

Year	Income tax of FIEs (Unit value: RMB yuan 100 million)	Total national tax revenue	Income tax of FIEs/ total national tax revenue	Income tax of FIEs/ total corporate income tax
1994	48.1	4,854.2	0.95%	7.52%
1995	74.2	5,746.21	1.24%	9.85%
1996	104.4	6,607.98	1.48%	12.87%
1997	143.1	7,914.55	1.74%	15.36%
1998	182.5	8,949.76	2.01%	21.31%
1999	217.8	10,120.35	2.11%	21.58%
2000	326.1	11,831.03	2.57%	22.57%

① Zhao Jinping. *Foreign Capital and Chinese Economic Growth. Beijing*: People's Publishing House, (2011): 94.

continued table

Year	Income tax of FIEs (Unit value: RMB yuan 100 million)	Total national tax revenue	Income tax of FIEs/ total national tax revenue	Income tax of FIEs/ total corporate income tax
2001	512.6	14,460.86	3.38%	24.16%
2002	616	16,932.18	3.62%	31.23%
2003	705.4	19,094.18	3.45%	30.12%
2004	932.5	23,121.91	3.63%	29.68%
2005	1,147.7	27,712.37	3.72%	26.30%
2006	1,534.8	33,662.57	4.08%	27.67%
2007	1,951.2	44,189.4	3.95%	25.26%
2008	2,736.2	52,453.84	5.22%	22.44%
2009	2,975.9	58,037.78	5.13%	24.48%
2010	4,089.2	71,182.96	5.74%	28.11%
2011	5,406.3	87,179.27	6.20%	27.58%
2012	5,390.6	97,830.35	5.51%	24.49%
2013	5,675.6	107,900.1	5.26%	23.77%
2014	6,426.9	116,331.9	5.53%	24.31%
2015	6,553.3	124,892	5.25%	23.65%
2016	7,098.0	140,504	5.05%	24.37%
2017	8,128.5	155,739.3	5.2%	25.1%

Source: Calculated according to *China Taxation Yearbook*

The above analysis reflects the direct contribution of FDI to Chinese taxation; however, it fails to consider the multiplier effect and industrial correlation effect brought about by FDI. If the overall impact of these effects is taken into account, the impact of FDI on China's tax revenue growth will be much greater.

3.8 FDI has greatly promoted the development of China's foreign trade

FIEs are among the main players of foreign trade in China. In the past 40 years of the reform and opening-up, half of the import and export volume has been generated by FIEs which contributed 43% in 2018.

Since 2009, China has been topping the world in terms of manufacturing and export volume. In 2013, it became the world's largest trader in goods. At present, the output of 220

categories of products ranks first in the world. The country exports its products to more than 230 countries and regions in the world, of which the manufactured goods take up over 90%. It is fair to conclude that FDI, as an essential force in foreign trade, has played a vital role in the development of foreign trade in China.

FDI drives foreign trade in the host country in two aspects. Firstly, it enables the host country to quickly integrate into the labor division system of the global value chain. FDI takes advantage of the country's comparative advantage to manufacture and export products, and thus gaining the foreign exchange necessary for the economic development of the country. Secondly, it upgrades the export structure of the host country, which is characterized by the transition from the export of primary products to manufactured goods. FDI also gradually increases the capital and technical content of the manufactured goods.[①]

3.8.1 FDI has expanded the scale of China's foreign trade

The rapid import and export trade growth of FIEs helps to expand the share of China in the world trade system. In the early days of the reform and opening-up, China attached overwhelming importance to foreign trade, whose system reform and FDI drove the rapid development of foreign trade. From 1978 to 1991, the total import and export volume of the country increased from US$ 20.64 billion to US$ 135.63 billion. Specifically, the export increased from US$ 9.75 billion to US$ 71.84 billion, and the import from US$ 10.89 billion to US$ 63.79 billion, indicating an average annual growth rate of 16.6% and 14.6%, respectively. FIEs were granted the license to engage in import and export trade. From 1978 to 1991, China's actual use of FDI was US$ 25 billion in cumulative terms. In addition, the proportion of import and export trade volume generated by FIEs in the national total increased from 0.1% to 21.3%. The role of FIEs has taken on greater importance in China's foreign trade for their expanding business in foreign trade.

After Deng Xiaoping's speech in Southern China in 1992, the reform and opening-up set off a new wave of development. FDI achieved 150% growth for two consecutive years, and foreign trade entered a stage of rapid development with an expanding scale. By 2000, the total foreign trade in China reached US$ 474.297 billion, an increase of nearly 22 times compared with that in 1978, which was more than double than that in 1991. The proportion of FIEs' import and export trade in the national total also rose to 49.91%, which laid a solid foundation for the dominant position of FDI in China's foreign trade development.

After the accession to the WTO in 2001, China has reached a new level of foreign trade. In 2004, the import and export trade volume exceeded US$ 1 trillion. Further,

① Cui Xuechen. *The Trade Effect of Foreign Direct Investment in China, Academic Exchanges,* (8) (2003).

the proportion of FIEs' total foreign trade volume jumped to more than 50%. In 2007, it rocketed to its peak at 57.76%.

After the 2008 financial crisis, due to the deterioration of the international trade environment and the rising cost of domestic production factors, the actual FDI absorbed by China has declined. In addition, the proportion of FIEs' import and export trade has also declined at a slow pace, whereas it maintains at around 45% in overall terms. It is fair to conclude that the expansion of foreign trade in China over the years is largely attributed to FIEs.[①]

Table 36 Import and export volume of FIEs and the proportion (1987–2018)

Unit value: US$ 100 million

Year	Total import and export volume in China		Import and export volume of FIEs		The proportion of FIEs (%)
	Amount	Growth rate(%)	Amount	Growth rate(%)	
1987	826.53	11.93	45.84	53.57	5.55
1988	1,027.84	24.36	83.43	82.00	8.12
1989	1,116.78	8.65	137.10	64.33	12.28
1990	1,154.36	3.37	201.15	46.72	17.43
1991	1,357.01	17.56	289.55	43.95	21.34
1992	1,655.25	21.98	437.47	51.09	26.43
1993	1,957.03	18.23	670.70	53.31	34.27
1994	2,366.21	20.91	876.47	30.68	37.04
1995	2,808.64	18.70	1,098.19	25.30	39.10
1996	2,898.81	3.21	1,371.10	24.85	47.30
1997	3,251.62	12.17	1,526.20	11.31	46.94
1998	3,239.49	–0.37	1,576.79	3.31	48.67
1999	3,606.30	11.32	1,745.11	10.67	48.39
2000	4,742.97	31.52	2,367.14	35.64	49.91
2001	5,096.51	7.45	2,590.98	9.46	50.84

① Zhuang Rui. *The Impact of Changes in Foreign Direct Investment Layout on China's Endeavor to Transform and Upgrade Foreign Trade, International Trade,* (1) (2013).

continued table

Year	Total import and export volume in China		Import and export volume of FIEs		The proportion of FIEs (%)
	Amount	Growth rate(%)	Amount	Growth rate(%)	
2002	6,207.66	21.80	3,302.23	27.45	53.20
2003	8,509.88	37.09	4,722.55	43.01	55.49
2004	11,545.54	35.67	6,631.63	40.42	57.44
2005	14,219.06	23.16	8,317.22	25.42	58.49
2006	17,604.38	23.81	10,364.44	24.61	58.87
2007	21,761.75	23.62	12,568.52	21.27	57.76
2008	25,632.55	17.79	14,105.76	12.23	55.03
2009	22,075.35	–13.88	12,174.37	–13.69	55.15
2010	29,740.01	34.72	16,003.07	31.45	53.81
2011	36,418.64	22.46	18,601.56	16.24	51.08
2012	38,671.19	6.19	18,939.97	1.82	48.98
2013	41,589.93	7.55	19,190.93	1.33	46.14
2014	43,015.27	3.43	19,840.46	3.38	46.12
2015	39,530.33	–8.10	18,346.15	–7.53	46.41
2016	36,855.57	–6.77	16,874.13	–8.02	45.78
2017	41,045.04	11.37	18,391.36	8.99	44.81
2018	46,230.38	12.60	19,680.69	7.01	42.57

Source: General Administration of Customs, China; some are calculated by the author.

FIEs have fueled the expansion of import trade

In the early days of the reform and opening–up, China's FDI was dominated by processing trade. FIEs took advantage of China's cheap labor and preferential investment policies to invest in the country. They imported raw materials, intermediate products, production equipment and key components from their home countries or the original source area. After processing or assembling, the finished products are exported to other countries and regions.[①] Some FIEs

① Sang Baichuan & Li Yumei. *Foreign Direct Investment and Foreign Trade Imbalance in China, Journal of International Trade,* (6) (2008).

believed in the potential of the Chinese market, and imported raw materials or semi-finished products from abroad. Further, they directly manufactured and sold products designed for the Chinese market. The presence of FIEs has intensified the competition in the domestic market, prompting domestic-invested enterprises to expand imports of equipment and raw materials. This dynamic has fueled the rapid expansion of the import trade in China.

According to the research data, after 1987, the import volume of FIEs experienced a rapid increase. As of the first financial crisis in 1998, the average annual growth rate maintained at above 40.17%, far higher than the national level of 12.17%. In particular, the growth rate reached as high as 74.33% in 1988. The contribution① of FIEs to China's import volume peaked in 1987 at 303.44% and rocketed as high as 187.57% in 1996. Although negative increase was witnessed in some separate years, it remained above 50% in most of the time, indicating that FDI has become the main force for import growth in China.

After the fall during the 1998 financial crisis, the import volume of FIEs entered a period of steady growth which, averaging at 21.55% with a contribution of 60%, maintained a high consistency with that of the national import volume. The proportion of import volume contributed by FDI in the national total entered a new period of increase, averaging at 55.5% annually. The role of FDI in foreign trade was further consolidated. Since 2008, although the proportion of import volume contributed by FDI has declined to some degree, and their contribution to the country's total import volume has also dropped, the numbers are still much higher than those of other types of enterprises.

Table37 Import volume/growth rate of FIEs (1986-2018)

Unit value: US$ 100 million

Year	National imports		Imports by FIEs		The proportion of FIEs	
	Amount	Growth rate	Amount	Growth rate	Proportion	Growth rate
1987	432.16	0.73	33.74	40.41	7.81	39.46
1988	552.68	27.89	58.82	74.33	10.64	36.24
1989	591.40	7.01	87.96	49.54	14.87	39.76
1990	533.45	-9.80	123.02	39.86	23.06	55.08
1991	637.91	19.58	169.08	37.44	26.51	14.96
1992	805.85	26.33	263.87	56.06	32.74	23.50
1993	1,039.59	29.01	418.33	58.54	40.24	22.91
1994	1,156.15	11.21	529.34	26.54	45.78	13.77
1995	1,320.84	14.24	629.43	18.91	47.65	4.08
1996	1,388.33	5.11	756.04	20.12	54.46	14.29

① Note: Import contribution of FIEs = increase in imports of FIEs / increase in the national total

continued table

Year	National imports		Imports by FIEs		The proportion of FIEs	
	Amount	Growth rate	Amount	Growth rate	Proportion	Growth rate
1997	1,423.7	2.55	777.2	2.80	54.59	0.24
1998	1,402.37	–1.50	767.17	–1.29	54.71	0.22
1999	1,656.99	18.16	858.84	11.95	51.83	–5.26
2000	2,250.94	35.85	1,172.73	36.55	52.1	0.52
2001	2,435.53	8.20	1,258.63	7.32	51.68	–0.81
2002	2,951.7	21.19	1,602.86	27.35	54.3	5.07%
2003	4,126.6	39.80	2,319.14	44.69	56.2	3.50
2004	5,612.29	36.00	3,245.57	39.95	57.83	2.90
2005	6,599.53	17.59	3,875.13	19.40	58.72	1.54
2006	7,914.61	19.93	4,726.16	21.96	59.71	1.69
2007	9,561.15	20.80	5,609.54	18.69	58.67	–1.74
2008	11,325.62	18.45	6,199.56	10.52	54.74	–6.70
2009	10,059.23	–11.18	5,452.07	–12.06	54.2	–0.99
2010	13,962.47	38.80	7,380.01	35.36	52.86	–2.47
2011	17,434.84	24.87	8,648.26	17.18	49.6	–6.17
2012	18,184.05	4.30	8,712.49	0.74	47.91	–3.41
2013	19,499.89	7.24	8,748.2	0.41	44.86	–6.37
2014	19,592.35	0.47	9,093.11	3.94	46.41	3.46
2015	16,795.64	–14.27	8,298.87	–8.73	49.41	6.46
2016	15,879.26	–5.46	7,704.65	–7.16	48.52	–1.80
2017	18,409.82	15.94	8,615.76	11.83	46.80	–3.54
2018	21,356.37	15.80	9,320.54	8.10	43.74	–6.54

Source: General Administration of Customs, China; some are calculated by the author.

FIEs have promoted the rapid expansion of export trade

Since the reform and opening–up, the export trade has maintained a relatively high growth rate in China, as evidenced by an approximately 254–fold increase of export volume from US$ 9.75 billion in 1978 to US$ 2,487.40 billion in 2018. As early as in 2009, China led the world in exports to become the world's largest exporter. The substantial increase in China's exports largely benefited from the rapidly growing exports of FIEs. According to the statistics, by 2018, the export volume of FIEs had increased from US$ 1.21 billion in 1987 to US$ 1,036.015 billion, which is a nearly 855–fold increase with an average annual growth rate of 30.19%. Its proportion in the total national export volume increased from 3.07% to

46.15%, a 14–fold increase. In particular, such a proportion reached as high as about 58% between 2004 and 2007. There have been obvious fluctuations in the past 40 years in terms of the increase in exports. For example, the increase in export volume of FIEs accounted for only 32.38% of the total national increase in 1994, while accounting for an astonishing 637.20% in 1996. Although with these fluctuations, in general, the increase in export volume of FDI took up the major share of the total national increase. Especially during the 1998 Asian financial crisis, the total export volume of China increased by only 0.5%; however, that figure was 8.09% for FIEs, indicating a contribution of 658.91% from FIEs to the increase in exports. It can be concluded that the export of FIEs, as an essential force driving the export trade, has contributed tremendously to the performance of China's trade exports.

Table 38 Export volume, growth rate and contribution of FIEs (1989–2018)

Unit value: US$ 100 million

Year	National exports		Exports by FIEs		The proportion of FIEs	
	Amount	Growth rate	Amount	Growth rate	Proportion(%)	Growth rate
1987	394.37	27.45	12.1	107.90	3.07	63.30
1988	475.16	20.49	24.61	103.39	5.18	68.73
1989	525.38	10.57	49.14	99.67	9.35	80.50
1990	620.91	18.18	78.13	58.99	12.58	34.55
1991	718.43	15.71	120.47	54.19	16.77	33.31
1992	849.4	18.23	173.6	44.10	20.44	21.88
1993	917.44	8.01	252.37	45.37	27.51	34.59
1994	1,210.06	31.90	347.13	37.55	28.69	4.29
1995	1,487.8	22.95	468.76	35.04	31.51	9.83
1996	1,510.48	1.52	615.06	31.21	40.72	29.23
1997	1,827.92	21.02	749	21.78	40.98	0.64
1998	1,837.12	0.50	809.62	8.09	44.07	7.54
1999	1,949.31	6.11	886.28	9.47	45.47	3.18
2000	2,492.03	27.84	1,194.41	34.77	47.93	5.41
2001	2,660.98	6.78	1,332.35	11.55	50.07	4.46
2002	3,255.96	22.36	1,699.37	27.55	52.19	4.23
2003	4,382.28	34.59	2,403.41	41.43	54.84	5.08
2004	5,933.26	35.39	3,386.06	40.89	57.07	4.07

continued table

Year	National exports		Exports by FIEs		The proportion of FIEs	
	Amount	Growth rate	Amount	Growth rate	Proportion(%)	Growth rate
2005	7,619.53	28.42	4,442.09	31.19	58.30	2.16
2006	9,689.78	27.17	5,638.28	26.93	58.19	–0.19
2007	12,200.6	25.91	6,958.98	23.42	57.04	–1.98
2008	14,306.93	17.26	7,906.20	13.61	55.26	–3.12
2009	12,016.12	–16.01	6,722.30	–14.97	55.94	1.23
2010	15,777.54	31.30	8,623.10	28.28	54.65	–2.31
2011	18,983.81	20.32	9,953.30	15.43	52.43	–4.06
2012	20,487.14	7.92	10,226.20	2.74	49.92	–4.79
2013	22,090.04	7.82	10,442.73	2.12	47.27	–5.31
2014	23,422.93	6.03	10,747.35	2.92	45.88	–2.94
2015	22,734.68	–2.94	10,047.28	–6.51	44.19	–3.68
2016	20,976.31	–7.73	9,169.48	–8.74	43.71	–1.09
2017	22,635.22	7.91	9,775.60	6.61	43.19	–1.19
2018	24,874.00	9.90	10,360.15	6.02	41.65	–3.56

3.8.2 FDI has contributed most of China's trade surplus

FDI is the major contributor to trade surplus in China. On the one hand, taking China as a processing trade base, FDI has brought about a large trade surplus to China. They export great quantities of labor–intensive products and low–end high–tech products with comparative advantages, driving the continuous expansion of China's export. According to customs statistics, between 2001 and 2006, China's processing trade surplus grew at an average annual rate of 28%, contributing 207% to the trade surplus in the same period. About 80% of processing trade exports came from FIEs.[①] On the other hand, as the export goes in large quantities, the products manufactured by FIEs in China directly enter the Chinese market, which helps to reduce China's imports and thus form import substitution.

In the early days of the reform and opening–up, China was short of foreign exchange reserves. The exporting products were mainly primary products, and the country largely

① Sang Baichuan & Li Linyuan. Foreign Direct Investment and Foreign Trade Imbalance in China, *Practice in Foreign Economic Relations and Trade.*

imported foreign technology and equipment. Except for the trade surplus of US$ 3.03 billion and US$ 840 million in 1982 and 1983 respectively, all the other years saw trade deficits.

Entering into the 1990s, due to the large inflow of FDI, the pattern of import and export players, as well as the mode of trade, had undergone fundamental changes. Except for the deficit of US$ 12.22 billion in 1993, the rest of the years witnessed a trade surplus.[①] After 1998, the trade surplus expanded year by year, and the proportion of trade surplus generated by FIEs in the national total also increased as the years went.

Entering into the 21st century, with China's accession to the WTO, the foreign trade environment is further optimized, and the status of China as a world factory is further consolidated. Foreign trade continues to maintain rapid growth, thus an expanding trade surplus which reached a staged peak in 2008. FIEs have created a trade surplus of US$ 170.664 billion, accounting for 57.2% of China's trade surplus.

After the foreign trade contracting period during the 2008 global financial crisis, the trade surplus of FIEs rebounded ahead of the national trade surplus, with a rocketing share in the national total to reach 84.3% in 2011 since the reform and opening-up. However, the rate of increase after 2011 is obviously slower than the national level, and the proportion in the country's total trade surplus has been falling sharply since 2013. This indicates to some extent that processing trade-oriented FIEs are gradually withdrawing from China.

There are institutions having specifically categorized China's export into "foreign enterprises" and "domestic enterprises" to study the contribution of FDI to the trade surplus. They found that since 2006 to date, the book surplus of China's trade has witnessed a gradual

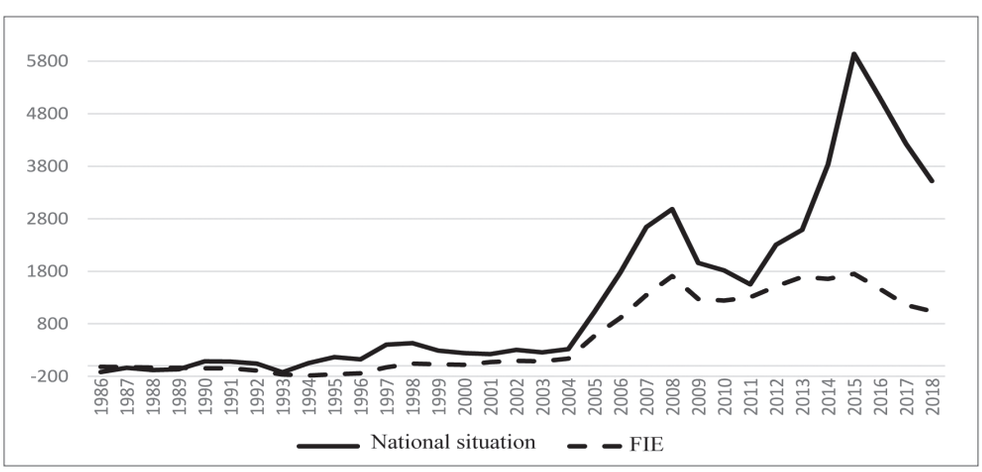


Figure 23 Trade surplus in China and of FIEs (1986–2018)

Source: General Administration of Customs, China; some are calculated by the author.

① Sheng Guangzu. *FDI is the Main Cause of Trade Surplus in China. Economic Information Daily.* April 21, 2010.

increase; however, when FIEs are excluded[①], the trade surplus generated by China's "domestic enterprises" is far smaller than the book value. In particular, for the four consecutive years between 2010 and 2013, the actual values were negative. This further proves that the trade surplus is mainly driven by FIEs.

Table 39 Trade surplus in China and of FIEs and its proportion (1986–2018)

Unit value: US$ 100 million

Year	National	FIEs	The proportion of surplus of FIEs
1986	–119.62	–18.21	–
1987	–37.79	–21.64	–
1988	–77.52	–34.21	–
1989	–66.02	–38.82	–
1990	87.46	–44.89	–
1991	80.52	–48.61	–
1992	43.55	–90.27	–
1993	–122.15	–165.96	–
1994	53.91	–182.21	–
1995	166.96	–160.67	–
1996	122.15	–140.98	–
1997	404.22	–28.2	–
1998	434.75	42.45	9.8
1999	292.32	27.44	9.4
2000	241.09	21.68	9.0
2001	225.45	73.72	32.7
2002	304.26	96.51	31.7
2003	255.68	84.27	33.0
2004	320.97	140.49	43.8
2005	1,020.00	566.96	55.6
2006	1,775.17	912.12	51.4
2007	2,639.45	1,349.44	51.1

① Note: Adjusted surplus = adjusted export - adjusted import; adjusted export = existing export - export volume of foreign invested enterprise + domestic purchasing amount of foreign invested enterprise; adjusted import = existing import volume - import volume of FIEs + domestic sales of FIEs.

continued table

Year	National	FIEs	The proportion of surplus of FIEs
2008	2,981.31	1,706.64	57.2
2009	1,956.89	1,270.23	64.9
2010	1,815.07	1,243.09	68.5
2011	1,548.97	1,305.04	84.3
2012	2,303.09	1,513.71	65.7
2013	2,590.15	1,694.53	65.4
2014	3,830.58	1,654.24	43.2
2015	5,939.04	1,748.41	29.4
2016	5,097.05	1,464.83	28.7
2017	4,225.40	1,159.84	27.4
2018	3,517.63	1,039.61	29.6

Source: General Administration of Customs, China; some are calculated by the author.

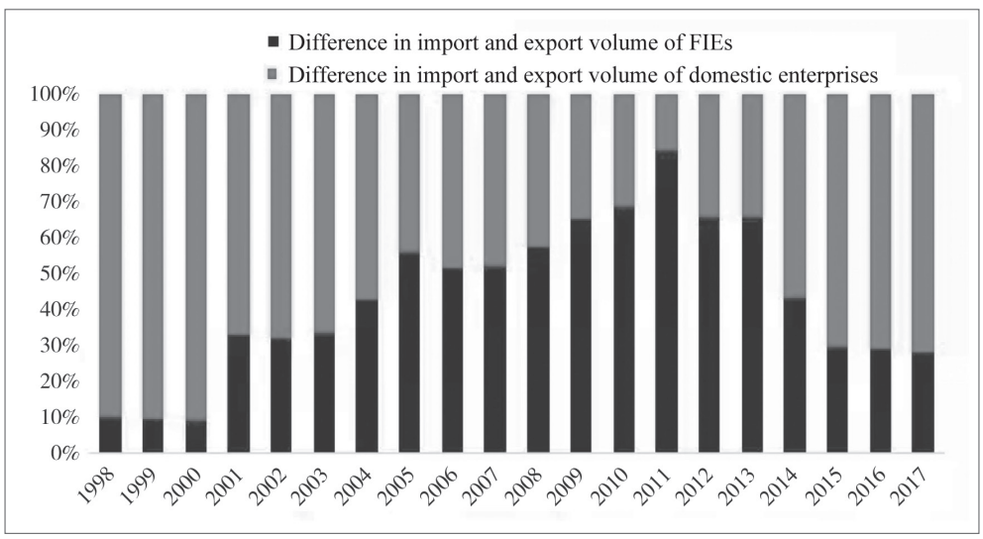


Figure 24 Difference in import and export volumes between foreign and domestic enterprises

Source: WIND, Zhongtai Securities Research Institute.

3.8.3 Foreign trade structure

The impact of FDI on China's trade pattern

Since the reform and opening-up, as the international division of labor develops and China's opening-up goes deeper, processing trade has experienced rapid development, becoming an important part of the foreign trade and open economy in China. It has brought about positive effects pushing the economy from weak to strong, technology from scratch to

flourishing, and international competitiveness from small to far-reaching.[①] Especially in the 1990s, processing trade took the dominant position in China's foreign trade. In 1991, the import and export volume of processing trade accounted for 42.4% of the national total. Its share exceeded 50% for the first time after 1996 and peaked in 1998 at 53.4%. However, after the policy was tightened in 2007, the proportion of processing trade began to decline, gradually falling from 47% in 2006 to 27.41% in 2018, with an average annual decline of nearly 1 percentage point. In contrast, the share of general trade rose in fluctuations, surpassing processing trade for the first time in 2014 at 51.39%, and reached 67.86% in 2018.

In the 40 years' development of the processing trade in China, a highlight is that FIEs are the absolute main force. Taking 2000 as an example, the import and export volume of processing trade generated by FIEs was US$ 165.77 billion, taking up 72% of the national total. The export volume of processing trade generated by FIEs was US$ 97.227 billion, taking up as high as 70.6% of the national total, and accounting for 37.21% of China's total foreign trade exports.[②] Since 2006, the share of FIEs in processing trade has remained above 80%. On the other hand, as the main force of processing trade, the proportion of processing trade in the import and export of FIEs has also been high (see Figure 9-2). In recent years, with the gradual weakening of the traditional advantages of China's processing trade, such a proportion has also seen a slow decline, while in overall terms, it has remained above 50%.

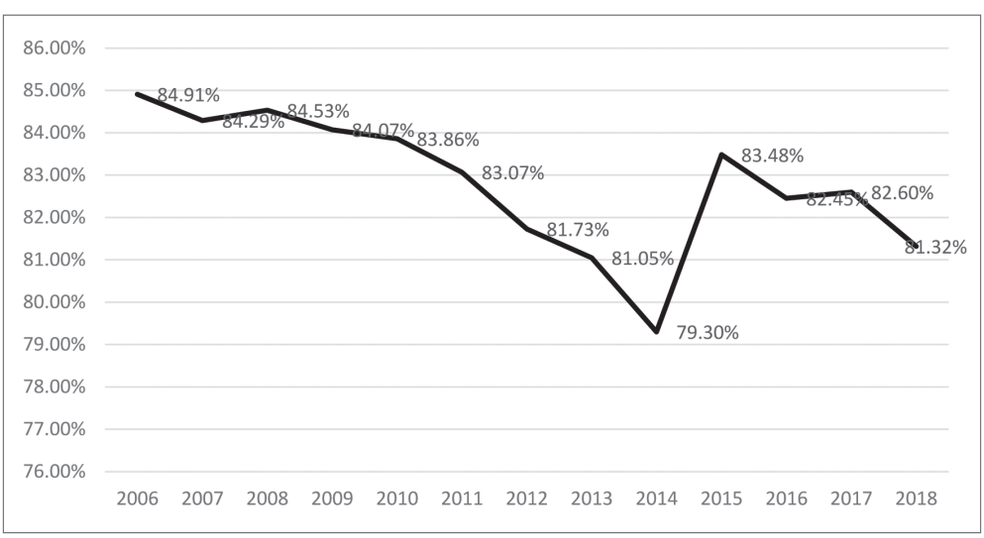


Figure 25 The proportion of the import and export volume of processing trade generated by FIEs in the national total

Source: General Administration of Customs, P.R. China.

① Long Guoqiang. *Orientation and Policy for Driving the Transformation and Upgrading of Processing Trade. China Opening Journal,* (6) (2012).

② Cui Dahu. *Foreign Direct Investment and Processing Trade in China. Word Economy Studies*, (6), (2002).

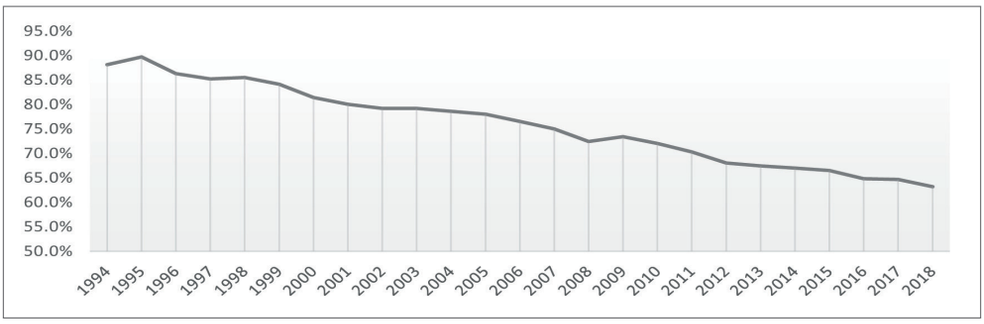


Figure 26 The proportion of processing trade in the import and export of FIEs

Source: General Administration of Customs, P.R. China.

As the driving force of processing trade in China, FDI has played a positive role in promoting a balanced development of foreign trade, while taking up most of the processing trade in the country. On the one hand, FIEs have promoted the overall upgrading of the industrial chain in processing trade through their own transformation and upgrading. Investigations have found that since the 2008 financial crisis, quantities of FIEs in China have changed their past business model of pure processing and manufacturing, and have embarked on a new road of transformation and upgrading through creating their own brands and establishing marketing channels. Considering the special position of FIEs in the development of processing trade in China, the transformation and upgrading of these enterprises have also driven large quantities of Chinese local processing trade enterprises to seek paths of sustainable development. On the other hand, such enterprises have also promoted the growth of China's general trade in either a direct or indirect way. In 1994, the share of FIEs in general trade exports was only 6.7%, which rose to 25.9% in 2004. Since 2008, general trade has experienced relatively rapid development in China, the proportion of which by 2017, reached 56.4%. The share of FIEs in general trade has remained at around 25%, reflecting a trend of growth with general trade. After the 2008 financial crisis, rising labor costs and exchange rates have made foreign-invested companies actively adjust their strategies in China. More and more FDI flows to high-tech and high value-added industries. FIEs in China are gradually increasing their R&D input. Although processing trade continues to shrink, the share of FDI in general trade maintains at a relatively stable level. At the same time, the spillover effect of FDI, while driving the export upgrading of domestic enterprises, has also propelled the rapid development of the general trade of such enterprises. In particular, the growth of general trade in technology-intensive products is faster.

The impact of FDI on China's trade structure

FDI exerts a positive impact on the optimization and adjustment of China's trade structure. Since the reform and opening-up, China's export structure changed as FIEs developed. While FIEs achieved rocket growth, their export structure was further

optimized, and manufactured goods gradually replaced primary products as the dominate commodities in China's exports.①

In the early days of the reform and opening-up, China began to use FDI from scratch, driving rapid development in processing trade, and a substantial increase in imports and exports of goods. Regarding the structure of export commodities in China, primary and resource-based products still accounted for a large proportion. In order to earn foreign exchange through exports, China had clarified to implement the export policy giving the priority to manufactured goods. Therefore, in 1978, the exports of primary products and manufactured goods took up 53.2% and 46.5%, respectively, whereas the proportion of manufactured goods in the total volume of export commodities had been close to that of primary products by 1983. From 1984 to 1991, as realized foreign investment expanded rapidly, manufactured goods replaced primary products as the dominate commodities in China's exports. By 1990, the proportion of primary product exports fell to 25.6%, while that of manufactured goods rose to 74.4%.

The longer-term and farther-reaching contribution of FIEs to China's exports is to increase the proportion of high value-added and high-tech goods. From 1992 to 2001, the full opening-up prospered foreign trade and economic cooperation in China. The absorption of FDI increased rapidly, while mechanical and electrical products gradually replaced light and textile products as the dominate commodities in China's exports. At this stage, the proportion of manufactured goods in total exports rose to 89.8% in 2000, and that of mechanical and electrical products to 42.3%. Specifically, in terms of the export of mechanical and electrical products, the proportion of those by FIEs in the national total increased from 31.2% in 1992 to 63.4% in 2000. Regarding the total export volume of FIEs, the share of mechanical and electrical products had been close to 56%. From 1996 to 2001, the exports of high-tech products grew as rapid as 38.6%, which was nearly 26 percentage points higher than the growth rate of all commodity exports in the same period. FIEs were the main force in the export of high-tech products, as evidenced by the fact that their export volume had already accounted for 81% in the total export of high-tech products in 2000.②

As China jointed the WTO in 2001, and further opened up its economy, an increasing number of multinationals entered the Chinese market, which accelerated the transfer of some processing sectors in the mechanical and electrical and high-tech industries to China. The proportion of high-tech products represented by electronics and information technologies continued to expand. By 2011, 94.7% of China's exports were manufactured good, 57.2%

① Foreign Investment Promotion Division. *Analysis on the Impact of Foreign Direct Investment on Foreign Trade Revenue in China, Commercial Times*, (24) (2009).

② Jiang Xiaojuan. *Export Growth and Change in Structure in China: Contribution of FIEs, Nankai Economic Studies,* (2) (2002).

mechanical and electrical products, and 28.9% high-tech products.[①] FIEs' share of China's mechanical and electrical exports increased from over 65% in 2001 to 73.4% in 2004, and mechanical and electrical products represented 70.1% of FIEs' total exports. The main position of FIEs as the main force of mechanical and electrical and high-tech product exports was further consolidated in China.

Since 2011, although foreign trade growth has slowed down in China due to the influence of domestic and foreign economic situation, the quality has been improving. At this stage, mechanical and electrical exports growth slowed down in the country. The proportion of mechanical and electrical exports (US$ 1.21 trillion in 2016) in China's total exports was 57.6% in 2016 before rebounding to 58.4% in 2017. In general, although the scale of mechanical and electrical exports declined, the structure was further optimized, and the products were gradually becoming high-end and intelligent. Statistics show that in 2016, the top four categories of mechanical and electrical exports were communication equipment and parts, automatic data processing equipment and its parts, electronic components, and daily-use machinery, all with an export volume exceeding US$ 100 billion, which accounted for 52% if combined.[②] In 2017, FIEs exported US$ 747.67 billion of mechanical and electrical products which took up 56.6%.[③] Although the proportion declined, it remained to be the main force. In the same period, China's exports of high-tech products achieved steady growth, which achieved an export volume of US$ 660.51 billion in 2014. The export products mainly fell in the category of computer and communication technology, and the high-tech service industry also made a figure. In terms of the types of export enterprises, FIEs as well as Hong Kong, Macao and Taiwan-invested enterprises still had the absolute advantages. Among the top 100 high-tech export enterprises in the year, 77 such enterprises were short-listed, accounting for 81.56% of the top 100.[④]

① Ministry of Commerce. *The 11th Summary on the Commerce Achievements since the 16th CPC National Congress: The Accelerated Transformation of Foreign Trade Development Mode,* November 7, 2012.

② Lian Juan. *Research on Competitiveness Improvement and Development Measures of Mechanical and Electrical Product Export in China, China Circulation Economy,* (2) (2018).

③ China Chamber of Commerce for Import and Export of Machinery and Electronic Products. *Analysis on Import and Export of Mechanical and Electrical Products in 2017,* (4) (2018).

④ Zhao Chunxia, Wang Fei & Lyu Chen. *Analysis and Optimization Measures of High-tech Enterprises' Export Trend in China——Based on the Data of Top 100 Chinese High-tech Enterprises in Export (2010-2014), Journal of Hebei Normal University of Science & Technology (Social Science Edition),* 16 (2) (2017).

Table 40 Proportion of mechanical and electrical exports in the national total (2010–2017) %

Year	Proportion %
2010	58.9
2011	57.4
2012	57.6
2013	57.0
2014	56.0
2015	57.7
2016	57.6
2017	58.4

Source: General Administration of China, P.R. China

Table 41 Export volume and quantity of Top 100 Chinese high-tech enterprises in exports by ownership (2010–2014)

Year	State-owned enterprises		FIEs		Hong Kong, Macao and Taiwan-invested enterprises		Private enterprises and others	
	Export volume	Quantity	Export volume	Quantity	Export volume	Quantity	Export volume	Quantity
2010	129.7	7	1,149.6	55	1,514.0	32	192.3	6
2011	181.1	7	1,140.1	55	1,487.1	32	362.9	5
2012	103.9	7	1,085.3	54	1,339.3	32	343.2	7
2013	146.8	4	1,087.6	46	1,545.7	32	401.4	18
2014	154.4	4	1,118.6	46	1,570.1	31	453.6	19

Source: Zhao Chunxia, Wang Fei & Lyu Chen. *Analysis and Optimization Measures of High-tech Enterprises' Export Trend in China——Based on the Data of Top 100 Chinese High-tech Enterprises in Export (2010–2014), Journal of Hebei Normal University of Science & Technology* (Social Science Edition), 16 (02) (2017).

3.8.4 Vital role

Since the reform and opening-up, China has achieved remarkable achievements in foreign trade. In 2018, the country topped the world in the volume of foreign trade, signifying that China is worthy of the name of a leading trading country, which, however, is not equal to trade power. In terms of its connotation, the core nature of trade power is represented by the technological progress of trading products and at the industrial level. In terms of path selection, a trade power is featured by a rise in the position in the current global value chain. FDI can play an important role in advancing the technological progress of China's foreign trade products, and in maintaining and

gradually improving China's position in the global value chain.

FDI is conducive to the stable development of foreign trade

On July 31, 2018, the meeting of the Political Bureau of the CPC Central Committee proposed six-point stable measures in employment, financial sector, foreign trade, foreign investment, domestic investment and expectations. In the first half of 2018, China achieved rapid growth in foreign trade, and the high scale of import and export has reached new heights, laying a solid foundation for the high-quality development of foreign trade. However, after analyzing the growth trend of foreign trade and the international trade environment, it can be concluded that there are still great challenges in the smooth operation of foreign trade.

On the one hand, the overall increase in foreign trade has slowed down in China. According to the analysis of import and export structures, imports contributed to the larger half of the overall stable increase of foreign trade in the past two years. Most of the time, the growth rate of exports is only about half that of imports. Therefore, the endeavor to stabilize export growth will face a severe test to prevent further decline in foreign trade exports.[①] On the other hand, China's traditional processing trade is feeling the pains of low prices in Southeast Asia and Africa. Further, its high-tech industry is facing the blockade of developed countries such as the United States. In the face of the "dual attacks", China has yet to form its new edges in foreign trade. There is not a mature foreign trade model in place to support, which greatly increases the challenge of foreign trade in China.

In summary, under the current situation, the key to maintaining the stable development of foreign trade lies in stabilizing the export. This requires, on the one hand, to cultivate new edges of foreign trade, to vigorously develop strategies of scientific and technological innovation, and to promote the transformation of exporting advantages from the traditional production costs to the new ones with technology, brand, quality and service at the core. On the other hand, it is necessary to prevent decoupling in the process of transforming the old to the new drivers of foreign trade. Thus, it is still important to maintain the advantages of traditional foreign trade. For FDI, firstly, as the main force of processing trade, it still claims more than 80% in processing trade, and more than 40% in China's export trade. It thus still plays an indispensable role in stabilizing the advantages in traditional foreign trade, as well as export trade. Secondly, the introduction of high-tech and high value-added FDI supports industrial transformation and upgrading in the country, thus driving the further optimization of the foreign trade structure. Thirdly, the new era requires to promote the stable development of the economy and trade, and recognize the importance of building a modern market economy system. Building such a system is necessary to maintain a trilateral competition between state-

① Liu Yingkui. In Stabilizing Foreign Trade and Foreign Capital, How to Realize the "Small Goal" in the Second Half of the Year?. Baijiahao, August 7, 2018, https://baijiahao.baidu.com/s?id=1608108565875977156&wfr=spider&for=pc

owned, private and FIEs.

The spillover effect of foreign-invested technologies is conducive to elevating the overall technical level of foreign trade in China

FDI has been questioned due to embedded processing, low added value and limited economic contribution. However, the fundamental significance of introducing FDI is far from the above aspects. More importantly, FDI generates spillover effects in production organization, improvement in management capabilities, technological progress and personnel training. Therefore, it is not reasonable to deny the technological advancement effect of FDI on China's foreign trade due to "low-end locking".

The spillover effect of FDI has promoted technological progress in domestic industries. FIEs will not easily transfer core technologies after entering the host country market, and may even mobilize all their resources to control the spread of technologies. However, as long as proper measures are taken, FDI can work as a huge driving force for innovation. A large number of foreign studies have proved that FDI exerts a spreading effect of technologies. Specifically, the demonstration and imitation effects enhance the technical level and innovation ability of local enterprises.[①] The learning effect improves labor productivity in the host country. The competition effect reduces the risk for local enterprises to suffer from innovation sluggishness due to their market position or excessive protection.

While low-end locking is relative, technological spillover is absolute. Along with the substantial increase in capital, technology and labor productivity, Chinese local enterprises are greater in quantity and quality, and more diversified in their distribution in the industrial chain. Further, a considerable number of enterprises have achieved substantial cross-border investments. The practice has proved that the low-end locking of FDI has been weakening continuously. This fact does not mean that we no longer need the spillover effect of FDI. It is important to fully realize that while we are breaking ground, multinationals are seeking greater progress. In the meanwhile, while we are seeking to reach higher levels of the value chain, the value chain itself is also upgrading. Therefore, under the global production of multinationals, technological spillovers are inevitable and developmental.

In the new era, the technological spillover effect of FDI will drive China's foreign trade transformation and upgrading. As the competition becomes more intense, multinationals have sped up their pace of global production and R&D. They are creating strategic opportunities to achieve leap-forward development in high-tech industry and to enhance their independent innovation capabilities. In the meanwhile, they will continue to take advantage of the spillover effect of FDI on management, technology, innovation, and talents among other aspects. FIEs will further improve the overall manufacturing quality and level in China, accelerate the

① Wang Xiaohong. Thoughts on Using Foreign Capital to Promote Industrial Transformation and Upgrading under the New Situation. Economic View, September 30, 2017, http://www.chinanews.com/cj/2017/09-30/8344940.shtml

technological upgrading and transformation of Chinese enterprises, and promote the supply-side structural reforms, so as to support the high-quality development of the Chinese economy.

FDI drives China's foreign trade to reach a higher status in the global value chain

In the early days of the reform and opening-up, multinationals brought China into the global value chain through global production layout. China formally entered the low value-added sector of the global value chain by taking advantage of its land and labor, accumulated traditional production factors, and closed the gaps in savings and foreign currency. It also introduced and cultivated high-end technical and management talents, and nurtured a great number of skilled and efficient industrial workers. These achievements laid the foundation for China to fully integrate into and improve its position in the global value chain. As production globalizes today, it is not only time and energy-consuming to rely on individual strength to develop local industries within a country's borders, but also difficult to reach international standards. It is important to recognize that in the process of seeking high-quality development and value chain upgrading, China still has shortcomings in such areas as innovation capability, core technology and high-end equipment. It is therefore necessary to stimulate healthy competition among domestic enterprises while introducing FDI to make up for short-term competition. This approach drives local enterprises to learn advanced experience and technologies from foreign countries, and propels the transformation and upgrading of the overall industrial layout in China. Continuous efforts should be made to acquire a complete package of new expertise and technologies through purchasing technologies and licenses. These new content should be digested and applied for domestic production, which drives the optimization and improvement of products, techniques and processes. Frankly, in the process of attracting FDI, it is necessary to combine the introduction of FDI with key technologies, modern management methods, overseas high-end talents as well as new industries, business models and modes. Actions should be taken to promote the transformation from focusing on the scale of FDI to introducing high-end factors and incorporate domestic production and export into an advanced manufacturing system.

3.9 Legal system regulating China's market

3.9.1 Introduction of the basic concepts of the market economy

Investment from multinationals has played an important role in establishing and improving the market economy system in China. In addition to bringing large quantities of capital to China, FDI has also brought advanced technologies and management models. Through the spreading and demonstration effects, FDI has driven the improvement of domestic production technology and management level, and effectively promoted the economic system restructuring and marketization process in China. More importantly, the basic concepts of the

market economy such as open development, fair competition, and clear property rights, are also widely accepted by the market and the people of the country, with the continuous development of FDI.

FDI has promoted the development of open economy

The market economy is an open economy. FIEs, as an important force in China's economic development, have fueled the country to enjoy open economic development. The world economy is a globally integrated economy and an open economy in which countries are open and interdependent with each other. On the basis of the international division of labor, the world economy features internationalization of commodity capital based on a commodity exchange, internationalization of money capital based on capital flows, and internationalization of production capital based on cross-border production. These three types of internationalization are closely intertwined, and drive the international flow of economic resources and production factors, which has helped to form an open, integrated and diversified development pattern of the world economy today.

FIEs are based on the concept of the market economy characterized by international and open development. On the one hand, these enterprises work as a bond connecting the Chinese economy with the global economic system, and promote the import and export trade as well as cooperation in overseas investment. On the other hand, FIEs are a bridge between Chinese and international companies for cooperation, which help Chinese enterprises to enter and explore the international market, and encourage them to make continuous improvement. This situation is particularly evident in the automotive industry. In addition, foreign automakers also encourage foreign parts suppliers to invest in China. These automakers bring international quality standards and rigorous testing and qualification processes to China. The Chinese suppliers are thus introduced to the global supply chain through cooperation, which helps Chinese suppliers strengthen their export capabilities.[①] For FIEs, they gain access to products with higher quality, lower cost and more accessibility. At the same time, the concepts of open development, cultivation and cooperation in the process of integrating into economic globalization are also accepted and recognized by more and more Chinese companies. They manufacture products that meet international cost and quality standards, and actively participate in and develop international markets.

FDI follows market competition mechanism

Competition is the essence of the market economy. FIEs bring the market competition mechanism to China by optimizing the distribution of global resources. The core of a market economy lies in fair competition, free choice, and survival of the fittest, which are integral to a mature market system.

① [US] Michael J. Enright. *Developing China: The Remarkable Impact of Foreign Direct Investment,* translated by Yan Xuelian & Zhang Zhaohui, Beijing: China Financial & Economic Publishing House, 2017.

Since the reform and opening-up, the Chinese market has seen an increasing number of individual, private, foreign-invested enterprises in addition to state-owned and collective enterprises. FIEs, especially large-scale multinationals, boast rich experience in market operation and management. On the one hand, they standardize and influence the business practices of domestic enterprises, and provide valuable demonstrations for cultivating domestic market players. On the other hand, FIEs also bring about great shock and pressure to Chinese enterprises. Thus, comprehensive and intense competition is inevitable between foreign-owned and local enterprises in the sectors of production, circulation, consumption and service, as well as in the fields of capital, information, technology and talents. On the whole, fair, full and reasonable competition not only promotes the development and maturity of advanced Chinese enterprises, but also phases out those backward enterprises that cannot adapt to market competition. Taking the retail industry as an example, FIEs have promoted the diversified development of the retail industry in China, and enriched the business models of the retail industry by introducing market competition mechanism, which has stimulated the potential of the retail market. The competitive pressure exerted by FIEs has prompted local enterprises to continuously improve their learning capability. Actions are thus taken to learn from their expertise, technology, and management philosophy, so as to enhance the market competitiveness of enterprises. Foreign-owned and Chinese enterprises cooperate while competing. They jointly advance the market reform of the retail industry, and expand the market to form a scale effect, which to a certain extent, has prospered the retail industry.

FDI has improved the modern property right system

A market economy is a trading economy. FDI takes part in the investment as well as mergers and acquisitions of Chinese enterprises in various forms, thus promoting the development and improvement of the modern property right system. The essence of market transactions lies in property rights. More explicit definition of property rights brings about clearer rights, responsibilities and obligations of the trading players. Such an approach also leads to less friction between the two trading entities in the transaction process, and makes market mechanisms function more effectively.

After years of development in the market economy, mature FIEs generally execute standardized corporate governance structures and rich experience in modern enterprise system operation. Therefore, FDI entering China often requires a clear property right system and standardized property rights transactions. On the one hand, when FDI buys shares from Chinese local enterprises, it will be inevitable to consider the re-division and distribution of corporate equity. In the meanwhile, the re-division of corporate equity will inevitably concern a reasonable definition of the original equity of the enterprise. Therefore, as the FDI pushes, the once unclear property rights of the enterprise will be clarified through various means. The emergence of large quantities of joint ventures, as well as cooperative and joint-stock enterprises between China and foreign countries

has effectively strengthened the efforts to clarify property rights. On the other hand, the entry of FDI has also facilitated property right transaction. The development of FIEs has broken the pattern of single investment entity and single ownership structure in the era of the planned economy. This trend has promoted the diversification of investment entities which has made property right transactions possible. China is witnessing a flourishing development of mergers and acquisitions and other types of property right transaction. The entry of FDI has also driven clarification of property rights, diversification of property right structure and transaction of property rights, thus advancing the establishment, reform and improvement of the modern property right system in China.

3.9.2 Development of a market-oriented legal system

Since the reform and opening-up 40 years ago, China has experienced initial experiments (1979-1991), exploration and transformation (1992-2000), as well as maturity and improvement (2001-present), a three-phase dynamic evaluation regarding legal policies and practices of introducing and utilizing FDI. This process from quantitative to qualitative change has promoted the overall construction of a market-oriented law and policy system in China.

The formulation of FDI laws and policies has introduced the concept of running the economy by law

The time between 1978 and 1991 was the initial experimental stage of developing FDI policies and laws in China, and also a burgeoning period of constructing a market-oriented legal policy system. Since China had successively implemented the system of planned economy and the market economy system under the guidance of the planning, China's FDI policies and laws promulgated during this period reflected the characteristics of the "planned economy" to a certain extent. This period features the nature of initial experiments, mainly characterized by the cautious and restrictive attitude towards FDI access and forms, as well as the "super national treatment" and "subnational treatment" for FDI and its enterprises. During this period, the basic framework of FDI policies and laws was able to be constructed, and thus the Chinese market-oriented legal policy system began to hit the road.

The Third Plenary Session of the Eleventh National Congress of the CPC initially developed the principle of opening-up mainly focusing on FDI utilization and the establishment of foreign-related enterprises. After such moves, in July 1979, the Second Plenary Session of the Fifth National People's Congress adopted and promulgated the *Law of the People's Republic of China on Sino-foreign Joint Ventures,* the very first law of the new China on absorbing FDI. It opened a new chapter in China's FDI legislation. This law was drafted by consulting relevant laws of more than 30 countries, and by learning the practices and experiences of other countries in attracting FDI. It not only provided a legal basis for Chinese enterprises and other economic organizations to develop joint ventures with foreign investors, but also drove related institutional reforms and policy adjustments, playing

an enlightening role in China's market-oriented reforms. The law was amended three times in April 1990, March 2001 and September 2016, respectively.

In April 1982, the Twenty-third Session of the Standing Committee of the Fifth National People's Congress adopted the resolution on the *Constitutional Amendment of the People's Republic of China,* which officially established the legal status of FIEs in China.

In May 1983, the State Council held the first meeting on FDI utilization in Beijing, emphasizing the need to raise common awareness, relax policies, strengthen leadership, and give play to Sino-foreign joint ventures. In September of the same year, the State Council issued the Instructions on Strengthening *FDI Utilization,* reaffirming the importance of using FDI and introducing advanced technologies to speed up the construction of the national economy. It pointed out the need to use FDI as a long-term policy for economic development, and actively absorb medium and long-term loans with medium and low interest rates from foreign governments and international financial organizations in developing key projects and infrastructure. Emphasis was also put forward to absorb FDI to accelerate the technological transformation of existing enterprises.

In April 1986, the Fourth Session of the Sixth National People's Congress adopted and promulgated the *Law of the People's Republic of China on Foreign-Capital Enterprises,* which was amended twice in October 2000 and September 2016, respectively.

In October 1986, the State Council issued the *Regulations on Encouraging Foreign Direct Investment,* which for the first time clarified key areas for attracting and utilizing FDI. The regulations also emphasized the importance of optimizing the investment environment, and proposed the transition from simply providing rent and tax reduction and exemption to comprehensively improving the investment environment through political, economic and social measures. It indicates the transition of China's FDI policy from FDI legislation to investment environment improvement and FDI orientation.

In April 1988, the First Session of the Seventh National People's Congress adopted and promulgated the *Law of the People's Republic of China on Sino-foreign* Cooperative Joint Ventures, which was amended four times in October 2000, September 2016, November 2016 and November 2017.

In May 1988, the General Office of the State Council forwarded the *Notice on Further Implementing the Opinions on the Independent Employment of Foreign-invested Enterprises.* In addition, relevant regulations and notices were also issued by the departments of foreign exchange management, commodity inspection, customs and land management. These laws and regulations deepened the transparency of policies, enhanced the confidence of FDI, and greatly improved the soft environment for FDI.

In April 1991, the Fourth Session of the Seventh National People's Congress adopted the Income *Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises.* The following June saw the issuance of the Rules for

Implementation of the Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises, which specified the tax and related preferential policies for FIEs.

As of 1991, the National People's Congress, the State Council, and local governments had issued more than 100 laws, regulations and policies on FDI. In the same period, China had also concluded a number of bilateral and multilateral international treaties. Local legislative work had been actively carried out by local legislation organs at different provinces, autonomous regions, municipalities directly under the Central Government, and special economic zones. A number of local administrative regulations were formulated, which became a part of China's legal construction on FDI. The following points can be concluded from the evolution of relevant laws and regulations on FDI utilization during this period. The process of formulating FDI laws, regulations and policies, which began to adapt to international standards, had promoted China's foreign-related economic laws to break the restricted legislation area under the planned economy, and propelled the construction of the legal system under the market economy. FDI laws and regulations, based on the Sino-foreign Joint Venture *Law, the Foreign-owned Enterprise Law and the Sino-foreign Cooperative Joint Venture Law,* collectively as the "three FDI laws", introduce the most necessary and essential concepts and institutional framework for the market economy. This combination of laws pioneered and enlightened the market-oriented reform of the policy and legal systems in China in a far-reaching manner.

The improvement in FDI laws and policies has driven the construction of market-oriented legal policy system

The period between 1992 and 2000 marks the period of exploration and transformation of FDI laws and policies, and also a time of steady development for the reform and construction of market-oriented legal policy system in China. In 1992, in his Southern Tour Speech, Deng Xiaoping clearly proposed to continue to deepen reform and expand opening-up, and break the ideological trap of stubbornly being either socialism or capitalism. He put forward the three-favorable criteria to eloquently explain the role of FDI, which cleared the obstacles for expanding opening-up and using FDI, both theoretically and ideologically.

In June 1995, the State Planning Commission, Economic and Trade Commission, and Ministry of Foreign Trade and Economic Cooperation jointly issued the *Interim Regulations on Guiding FDI Orientation and the Industrial Guidance Catalogue for FDI (also known as the "positive list").* These policies adopted new approaches to plan and divide the industrial scopes for FDI falling in the four types of encouraged, allowed, restricted and banned, and formulate corresponding supporting measures and policies. That was the first time to guide FDI in the form of regulations.

In April 1998, the State Council issued the *Opinions on Further Expanding Opening-up and Enhancing the Capability of FDI Utilization.* It clearly stated to "attract FDI through

multiple channels and approaches, and implement a strategy of diversified FDI utilization".

In 2000, the country formulated the *Competitive Industries Catalogue for FDI in the Central and Western Regions on the basis of the Industrial Guidance Catalogue for FDI.* The new catalog aimed at achieving tangible results in implementing the Western Development strategy and the Rise of Central China strategy, and channeling foreign investors to invest in the central and western regions. Incentives were given to the fields in the catalog. According to the opening-up and development needs in central and western regions, the catalog was amended four times in 2004, 2008, 2013 and 2017, respectively.

The "three FDI laws", being the basic legal framework for FDI in this period, were revised according to the needs and dynamics of economic and social development. Having a retrospect of the development and evolution of FDI laws, regulations and policies, it can be concluded that the FDI legal policy system in China has been gradually transitioning in exploration. Firstly, FDI laws and policies have shifted from focusing on incentives and preferential treatment to mutual benefit. Secondly, the technology-for-market strategy is clearly put forward to better make up for technical and management gaps, not just for funding gaps. Thirdly, FDI is being actively guided to adjust and correct its imbalances in industrial, regional and corporate structures through issuing and revising the *Regulations on Guiding FDI Orientation, the Industrial Guidance Catalogue for FDI* and the *Competitive Industries Catalogue for FDI in the Central and Western Regions.* Fourthly, there are transitions from the one-way effect of preferential policies to the synergetic effect of preferential and industrial policies, and from investment attraction to selection policy.

The comprehensive development of FDI laws and policies has facilitated the improvement of the market-oriented legal policy system

The period from 2001 to date witnesses the all-round development of FDI laws and policies in China, and also a time of maturity and improvement for the construction of a market-oriented legal policy system. After the accession to the WTO in December 2001, China has achieved all-round adaptability between foreign-related economic systems and international rules at a higher level. China thus welcomes a new historical period of comprehensive advancement of opening-up and FDI utilization.

In February 2002, the State Council issued the Regulations on Guiding FDI Orientation; in March of the same year, the second revised version of the Industrial Guidance *Catalogue for FDI was issued. Both the Regulations on Guiding FDI Orientation* and the *Industrial Guidance Catalogue for FDI* are basic industrial policies for FDI in China, and the fundamental basis for guiding the approval of FDI projects and the application of relevant policies applicable to FIEs. In order to meet the demands of economic development and guiding foreign-owned industries, the National Development and Reform Commission and the Ministry of Commerce, together with relevant departments, revised the *Industrial Guidance Catalogue for FDI in 2004, 2011, 2015 and 2017,* respectively.

In June 2003, the Ministry of Science and Technology and the Ministry of Commerce jointly formulated and issued the *Catalogue of Encouraging FDI in High-tech Products. On the basis of the China High-tech Product Catalogue and the Industrial Guidance Catalogue for FDI,* it is formulated to further highlight the endeavor of the country to encourage FDI in high-tech industries. This catalog is further sub-divided from the investment industry to specific high-tech products, which provided clearer guidance and better operability. The first revision was made in December 2006.

In March 2007, the National People's Congress adopted the *Law of the People's Republic of China on Corporate Income Tax* which practiced the "two taxes into one", and vested equal treatment to both domestic and FIEs. The super national treatment for FIEs was gradually canceled.

In April 2010, the State Council issued the *Opinions on Further Improving the FDI Utilization.* It stipulates that China welcomes overseas investment in high-tech, service, energy conservation and environmental protection industries, whereas restrictions are put on industries with heavy pollution, high energy consumption and excess production capacity. Such a move symbolizes that unconditional priorities to FDI in the past are terminated.

In February 2011, the General Office of the State Council issued *the Notice on Establishing* the *Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors,* which officially established the national security review system for foreign mergers and acquisitions. The national security review is applicable to foreign mergers and acquisitions involving military industrial and national defense enterprises, as well as those whose important agricultural products, energy and resources, infrastructure, transportation services, key technologies, major equipment manufacturing and others concerning national security will be controlled through mergers and acquisitions.

In September 2013, as China (Shanghai) Pilot Free Trade Zone was established, Shanghai Municipal People's Government issued the *Special Administrative Measures for FDI Access (Negative List) (2013 Edition)* applicable to the zone. It pioneers to pilot the "pre-establishment national treatment and negative list management model for FDI". In April 2015, three new pilot free trade zones put into operation in Guangdong, Tianjin and Fujian. The General Office of the State Council issued the *Special Administrative Measures for FDI Access (Negative List) (2015 Edition)* uniformly applicable to the above 4 pilot free trade zones. In April 2017, seven new pilot free trade zones were put into operation in Liaoning, Zhejiang, Henan, Hubei, Chongqing, Sichuan and Shaanxi. In June, the General Office of the State Council issued the *Special Administrative Measures for FDI Access (Negative List) (2017 Edition)* uniformly applicable to the above 11 pilot free trade zones. On June 28, 2018, the National Development and Reform Commission and the Ministry of Commerce issued the *Special Administrative Measures for FDI Access (Negative List) (2018 Edition)* (hereinafter referred to as the "national negative list"). It is developed and substantially streamlined from

an independent branch of the previous *Industrial Guidance Catalogue for FDI.* Only 48 special administrative measures are retained, which further narrows the scope of FDI approval. Actions are taken to comprehensively relax market access to the primary, secondary and tertiary industries, and advance all-around opening-up referring to international standards. The following June 30 witnessed the issuance of the *Special Administrative Measures for FDI Access in the Pilot Free Trade Zone (Negative List) (2018 Edition)* (hereinafter referred to as the "negative list for free trade zones"). It is even three items fewer than the national negative list, and FDI access restrictions are removed or relaxed in more areas.

In November 2014, the State Council issued the *Notice on Rectifying and Aligning Taxation and Other Preferential Policies,* which aims to align local preferential policies with central ones, identify the authority in formulating tax policies, take special actions to rectify the so-called preferential policies which are actually unreasonable and illegal, and trigger vicious and unfair competition, and reinforce accountability. As a consequence of the one-size-fits-all practice in implementing the policy, FDI projects were in a quagmire or even canceled in various areas, causing difficulties and adverse effects on local investment attraction. As such, in response to these actual problems and dilemmas, the State Council issued the *Notice on Matters Concerning Taxation and Other Preferential Policies* in May 2015, and suspended the implementation of the relevant policies and measures in the Notice on Rectifying and Aligning Taxation and Other Preferential Policies.

In early 2015, the Ministry of Commerce initiated the revision of the "three FDI laws" according to the *Legislation Plan of the Standing Committee of the Twelfth National People's Congress* and the *State Council Legislation Plan 2014.* The result was the formulation of *the Law of the People's Republic of China on Foreign Direct Investment (Exposure Draft)*, which was open for public opinions. It comprehensively revised the "three FDI laws", formulated the unified *Law on Foreign Direct Investment.* The core content lies in adjusting the subjects governed by the legal norms from "FIEs" to "investment behaviors of foreign investors in China", thereby realizing the transition from foreign-owned enterprise law to FDI management law.

In May 2015, the CPC Central Committee and the State Council adopted the *Opinions on Building a New and Open Economic System.* In terms of innovating FDI management system, it is clearly pointed out to unify laws and regulations on domestic and FDI, promote the management model of pre-establishment national treatment and negative list, improve the FDI supervision system, and advance the transformation and upgrading as well as innovation-driven development of the development zones.

In September 2016, the Twenty-second Session of the Standing Committee of the twelfth National People's Congress adopted the *Decision on Revising the 'Law of the People's Republic of China on Foreign-Capital Enterprises and Other Three Laws.* It provides that record-filing administration replaces case-by-case approval to regulate the establishment

and changes of FIEs that are ineligible for the special administrative measures on access stipulated by the State, and that special administrative measures on access stipulated by the State shall be issued or approved by the State Council. Such a measure has laid the foundation for deepening the reform of the FDI approval and management system.

In January 2017, the State Council issued the *Notice on Measures for Expanding the Opening-up and Actively Using FDI.* In August of the same year, the State Council issued the *Notice on Measures for Promoting FDI Growth.* In June 2018, the State Council issued the *Notice on Measures for Active and Effective FDI Utilization and Promoting High-quality Economic Development.* In a year or so, the State Council successively issued three documents on FDI utilization, which was enough to show the importance attached to FDI.

In March 2019, the National People's Congress adopted the *new Law on Foreign Direct Investment,* which will be effective on January 1, 2020. At present, the implementation rules of the new FDI law are being formulated, and efforts are also made to clean up and revise local regulations inconsistent with the new FDI law.

Built on the previous model, the FDI policy and legal system in this period have experienced comprehensive reforms and improvements, which has promoted the development of the market-oriented legal policy system towards maturity. Firstly, in order to satisfy economic development and guide the industrial development, multiple revisions and improvements have been conducted for "positive lists" such as *the Industrial Guidance Catalogue for FDI, the Competitive Industries Catalogue for FDI in the Central and Western Regions and the Catalogue of Encouraging FDI in High-tech Products.* Secondly, the Special Administrative Measures for FDI Access in the Pilot Free Trade Zone (Negative List), which is formulated for and implemented by pilot free trade zones, has begun to spread across the country, and thus form a unified market access negative list and management system. Thirdly, as a way to blend into the new situation of economic globalization and the dynamics of international investment rules, the management model of "positive list" + "negative list" has become the core content of the system of China's FDI policies, laws and regulations. Fourthly, the CPC Central Committee and the State Council attach great importance to FDI-related work, and has issued multiple policy documents to regulate, guide and promote FDI utilization. On the basis of equal treatment to domestic and FDI, national treatment is gradually granted to FDI, which grows steadily by improving the business environment. Fifthly, the formulation of basic FDI laws has been promoted, including the formulation of new FDI laws and comprehensive cleaning-up and revision of relevant laws, regulations and policy documents. A relatively complete foreign-related legal system is formed to create a legal environment and institutional guarantee for FDI in line with international norms.

In the past 40 years of the reform and opening-up, the FDI legal policy system in China has been progressing though with ups and downs, from trial to exploration and to comprehensive development. China has basically established an FDI legal policy system

which is not only in line with common international economic rules, but also features Chinese characteristics. Such a system is based on FDI laws, supported by relevant departmental economic laws and civil and commercial laws, supplemented by administrative regulations, departmental rules and local legislation, and complemented by flexible FDI policy documents. It also develops and improves the market-oriented legal policy system in China.

3.9.3 Higher requirements for relevant legal policies

At present, the international situation and the international environment have undergone major changes in attracting investment globally. As the world economy slowly recovers, there are certain risks and challenges in the continuous growth of the global economy and investment due to factors such as trade and investment protectionism, geopolitical security, and technological innovation. The Chinese economy has geared from high-speed growth to medium-to-high-speed and high-quality growth, and is in a period of deepening reform and structural adjustment. Faced with the trend in the international and domestic situation, there have been changes in the form, connotation and characteristics and internal needs of multinationals investing in China, which has put higher demands on China's legal policy system and business environment.

China's legal policy system for attracting FDI faces new challenges

Industrial competition policy is facing "dual pressures". From the perspective of the competition pattern for attracting global investment, on the one hand, major western developed countries have doubled their efforts to attract FDI, and draw high-end manufacturing and high-tech industries back through implementing strategic industrial policies and preferential tax policies. For example, the Re-industrialization, Advanced Manufacturing Partnership, and *Tax Cuts and Jobs Act* effective in January 2018 from the U.S., Germany's Industry 4.0 program, Japan's New Growth Strategy, South Korea's Manufacturing Industry Innovation 3.0 strategy, France's New Industrial France, and the UK's Made in UK 2050. On the other hand, developing countries in Southeast Asia, South Asia, Latin America and Africa are taking advantage of the low factor cost to vigorously undertake the international transfer of labor-intensive industries. It can be concluded that in attracting FDI, China is facing the dual pressures of "high-end industry backflow" from developed countries and "low and middle-end industry competition" from developing countries. It is necessary to consider the above factors and work out measures when formulating industrial policies on attracting FDI.

International investment rules are repeatedly reaching higher standards. Since the 2008 financial crisis, the three fundamental drawbacks, i.e. insufficient global growth momentum, lagged global economic governance, and imbalanced global development, are still prominent. The world today features emerging anti-globalization trends such as conservatism and isolationism, an increasing number of bilateral and regional investment agreements, and intensifying fragmentation of international investment rules. Developed countries led by

the U.S. actively promote a new generation of high-standard international economic and trade rules, covering market access, intellectual property protection, labor and environment, government procurement, dispute resolution mechanism, state-owned enterprise regulation, etc. These countries are widely adopting a "negative list" in negotiations. These new rules will, to a large extent, exert a leading and demonstration effect on concluding bilateral and multilateral agreements on a wider scope in the future, thus bringing greater difficulties and challenges for China to attract FDI.

The law and policy for attracting FDI need to be further improved. Although China's FDI environment is improving in recent years, unsatisfactory situations arise. Firstly, a lack of transparency and clarity in the law and regulations bring great uncertainty to investment, thus increasing risks and directly affecting decision-making. Secondly, in terms of the policy, its stability and predictability are of particular concern to foreign investors. Many local governments at first relied on preferential policies to attract FDI. However, with the gradual fading of preferential policies for FDI, there have been phenomena such as lack of means and enthusiasm in attracting investment, giving rise to the sense that FDI is no longer important, which changes the soft environment of investment. Foreign investors may feel confused to develop their FDI strategies due to rush introduction of policies, changes in content, unclear future orientation and inconsistency between the local implementation and national policy. Once there is a policy change in the implementation and thus a certain sunk cost, it will increase the risk and difficulty of business decision-making. Thirdly, in terms of market access, reform measures emphasize streamlining processes and procedures; however, there is a lack of effective measures for opening-up. The current negative list still needs to be greatly streamlined. "Glassdoor" phenomenon still exists in practice. Although the documents have already clearly stipulated industries or projects open to FDI, various hidden barriers in practice shut the door for FDI, which has damped the confidence of foreign investors to expand their investment.

The FDI laws and policies need further improvement in the new era

China is facing the "dual pressures" of the global industrial chain, new rules with high international standards, and a legal policy system that needs continuous improvement. Therefore, it is an urgent task for the country to build a facilitation-oriented, international and law-based business environment in constructing the FDI legal policy system in the new era of all-round opening-up.

It is necessary to create a business environment that is conducive to industrial development. Western developed countries are actively guiding the high-end manufacturing industries to flow back, and the developing countries are vigorously taking low and mid-end industries. This is a combined result of industrial policies, tax incentives as well as factors and resources. In the face of these competitions and pressures, China needs to categorize supporting industrial policies as well as fiscal and tax incentives, and take proactive actions.

In terms of industrial policies, it is recommended to encourage FDI to integrate into China's manufacturing innovation system, attract more FDI to set up R&D centers which will be provided with policies to facilitate the commercialization of research results. At the same time, FIEs should be able to be a player in relevant activities while enjoying equal treatment, such as tax incentives for high-tech enterprises, pre-tax deduction of R&D expenditure, and preferential policies for setting up R&D centers. In addition, more conditions should be created for cooperation between Chinese and foreign scientific research institutions. Effective measures also include building R&D cooperation platforms for public purposes, transfer/commercialization platforms of technological fruits, and setting up incubators for high-tech businesses. The aim is to continuously diversify the forms and enhance the levels for China to engage in international scientific and technological cooperation so that investment from multinationals gains easy access.

It is necessary to take the high-standard international business environment as a benchmark. Pilot free trade zones and free trade ports are important strategic measures of China to comprehensively deepen reforms, further open up, and optimize regional opening-up layout in the new era. National development zones are important platforms for reinforcing FDI utilization. It is therefore necessary to give full play to the role of the pilot free trade zones, free trade ports and the development zones as the carriers of an opening-up platform to cope with the fragmentation and high standards of the international investment rule system. Specifically, the first is to continue to advance the reform and innovation of the system and mechanism of pilot free trade zones with greater autonomy in reform, and replicate successful pilot projects nationwide. Secondly, actions should be made to explore the construction of free trade ports with international standards, and establish a new path for open economic development. The port will gather new drivers for foreign economic development, and build new platforms for international economic and trade cooperation. In addition, priority should also be given to closely integrate with the construction of the Belt and Road Initiative, and rely on countries along the Belt and Road to speed up the establishment of a global free trade network, and elevate the level of trade and investment liberalization and facilitation. Thirdly, it is necessary to promote the innovation-driven development of national development zones which will be established to a leading zone of innovation-driven development, a cluster of advanced manufacturing and modern service industries, an experimental zone of mechanisms for comprehensive opening-up, a pioneering zone of the green economy, and a demonstration zone of a harmonious society. Full play should be given to its role as an important platform for utilizing FDI to engage with the international community, link domestic and foreign markets, and fuel the development of export-oriented economy, thus promoting the smooth operation of investment from multinationals in China.

Efforts should be mounted to continue to improve the law-based business environment. As per the new Foreign Investment Law, which will come into effect on January 1, 2020, it is

necessary to further deepen the reform of the administrative system, align laws and regulations related to domestic and foreign investment, improve the market access system, coordinate market supervision, actively align with international advanced concepts and common rules, and formulate open and transparent market rules. To raise FIEs' confidence about long-term investment in China, it is important to create a competitive and orderly market environment, a transparent and efficient governance environment, and a fair and just legal environment, which will ensure that economic entities of different ownership equally utilize production factors based on law, participate in market competition in an open, fair and just manner, and enjoy legal protection on an equal footing.

The investment from multinationals has promoted the construction of the legal system of the market economy and the improvement of its policy system in China. At the same time, the optimized institutional environment has also provided a better guarantee for multinationals to continue their investment in China.

Chapter 4 Cases—Analysis of Multinationals' Investment in China

Case 1 Coca-Cola invests in China

Time Flies, Care Endures
Coca-Cola's commitment to China in the past four decades

Founded in 1886 and headquartered in Atlanta, The Coca-Cola Company is a total beverage company, offering over 500 brands and more than 4,300 beverages in more than 200 countries and territories. The Coca-Cola Company has 225 bottling partners, 900 bottling plants and 28 million retail partners worldwide. Together with its bottling partners, The Coca-Cola Company employs more than 700,000 people around the world.

China is the world's third largest market for The Coca-Cola Company. Since it returned to the Chinese Mainland in 1979, the Coca-Cola system has invested more than USD 13 billion and has established 45 bottling plants in China with more than 45,000 employees. Coca-Cola China is locally run – 99% of the employees are locally hired and over 98% of the company's raw materials are locally sourced.

The Coca-Cola Company is also the only company that has sponsored Olympic Games, Paralympic Games, EXPO, Special Olympics, Universiade and Youth Olympics in China. By sharing with local business leaders international experience, Coca-Cola has been contributing to Chinese enterprises' efforts on going global.

Coca-Cola in China

In January 1979, after the establishment of Sino-US diplomatic relations, the first batch of 3,000 cases of Coca-Cola were sent from Hong Kong to Beijing and Guangzhou by train. This was the first foreign consumer product delivery to the Chinese Mainland since China's reform and opening-up. From offering one luxury brand only available in Friendship Store and hotels for foreigners to a growing portfolio of everyday brands, Coca-Cola has been contributing to China's development in the past decades and witnessed every memorable moment with the Chinese people.

The Coca-Cola Company has not only witnessed China's tremendous achievements in

reform and opening-up, but also benefited in and contributed to the process. On December 13th, 1978, Coca-Cola and COFCO signed a cooperation agreement. In another room on the same floor of the Beijing Hotel, Chinese and US diplomats were in negotiation that eventually led to the establishment of the bilateral relations.

The Coca-Cola Company held a press conference in the US, announcing its return to the Chinese Mainland

On December 18th, 1978, the Third Plenary Session of the CPC's Eleventh Central Committee was held, ushering in a new era in China. On December 19th, the Coca-Cola Company held a press conference in the United States, announcing to the world the company's return to the Chinese Mainland.

At that time, an observer wrote in New York Times that "Eventually, maybe in a few decades, the Chinese market would be even bigger than that in the US". Now the prophecy is about to come true. Today, China is proudly the third largest market for The Coca-Cola Company, while its growth is significant in Coca-Cola's global business.

In 1984, an ordinary Chinese guy made it to the cover of Time Weekly. The picture shows the young man holding a bottle of Coca-Cola stands on the Badaling section of the Great Wall, his face beaming with happiness and satisfaction. The subtitle of the photo is: China's new face, What Reagan will see. The photo is a very good reflection of the changes in people's daily life and a sign of economic globalization and achievements in China's reform and opening-up.

In 1992, the first Coca-Cola TV commercial produced in China and with local actors was broadcast on China's Central Television. In the commercial, Chinese consumers from all walks of life celebrated their moments of happiness with Coca-Cola. It ended with the slogan "Can't withstand the feeling", which soon became popular. Coca-Cola had entered millions of people's daily life.

Rides the Tide of the Chinese Economy

Coca-Cola has kept increasing investment and deepening localization in China. Since The Coca-Cola Company returned to the Chinese Mainland in 1979, its accumulated investment has reached more than $ 13 billion. Coca-Cola cooperates with two bottling companies, COFCO and the Swire Group, has established 45 bottling plants in China with more than 45,000 employees and created more than 450,000 jobs via the multiplier effect of the industry chain. 99% of the employees are locally hired and over 98% of the company's raw materials are locally sourced.

COFCO Coca-Cola Beverages Limited, cofounded by COFCO and Coca-Cola in 2000, has become one of Coca-Cola's top 10 bottling partners worldwide.

With the extension of the value chain, Coca-Cola has trained and supported a large

number of local suppliers and equipment manufacturers in production, technical standards and staff training. This in turn has helped the partners to grow with the Coca-Cola system.

In 2009, the Coca-Cola Asia Pacific Innovation and Technology Center was established in Shanghai. This is Coca-Cola's second largest R&D center, and the largest testing center of the Coca-Cola system. These facilities not only enhance the capability and efficiency of product innovation in China, but also serve as important incubators for innovative products worldwide. In recent years, the R&D center has tailor-made a variety of products for Chinese consumers, such as Schweppes Plus C, Minute Maid Triple Pulpy Orange, Sprite Zero, Sprite Fiber, Authentic Tea House, ChunYue Fiber Water, etc.

Now, Coca-Cola China has more than 20 brands and offers over 300 beverages with over 60 flavors, among which 25 flavors of 14 brands are low-sugar or no-sugar products. Minute Maid Pulpy Orange (Guo Li Cheng in Chinese), our juice brand born in China, exceeds $ 1billion in global sales in 2011, becoming the 14thmember in The Coca-Cola Company's billion-dollar brand family.

As a member of the Tsinghua SEM (School of Economics and Management) Advisory Board, Coca-Cola cares about China's next generation of business leaders. The company has a long-term partnership with Tsinghua SEM, which provides opportunities for Tsinghua students to broaden their international horizons through immersion programs in United States. The Coca-Cola Company has also supported the China Executive Leadership Program by sharing international experience with senior business leaders of China. Every year, the company's chairman and CEO travels to Cambridge University to deliver presentation and share their perspectives of global leadership.

We Care Development, Promote Sustainable Development with Innovation

Coca-Cola China adheres to the value of "We Care" and take full advantages of its business to roll out various sustainable development projects in China to create a better community environment. Coca-Cola's efforts in sustainability to help address two of the "three critical battles" in China: poverty alleviation and environment protection.

More than one decade ago, a journalist visiting a village ran into a little girl and asked whether she was aware of Coca-Cola. He was impressed when the girl said it was the name of her school, a Coca-Cola Hope School.

Coca-Cola China started to support the Hope Project27 years ago. It is one of the earliest companies to join in the project, and the one providing the longest support. Nowadays, there are 121 Coca-Cola hope schools, with an accumulated donation of RMB yuan 1.7 billion. Nearly 200,000 children have graduated from these hope schools. Some of them have become civil servants, some went back to the hope schools as teachers and some even became employees of Coca-Cola bottling plants. Thanks to the support by Coca-Cola, these children

have more choices.

In 2007, the company developed a "Water Replenishment" strategy, promising that Coca-Cola would return water equivalent to the amount used in its beverage production to nature and the community by 2020. In China, we have joined hands with Ministry of Water Resources, Ministry of Commerce, UNDP, WWF and a number of local NGOs in water replenishment. In 2015, the Coca-Cola achieved the "100% Water Replenishment" target five years ahead of the original plan, the first Fortune 500 company in the world to achieve this goal. The project "Artificial Wetland" in Shitang Village, Nanjing, was included in the exhibition of China's Precision Poverty Alleviation at UN headquarters in New York in 2018.

Innovative Disaster Relief Mechanism Clean Water 24

Clean Water 24 was launched jointly by Coca-Cola China and One Foundation in 2013. Taking advantage of the retail and distribution network of Coca-Cola that covers the entire country and reaches very grassroots communities, this mechanism is engineered to deliver drinking water to disaster victims from the nearest retail outlets at record speed. Since its launch, it has been activated nearly 210 times, delivering more than 18 million bottles of water to 2.15 million disaster victims. The mechanism was awarded Innovation Award by the corporate Board of Directors and was selected as a stellar example of practicing social responsibility of FIEs by China Association of Enterprises with FDI. It also won "CSR Innovation Award" by AmCham China. It is an example of the evolution from "Made in China" to "Innovated in China".

The First Convenience Store of Partnership between "5 by 20" and JD.com

Millions of women play an important role in Coca-Cola's value chain. The Coca-Cola Company cares about them and endeavors to tap on their potential to create more value for the society. In 2013, Coca-Cola launched 520 initiatives worldwide, a women empowerment project that offers leadership and business skill training for 5 million women in the value chain by 2020. Up till now, about 420,000 women have benefited from the program in China.

The convenient shop in the picture is located in the old quarters of Changsha and the storekeeper is Ms. Chen. Because of rising competition from e-commerce, Chen was facing big problems in her business. Coca-Cola China teamed up with JD.com to upgrade the convenient store into a smart one: they installed an AI-enabled automatic refrigerator, which can automatically set accounts after customers scan to open the refrigerator and take beverages out. Currently Coke has five such stores in China in cooperation with JD.com and Tmall. In the future, more female shopkeepers are expected to benefit from the initiative.

VenCycling: Concept Combo of Beverage Vending and Package Collection to Help Shape a Better Future

In January 2018, Coca-Cola announced its sustainable packaging vision – World Without Waste. The company is committed to helping collect and recycle one hundred percent of the amount of packaging it uses by 2030.

The company has established or joined 10 packaging recycling organizations. In 2019 it announced at the World Economic Forum in Davos that it will make the technology of plant bottle available to the world to contribute to building a World Without Waste.

In September 2018, Coca-Cola China unveiled VenCycling concept machine. The machine is a combo of beverage vending and packaging collection facilities. Its Chinese name means shaping the future, which captures the inspiration that vending on the left side gives you happiness and the packing collection facility on the right side is the right way to shape the future.

Coca-Cola China have staged a traveling exhibition "The Amazing Bottle" (TAB), which showcases the value of rPET beyond beverage packaging and calls for garbage classification, contributing to the Green China Strategy. The exhibition has been imbedded in many government-run public education campaigns to raise public awareness of the significance of recycling. Since its launch in September 2018, it has beenexhibited10 times across China, attracting more than 9,000 people in total. In the future, it will go to more cities, inspiring more people to rethink about their way handling used package.

Coca-Cola China also launched a co-branded rPET product: 24BAG. It was so named because each bag is made of rPET materials from 24 bottles. 24BAG products were offered on the Tmall shops to raise public awareness of the value of recycled PET and encourage consumption of products made of recycled materials. Coca-Cola has also joined the UPanda Campaign, a global campaign to promote the image of giant panda, as the sustainability partner and launched a UPanda edition of 24BAG.

The Coca-Cola Company is evolving into a consumer-oriented total beverage company. The company will continue to introduce new categories and products in response to changes in consumer demands and market trends. At the same time, Coca-Cola will adhere to the spirit of "WeCare" to develop sustainable projects to support China's development in the new era.

Time flies, care endures.

Case 2 Chia Tai Group invests in China

Dare to be the first; the principle of "for the country, for the people, and for the company"; the initial heartAim high; 40 years of glorious history; strive to advance

The investment and development history of Chia Tai Group in China

Chia Tai Group is a well-known multinational founded by Thai-Chinese, known as Charoen Pokphand Group outside China. Chia Tai Group is a diversified multinational group focusing on the three core industries of agro industry & food, retail and distribution, and the telecommunications industries, supported by more than 10 industries including finance, real estate, pharmaceuticals, automobile and locomotives and machinery processing. With its presence in more than 100 countries and regions across the world, it hires a total of 350,000 employees. In 2018, Chia Tai Group reached a global turnover of approximately US$ 62 billion.

As the first FIE making an investment in China after the reform and opening-up, Chia Tai Group has been adhering to the management principle of "for the country, for the people, and for the company" for the past 40 years. It actively engages in the reform and opening-up, and continuously increases its investment in China which has become an important pillar for its global business. Up to the present, Chia Tai Group has established more than 400 enterprises in China, with its subsidiaries covering all provinces and autonomous regions except Tibet. It employs more than 80,000 people, invests over RMB yuan 120 billion in cumulative terms, and reaches an annual turnover of nearly RMB yuan 130 billion. Chia Tai Group is also famous for its enterprises, brands and products enjoying wide reputation, such as Chia Tai Feed, Chia Tai Food, Chia Tai Egg, Chia Tai Seed, CP Lotus, Chia Tai Fresh, Dayang Motorcycle, Chia Tai Plaza, Chia Tai Pharmaceutical, and Chia Tai Variety Show. Chia Tai Group has become one of the largest FIEs with the largest investment and greatest number of projects in China.

As one of the largest companies in the world engaged in agro industry & food, Chia Tai took the lead to enter the agriculture and animal husbandry in China, which unveiled its investment and development in the country. In the past 40 years, Chia Tai Group has led and driven the industrialization process of feed, aquaculture and food industries, and made valuable contributions to the economic development, especially agricultural modernization and industrialization in China. The group also shared the tremendous fruits brought about by rapid economic growth. Chia Tai Group pays special attention to various charitable activities and projects of poverty alleviation through developing industries, thus fulfilling its social responsibilities. It attaches importance to taking part in social welfare undertakings, covering education, scientific research, culture and sports, poverty alleviation, disaster

relief, etc. It works with higher education institutions and research institutes such as Peking University, Tsinghua University, China Agricultural University, Zhejiang University, South China Agricultural University and Fudan University, as well as Training Center of the General Administration of Sport. Chia Tai Group also took part in the fight against SARS, and Wenchuan/Yushu/Ya'an earthquake. According to incomplete statistics, the charitable donations from various business sectors totaled nearly RMB yuan 1.6 billion, and the total investment in poverty alleviation projects through various types of industries exceeded RMB yuan 5.5 billion.

Phase I: the initial development stage of the Chia Tai Group's presence in China. As the first FIE making an investment in China, it is the pioneer and leader in feed industrialization and agricultural modernization in the country.

In 1979, Chia Tai Group teamed up with the US Continental Grain Company to invest US$ 30 million to establish Chia Tai Continental Company in Shenzhen, and obtained the No. 0001 business license of FDI in the city, becoming the first FIE in China. Shenzhen Nantou Feed Mill of Chia Tai Continental became the first modern one in China. Later in 1984, it established Jilin Chia Tai Food Co., Ltd. which is a Sino-foreign joint venture in China's feed industry. By the end of the 1980s, Chia Tai Feed Mill entered the stage of rapid development.

In the 1980s, Chia Tai Group began to invest in a package of upstream and downstream enterprises engaging (the one-stop model) in agro industry in China. In 1985, it established a joint venture with Songjiang County in Shanghai to establish Shanghai Dajiang Co., Ltd. which is the first large-scale one-stop enterprise providing processing services of broiler chicken in the agro-food industry in China. It is also the first one integrated with feed production, breeding of improved varieties, livestock and poultry breeding, food processing, and domestic and foreign sales. Thanks to its excellent operation, it is also the first listed FIE in China.

Phase II: Chia Tai Group's business in China entered the stage of growth. It continuously planned and improved the industrial chain of the agro industry, and carried out diversified operations.

In April 1990, Chinese leader Deng Xiaoping met with Mr. Dhanin Chearavanont, Chairman of Chia Tai Group, in Zhongnanhai, Beijing. He spoke highly of Chia Tai Group's investment in China and hoped that the group could be a model for FDI. After the 1990s, the scale and quantity of Chia Tai's investment in feed factory expanded further, and continued to increase investment in one-stop factories such as Heilongjiang Chia Tai, Jilin Deda, Qinhuangdao Chia Tai and Qingdao Chia Tai among others.

In 1985, Chia Tai Group and Shanghai Tractor & Motor Company (now as SAIC Motor) jointly established Shanghai EK Chor Motorcycle Co., Ltd. with a registered capital of US$ 45 million. It was one of the largest joint ventures in Shanghai back then. It introduced Japanese Honda technology, sold the Happiness motorcycles nationwide, and took the lead to enter the international market, making great contributions to advance the motorcycle industry in China.

In 1991, Chia Tai Group and China North Industries Corp (now as China South Industries Group Co., Ltd.) jointly established Luoyang Northern EK Chor Motorcycle CO., Ltd. whose more than 16 million Dayang motorcycles have been sold to counties across the world. The Dayang brand has been ranked in the Top 500 Chinese Valuable Brands for many years.

In 1992, Mr. Dhanin Chearavanont, Chairman of Chia Tai Group, responded to the call of the Shanghai Municipal People's Government to develop Pudong. In order to complete the supporting business facilities in the core area of the Lujiazui CBD, Chia Tai decided to invest US$ 400 million to build Chia Tai Plaza, the only commercial project in the core area, which officially opened in 2002. It is the first truly business flagship with the one-stop shopping experience in China, and also one of the landmark buildings in Lujiazui financial district. In 1997, Chia Tai Group introduced the foreign concept of hypermarkets to Shanghai, and opened a 20,000-sqm Lotus Supermarket in Pudong, which is the first hypermarket invested by WFIE in China. In addition, in 1992, Chia Tai International Finance Company Limited was established, which is the first wholly foreign-owned international financial institution approved by the government within Chinese borders. In 2000, Sino Biopharmaceutical Co., Ltd., under the CP Pharmaceutical Group, was successfully listed in Hong Kong.

Phase III: Chia Tai Group entered a new development and transition period in China. It strengthened the investment in the whole industry chain from farms to eating tables, and focused more on capital operation to achieve enterprise cooperation and mergers, thus promoting the further development of enterprises.

Chia Tai Group has continuously increased the construction and transformation of its entire industrial chain in China. In addition to making large investments in modern pig and chicken farms, the group has increased its investment in China's breeding and modern food industries, on the basis of the original one-stop model. It has successively established modern food production lines and enterprises in dozens of provinces and municipalities nationwide, such as the newly established Qinhuangdao New Food Factory, Qingdao New Food Factory, Chia Tai Xiangyang, and Chia Tai Beijing Pinggu Egg Processing Factory. A food sales network is thus formed in China.

In 2012, Chia Tai Group invested in Ping An Insurance (Group) Company of China, Ltd. with US$ 9.39 billion to hold 15.57% of the shares, becoming the largest shareholder. In 2015, Chia Tai Group joined with ITOCHU Corporation to invest in CITIC Group with approximately US$ 10.4 billion to hold 20.61% of the shares, making it the second largest shareholder.

Investment characteristics of Chia Tai Group in China

Characteristic 1: Chia Tai Group always adheres to the principle of "for the country, for the people, and for the company", and dares to be the first to invest in China. In addition, the group, as a supporter, participant and contributor to China's reform and opening-up, is

continuously increasing its investment in the country.

Starting from Mr. Chia Ek Chor, the first-generation founder of Chia Tai Group, the group has always remained a profound Chinese complex and always regards the principle of "for the country, for the people, and for the company" as the investment and development philosophy of the group. Shortly after China's reform and opening-up policy was put forward, Chia Tai Group began to invest and build factories in China, becoming the first FIE to invest in the country. It has become a leader in many fields. Further, Chia Tai's high-quality products and modern business model have become examples for numerous domestic enterprises to imitate. For 40 years, Chia Tai Group has always rooted in China and has never wavered in its determination to invest and develop in the country. Even if there are difficulties and frustrations, it continues to increase its investment. It has established joint ventures and wholly-owned enterprises in China, setting foot on all provinces and municipalities except Tibet. The agro-food industry is the most primary investment project of Chia Tai Group in China. There are more than 390 enterprises engaged in the agro-food industry in China, with a total investment of more than RMB yuan 54 billion and nearly 50,000 employees.

After President Xi Jinping proposed the Belt and Road Initiative, Chia Tai was the first FIE that led to promote projects (special economic zone, high-speed railway) under the Belt and Road Initiative overseas (Thailand). Chia Tai Group has partnered with SAIC, BAIC, CITIC Group, China Mobile, Alibaba and other large-scale enterprises to integrate competitive resources from all parties to promote the implementation of cooperation projects between the two countries under the Belt and Road Initiative in Thailand. Believing in the discussion, mutual efforts and results sharing, the group has made major contributions to the economic development in both countries, playing a leading role in advancing the Belt and Road Initiative.

Characteristic 2: Chia Tai Group has been innovating the large-scale operation of its agro business. The group has led large-scale agricultural development in China from the early modern feed industry to the one-stop model, and to the whole industrial chain development characterized by "from farms to eating tables" in recent years.

In the 1980s, Chia Tai was the first to bring the concept of modern feed industry to China, which realized the leap-forward development from scratch to flourishing, from small to large, and from weak to strong thanks to the investment and initiative of Chia Tai Group. Although China is a major country of agricultural production and breeding industry, farmers were scattered to engage in breeding work, thus the poor quality and low efficiency. Before the reform and opening-up, there was no feed industry in China, when feed enterprises were basically processing plants with an annual output of hundreds of tons under the grain department. They could only produce mixed feed under extensive management at a low operation level. After China's reform and opening-up, Chia Tai Group noticed the Chinese feed market demanding for urgent development. It took the lead to invest and promote the

professional production of complete formula feed and premixed feed. Chia Tai was the first to introduce advanced concept and technology of nutritious feed for animals in China. It is the pioneer in creating complete formula feed, produces first-class products with high-quality raw materials, advanced formulas and modern equipment, winning the trust of the majority of farmers. The group has become a brand of safety, making the customers feel assured, thus setting a sample for Chinese enterprises in the feed industry. Chia Tai has also introduced modern enterprise management and operation method and related experience, and established a complete set of sound quality management and guarantee system. The feed standards, feed products and production performance indicators of Chia Tai, which represent safety, reliability and high nutritious level, have reached the advanced international level.

In the early 1990s, Chia Tai introduced the concept and professional technology of livestock-poultry breeding, as well as modern large-scale and standardized breeding. Such moves greatly improved the benefits, and helped to open the one-stop model of broiler chickens, forming a huge demonstration effect. Since the feed industry is closely connected with the planting and breeding industries, Chia Tai Group's investment in China's feed industry has greatly promoted the development of upstream and downstream industries. The wide application of high-quality feed has greatly improved the breeding capabilities of rural households, and has driven the transition of the breeding industry from the traditional "small-scale and scattered mode" to the "large-scale and professional mode". Taking broiler chicken breeding as an example, the modern breeding method adopted by Chia Tai not only helps the group to achieve a leap in the number of broiler chickens, but also implement the "order-based production" and "five unified" standardized breeding mode. These efforts have promoted the broiler chicken breeding industry to achieve qualitative improvement, and drive China to large-scale development of the industry. At the same time, Chia Tai was the first to establish a breeding chicken farm (Avian broiler chicken) in China, making the country no longer need to introduce breeding chicken from abroad. The quality of broilers is of world standards, and China has become an important broiler exporter in the world.

In addition, Chia Tai also provides rural households with immature breeding livestock and poultry, guides rural households in production management, purchases the products back, and even helps them solve financing problems. In this way, Chia Tai reduces their breeding risks, improves efficiency, and guides and supports them to embark on the road of large-scale and modern breeding, which has greatly promoted the development of China's agro industry and the transformation of its business modes.

In the 1990s, Chia Tai Group took the lead in introducing the business model which integrates broiler chicken incubation with feed production, breeding, slaughtering and deep processing to China. Since then, the one-stop model of agro industry management has been continuously replicated in China, and there has been an emergence of a large number of locally representative enterprises engaged in integrated processing of poultry, pigs and dairy

cows, as well as aquaculture. The one-stop business model has become the main choice for some large-scale feed enterprises to transfer to modern agro enterprises.

Since the 21st century, Chia Tai Group has been the first to construct a whole food industrial chain form farms to eating tables, which is safe, ecological, efficient and modern. Chia Tai Group has established a one-stop operation system in the whole industrial chain from breeding, hatching, breeding, slaughtering, deep processing and sale at the end. The group selects and breeds fine species, feeds the poultry with self-made feed which is safe and of high-quality in the whole process, and adopts the advanced and scientific breeding model as well as strict anti-epidemic system. As such, it ensures safe and high-quality production of livestock and poultry meat as well as egg products. Through strengthening the integrated management of livestock and poultry breeding and food processing, effective management is realized in all the processes from farms to food factories and to sales and circulation, and thus the whole-process monitoring from farms to eating tables is realized.

Chia Tai's feed industry in China has matured and will continue the investment in the breeding industry and food processing. At present, the breeding industry covers pigs, broiler chickens, laying hens, broiler ducks, fish, shrimps, etc. Chia Tai produces a wide variety of foods, including eggs, poultry meat, pork, aquatic products and other fresh food, quick-frozen food made of flour, snacks, instant meals, sausages and other instant food, as well as wine, tea and other drinks. Up to now, Chia Tai owns 92 feed enterprises with an annual production capacity of 16 million tons, and 19 food companies with an annual processing capacity of 1 million tons. The group also has 76 breeding enterprises with 8 million laying hens in stock and an annual egg production of 125,000 tons, an annual processing amount of 300 million broiler chickens, 3 million pigs, and 14 million broiler ducks, as well as an annual supply of 19.8 billion shrimps.

Characteristics 3: Chia Tai Group not only took the lead in introducing advanced concepts, technical equipment and capital in the feeding, breeding and agro industry to China, but has also cultivated a large number of talents in agro business, which wins the name of the Whampoa Military Academy of the agro industry in China.

Chia Tai Group is the first FIE to initiate and promote the localization of senior executives and talents in joint ventures in China, which not only greatly reduces the operation cost, but also cultivates a large pool of local talents for the group. Over the past 40 years, Chia Tai Group has cultivated generations of local Chinese elites, and has reserved batches of talents in the agro industry, who play a tremendous promoting role in popularizing advanced agro concepts and improving modern management. Chia Tai Group has organized various training courses, workshops and promotion meetings for agro enterprises in different places, benefiting tens of millions of rural households. The training on feeding techniques has made rural people specialized in breeding, and has helped them to expand the scale of operation and thus improve production efficiency. The training of expertise, skills and management level for

employees enables them to better adapt to the needs of modern breeding and become experts in the industry. At the same time, as a gesture of supporting the education in China, Chia Tai Group also donates to China Agricultural University, Zhejiang Agricultural University and South China Agricultural University to establish broiler breeding centers and training centers. It has made important contributions to the development and reserve of various talents in Chin's agro industry.

Characteristic 4: Chia Tai Group adheres to the philosophy of quality, safe and green development while adopting high international standards and the most advanced technology and equipment to ensure high-quality products and services. It strives to create Chia Tai's brand value, and be a paradigm for sustainable agricultural development.

Since the establishment of the first enterprise, Chia Tai Group has always insisted on constructing feed processing plants and food factories with the most advanced technology and equipment as well as high-quality employees in China, and investing in R&D. All these guarantee the quality of its products, which not only ensure the long-term sustainable development of the enterprise, but also play a demonstrating role in the agro industry. Chia Tai has built a large number of iconic modern breeding and food processing plants. In 2012, Chia Tai Group invested RMB yuan 720 million in Pinggu, Beijing to build a plant with a processing capacity of 3 million laying hens. The plant is currently the largest and most modernized poultry farming enterprise in Asia. In 2016, a total investment of RMB yuan 1.058 billion was injected to Chia Tai Food (Qinhuangdao) Co., Ltd. which has the first fully automated flour food production line in China. In the same year, a total of RMB yuan 1.8 billion was invested in Chia Tai Food (Qingdao) Co., Ltd. with an annual production capacity of 122,000 tons. Listed in the market, it is one of the most advanced and most automated food deep processing enterprises in Asia with the largest single factory investment. In 2014, Chia Tai Group invested RMB yuan 1.6 billion to build Chia Tai Food (Xiangyang) Co., Ltd. which is a modern large-scale pork food processing enterprise. It adopts world-class slaughtering and food processing technology and equipment, and holds a food safety management system that is traceable throughout the whole process. Annually, it processes and sells 100,000 tons of safe pork products.

Chia Tai Group has played an important role in ensuring food safety and developing agricultural recycling economy by building a whole industrial chain. Today, when food safety is exposed under the spotlight, on the basis of its whole industrial chain in the broiler and pig industry, Chia Tai Group adopts world-class automated production technology and equipment to implement the most stringent food safety monitoring system to provide consumers with convenient, safe, nutritious and delicious food. Chia Tai Food has established a two-way traceability system from farms to eating tables in the whole industry chain, covering 10 major modules, i.e. planting management, breeding management, product R&D, slaughtering, raw material acceptance, production and processing, product testing, product storage,

product transportation and customer experience. Key monitoring is carried out in planting, raw materials, processing and end-users. The company has passed the HACCP, ISO9000 and ISO22000, and obtained BRC (British Retail Consortium) certification, ensuring a comprehensive guarantee of food safety.

In 2010, Chia Tai Group invested Chia Tai Cixi Modern Agro-ecological Industrial Park. The project has formed three leading industries of high-quality grain, fine fruits and vegetables in connected areas and on large-scale. Meantime, large-scale livestock and poultry breeding farms are also constructed as supporting facilities to create an ecological and circular development pattern integrated with planting and breeding. Covering an area of 39,000 mu, it is a diversified industrial park integrating various functional blocks, including planting, breeding, food R&D, food processing, fresh vegetable and fruit logistics, livestock husbandry machinery manufacturing, real estate development, eco-tourism, financial services, e-commerce, training, and featured towns. It is thus also the largest comprehensive park covering most industries of Chia Tai Group in the world. At present, more than 20 enterprises have been established in Chia Tai Cixi Modern Agro-ecological Industrial Park with an investment of more than RMB yuan 2 billion. In June 2017, the Ministry of Agriculture and the Ministry of Finance issued the list of the first batch of national modern agricultural and industrial parks, in which Cixi Modern Agriculture Industrial Park took the second place. In the future, Chia Tai Cixi Modern Industrial Park will become a first-class and comprehensive model at home and abroad for the construction of modern agricultural industrial parks.

In 2016, Chia Tai Group completed and put into operation the 300-million-yuan Zhengyuan Project in Inner Mongolia, which features the whole industrial chain with a capacity of processing 1 million pigs. The project covers pig breeding and green planting, and has created an ecological farming model characterized by the integration of planting and breeding, and returning manure to the field. This model was awarded by the Ministry of Agriculture in the first batch of National Demonstration Base for Integrated Planting and Breeding in Utilizing Waste Resources in the Livestock and Poultry Breeding Industry. It is also a comprehensive demonstration project of the group in creating a green and circular whole industrial chain featuring integrated development of planting and breeding. Such efforts are of great significance for driving the modernization of the agro-industry in the region and accelerating into the era of agriculture 4.0.

Characteristic 5: Chia Tai Group has made important contributions to help rural households permanently overcome poverty and prosper through poverty alleviation projects by developing industries.

As a leading agro enterprise, Chia Tai Group has actively partnered with rural households, the government and relevant organizations since its presence in China. It has innovatively put forward the concept of targeted poverty alleviation by developing industries, and has been exploring and innovating the poverty alleviation development model in the

process, as indicated by early "company + rural household" model to the "four-in-one" model in recent years. This not only promotes the industrialization and modernization of the agriculture in China, but also makes poor households become shareholders of the poverty alleviation industries through such a model. They thus own self industries that enable them to achieve long-term poverty alleviation and income increase, bringing fortune and happiness to the majority of rural households including those under the poverty line. This model has been awarded the outstanding case for performing social responsibility issued by the Foreign-invested Enterprise Association of the Ministry of Commerce of China for many years.

In the 1990s, Chia Tai Group was the first to introduce and implement the "company + rural household" model, and Shanghai Dajiang was the first pilot enterprise in China. Later, it forged ahead with the time, and created the "four-in-one" model of "government + enterprise + bank + agricultural cooperation organization". This model was first successfully applied to Chia Tai's project in Pinggu, Beijing. The "four-in-one" model helps to integrate the competitive policies, technologies, capital and land resources held separately by the government, enterprises, banks and cooperatives, which addresses the bottlenecks represented by a shortage of funds, market and technology. The model mobilizes capital flow through establishing a multiparty financing platform, and operates the project based on the needs of professional cooperative organizations, which helps to achieve win-win results. At present, such a successful model of Chia Tai Group has been promoted to the fields of planting, laying hen breeding, pig breeding, food processing, etc. Chia Tai Group cooperated with the Zitong County Government of Sichuan Province to jointly build the whole industrial chain project of Chia Tai (Zitong) with a processing capacity of 500,000 pigs which integrates pig breeding, feed, slaughtering and deep processing. This new model "1+5" poverty alleviation by developing industries, characterized by integrated planting and breeding and ecological circulation, benefits rural households under the poverty line, and plays a leading and demonstrating role in industry-driven poverty alleviation, targeted poverty alleviation and green development. Chia Tai Group has also carried out other types of poverty alleviation projects through developing various industries according to local conditions. The group implements protection price purchase policy for tea and grapes grown by rural households including those under the poverty line, thus ensuring their income, avoiding risks in planting, and achieving long-term poverty alleviation.

Future prospects

Adhering to the vision of "becoming the kitchen of the world, and being the supplier of human resources", Chia Tai Group is committed to building a whole industrial chain in the modern agro-food industry consisting of seed, planting, feed, breeding, slaughtering, food processing, logistics and end sales. With nearly 100 years' experience in the industry, Chia Tai

Group is committed to being the model for the large-scale operation of the agro-food industry in the world.

Chia Tai Group adheres to the development strategy of "high standard, high efficiency and low cost" in the industrial chain. In the future, it will achieve an annual processing of 3 billion broiler chickens and 45 million pigs for market, 60 million laying hens in stock (with an annual egg production of 1 million tons), and 120 billion shrimps, which will greatly boost feed sales. Within five years, the group is planning to build 2,000 modern and intelligent small and medium-sized food processing factories, open 1 million restaurants with a featured product for each one, and train a team of "self-employed bosses" in China. Chia Tai Group will also build the national leading modern agro-food industry + Internet innovation center, and continue to incubate innovative projects to fully support the realization of Chia Tai Group's 4.0 strategic vision, and continuously advance the upgrading of the agro-food industry and rapid socio-economic development.

Over the past 40 years, Chia Tai Group has participated in and witnessed the glorious course of the reform and opening-up. As China develops and prospers, the group has made indelible contributions to China's reform and opening-up, economic development, and especially agricultural modernization. In the future, Chia Tai Group will forge ahead while remaining true to its original mission, unswervingly push forward its investment and development strategies in China, and produce more and better products to the Chinese people.

Case 3 Yihai Kerry invests in China

Advancing the grain and oil industry in China with innovative approaches

China's reform and opening–up given rise to the miracle of Wilmar International and Yihai Kerry

The 40 years' reform and opening–up has fueled the rapid economic and social development in the country, which has created tremendous development opportunities and space for FDI and overseas Chinese enterprises. Among them, Singapore Wilmar International Group and its subsidiary in China, Yihai Kerry Group, are typical representatives.

Yihai Kerry Group represents the enterprise group with Yihai Kerry Arawana Grain and Oil Co., Ltd. at the core. It is invested by Singapore Wilmar International Limited, founded by the famous patriotic overseas Chinese Mr. Robert Kuok and his nephew Mr. Kuok Khoon Hong, integrating grain and oil processing, sales and other businesses in mainland China.

Established in 1991, Wilmar International Co., Ltd. is a leading agribusiness group in Asia with more than 93,000 employees, over 900 manufacturing plants in over 30 countries and regions mainly in Asia, Africa and countries along the Belt and Road and an extensive distribution network covering 50 countries. It ranked 258th in the Fortune Global 500 list in 2019. Its business cover palm planting, oilseed crushing, edible oil refining, sugar processing and refining, consumer products, specialty fat, oleochemical, palm biodiesel and fertilizer manufacturing, as well as flour and rice processing, etc. The core of Wilmar International's strategy lies in an integrated agricultural model that covers the entire value chain of agricultural commodities business, links the cultivation, processing, production and sales of agricultural products, and touches upon the production of a variety of agricultural products. Wilmar International advocates sustainable development and is dedicated to being a corporate citizen who protects the environment, benefits the society, and shoulders the responsibility of world undertakings.

As a subsidiary of Wilmar International in China, Yihai Kerry has invested more than RMB yuan 30 billion in China in cumulative terms, and employees 27,000 people. It has more than 70 production bases completed or under construction, over 100 production–oriented entities, and more than 200 comprehensive processing workshops in 26 provinces, autonomous regions and municipalities directly under the central government across the country. Yihai Kerry is mainly involved in industries such as oilseed crushing, edible oil refining, specialty fat, oleochemical, corn deep processing, soybean intensive processing, rice circular economy, wheat deep processing, raw and auxiliary materials of food, grain and oil technology R&D. Famous brands under Yihai Kerry include Arawana,

Olivoila, Orchid, Wonder Farm, Neptune, Fengyuan, Golden Delicious, Reyland, Jiejin 100, etc. Its products cover fields such as small-package edible oil, rice, flour, fine dried noodles, rice noodles, soymilk, special grains and oils for the catering industry, raw and auxiliary materials of food, and oleochemicals. The Group has also established a convenient distribution network with connected outlets covering a wide area, thus serving the consumers in an all-round manner.

Yihai Kerry Supports the Economic and Social Development and the Modernization of the Grain and Oil Industry in China

Those who take the fruit should never forget the tree that bears it, and those who take the water the source. Wilmar International and Yihai Kerry have been benefiting from China's reform and opening-up, and with a grateful heart, have gone all out to participate in and support the economic construction and people's livelihood in China for more than 40 years.

1. The leader of the modern edible oil industry and market system in China

Before the reform and opening-up, there was no modern edible oil industry or oil market; however, changes happened in 1988 when Nanhai Oil broke the ground. It is China's first modern oil processing plant which was completed and put into production in 1989. In 1991, China's first small package refined edible oil was rolled off the production line in Nanhai Oil, which opened a new era for the edible oil industry in China. Three important changes occurred in the following years.

- At the product level: The Chinese people gradually bid farewell to the virgin oil in bulk, and ate refined oil packaged in transparent small bottles. The dishes thus became more hygienic, more nutritious and healthier.
- At the industry level: In less than 20 years, China had built the world's largest, most technologically advanced, and the most sufficiently supplied edible oil industrial system with the most abundant varieties and most stable price from scratch to flourishing, from small to large, and from weak to strong.
- At the market level: China has gradually established a modern edible oil market system, spearheaded by brands and covering traditional, modern, special and e-commerce channels. Urban and rural residents can purchase their favorite edible oil products in the most convenient way, and bid farewell forever to the oil ticket and rationing system.

It is fair to say that the oil industry is one of the most successful outcomes of the 40 years' reform and opening-up in China. Yihai Kerry introduced the business philosophies of small packaging and branding as well as modern technology and management to China. In addition, it has led and promoted the continuous transformation and upgrading of China's edible oil

industry to realize leap-forward development through scientific and technological innovation, as well as product and marketing innovation. While developing itself, the group has helped China to cultivate a number of local brands like Luhua and Fulinmen.

2. It supports the innovation in grain and oil technologies of the country and improves the competitiveness of China's grain and oil industry

Although China is a major grain-producing country, there is still a great gap in terms of the development level with developed countries such as those in Europe, as well as the US, Japan and South Korea, due to the late openness of the grain industry, high thresholds, and insufficient investment in innovation. Therefore, Wilmar International has been trying to get involved in the grain industry since 2006, and has created a series of world-leading innovative industrial models and development concepts with economic and social benefits, such as the "rice circular economy model", "domestic soybean intensive processing model", as well as "oil circular economy and green chemical industrial chain".

- Rice circular economy model: Yihai Kerry has invested more than RMB yuan one billion in the R&D of the model which has become a world's leading rice processing innovation model. It not only increases rural households' income and benefits the consumers through high-quality rice orders, but also makes full use of rice husks and bran to become valuable resources, which would be wasted by-products originally. Rice husks are used to generate power. In addition to meeting the enterprise's needs for production and living purposes, rice husk ash can also be processed to white carbon black, activated carbon, polysilicon and other products. Rice bran is used to extract highly nutritional rice oil, as well as oryzanol and other highly valued nutrients. There is an RMB yuan 800 increase in output value per ton of rice compared with the traditional model.
- This model brings about significant social and economic benefits. For example, rice bran oil, as a by-product of rice processing, is characterized by "not competing for land with the grain". If it is applied nationwide, China will see an increase in oil supply by more than 2 million tons, equivalent to the oil produced with 110 million mu of soybeans. This is of strategic significance for a country with a high foreign dependence on oil. In another example, with the support of Yihai Kerry's rice husk power generation technology, the full utilization of rice husks in the country is equivalent to replace 25 million tons of coal annually, which will reduce 300,000 tons of SO_2 emissions. White carbon black, activated carbon and other high-value products from rice husk ash not only bring additional benefits to the enterprise, but also replace non-renewable mineral raw materials such as quartz sand, thus supporting to reduce pollutant emissions. In 2018, related outcomes of the "rice circular economy" model developed by Yihai Kerry were selected in the "Made in China 2025" plan as a representative of the grain and oil processing industry.

Domestic soybean intensive processing mode: In order to change the gradually shrinking domestic soybean output, Yihai Kerry has invested huge amounts of R&D funds and developed an internationally leading domestic soybean circular economy model. This mode enables the intensive processing of domestic soybean to produce 202 kinds of products, such as edible soy flour, low fiber, concentrated protein, protein isolate, tissue protein and molasses, realizing 100% value-added conversion and comprehensive utilization of soybeans. Under this industrial model, every ton of soybeans outputs a final value as high as RMB yuan 5,306, which is a more than RMB yuan 1,300 added-value compared with the raw material price of RMB yuan 4,000. This model gives rural households higher prices, and mobilizes their enthusiasm to grow soybeans, thus guiding China's soybean industry into a virtuous circle.

- Model of green processing and utilization of oil by-products: Most of the traditional oleochemical raw materials are non-renewable and consume resources. At the same time, most of the waste produced during edible oil pressing and food processing is not fully utilized, which puts relatively high pressures on environmental consumption and pollution. In order to solve these problems and realize green and circular industrial development, Yihai Kerry has invested huge amounts of funds to support the research team to carry out technological innovation. The outcome is the green processing and utilization model of oil by-products, characterized by intensive, circular and green utilization of resources. Under this model, by-products of saponin, after soybean refining, can be used to produce acidified oil after acidification; spent bleaching clay to extract industrial oil; and some raw palm oil to produce palm stearin and palm oil fatty acid after refining, which will be used as oleochemical raw materials. At the same time, Yihai Kerry also purchases waste frying oil in the food processing industry (such as instant noodle processing enterprises and chain fast food enterprises), and produces neat soap for large-scale detergent manufacturers (such as Procter & Gamble, Unilever, Libai, Keon, etc.). Yihai Kerry started its oil business in 2004, and currently operates more than 10 production bases and industrial parks in 6 cities including Shanghai, Tianjin, Lianyungang, Dongguan, Taizhou and Yichun. In 2018, it achieved a sales volume of 1.8 million tons, and led the country in sales of fatty acid, neat soap and glycerin.

3. Yihai Kerry supports the national macro-control regardless of the cost to ensure the stability of the grain and oil market in China

As a large-scale backbone enterprise, Yihai Kerry actively fulfills its mission and responsibility for ensuring food security and food safety of the country. For example, under the backdrop of the fluctuating grain and oil prices between 2008 and 2010, Yihai Kerry acted according to the uniform arrangement of the national macro-control, and made all-out

efforts to produce under price inversion. It suffered losses of more than RMB yuan 2 billion to guarantee market supply from all respects.

In earthquake relief and emergencies, Yihai Kerry has taken its advantage of high efficiency in supply organization and sound layout of outlets, and spares no effort to guarantee emergency supply. It has remarkably completed all previous tasks and is thus highly recognized by relevant state departments.

4. Yihai Kerry actively carries out charitable activities and take the initiative to participate in poverty alleviation

Since its entry into China, Yihai Kerry has carried out extensive and sustained poverty alleviation activities throughout the country. Only since 2007, it has poured hundreds of millions of yuan in supporting education, caring for the elderly, helping the poor, and caring for the disabled, and has achieved sound social benefits. Yihai Kerry Group takes fulfilling its social responsibility as an important mission of the enterprise, and continuously creates opportunities conducive to equal development for the poverty group to share the fruits of enterprise development with the whole society. After years of exploration and practice, Yihai Kerry Group has gradually implemented multiple disaster relief and poverty alleviation projects for charitable purposes and public welfare, such as "Yihai Kerry Education Aid Project", "Arawana Eye Recovery Project", "Arawana Scholarship", "Arawana Disabled Aid Project", "Yihai Education Aid Center", and "Arawana Cooking Class". In particular, the education aid project has established 31 primary schools and 2 education aid centers, supporting more than 90,000 children from families living with difficulties.

In recent years, Yihai Kerry has actively participated in poverty alleviation activities. In 2015, after General Secretary Xi Jinping called for comprehensive poverty alleviation, Yihai Kerry Group was among the first to make a positive response. As one of the largest grain and oil processing enterprise groups in China, Yihai Kerry has taken advantage of the grain and oil processing plants distributed nationwide, and actively explored solutions to address the problem of difficulties in selling agricultural products and increasing income. The group invests billions of yuan each year, and purchases nearly one million tons of agricultural products such as rice, wheat, oilseeds, miscellaneous grains, and peppers from more than 80 national-level poverty-stricken counties. The integration of the primary, secondary and tertiary industries enables rural households to enjoy the benefits of the added value in the processing industry, thus eliminating poverty. For example, in Huachuan County and Huanan County of Heilongjiang Province, the rice purchasing orders of Yihai Kerry make the households achieve a stable increase in their income by more than RMB yuan 200 per mu, which makes poverty alleviation more secure, more stable and sustainable.

In order to better help national poverty-stricken counties to achieve their goal of poverty alleviation, Yihai Kerry continues to increase its efforts in industry-driven poverty alleviation, and directly establish numerous projects in key areas of poverty alleviation. In 2017, Yihai

Kerry partnered with Yu County of Hebei Province to establish new models of industry-driven, education-driven and employment-driven poverty alleviation, and explored new models of industry-driven poverty alleviation in Yu County, such as the millet-driven model. In 2018, Yihai Kerry invested more than RMB yuan 8 billion in Fuyu County to build a comprehensive modern agricultural industrial park including the grain and oil industry. The group connects its individual development with local economic development and homestretch-poverty alleviation, and vigorously carries out industry-driven, employment-driven and public welfare-driven poverty alleviation. Firstly, the group takes advantage of the order-based model among others to establish a stable production and marketing mechanism and interest linkage mechanism with filed poverty-stricken households. Such a model helps to foster and stimulate the endogenous force for poverty alleviation, and supports poverty-stricken households to achieve stable poverty alleviation. Secondly, the Fuyu Industrial Park project has employed more than 5,000 people, with the priorities given to hire the people living under the poverty line. The industrial park helps poor households to find employment and increase their income through work. In addition, the group is also carrying out education-driven poverty alleviation projects and public welfare assistance activities which provide direct assistance to the poor.

Thanks to the contribution of Yihai Kerry in charity and public welfare, its Qinhuangdao Jinhai Industry was honored as "National Advanced Group for Supporting the Disabled People", won the 4th, 8th and 10th China Charity Award issued by the Ministry of Civil Affairs in 2009, 2013 and 2018, respectively. In 2018, Kuok Khoon Hong, the chairman of Yihai Kerry, became the first foreigner to receive the honor of the National Poverty Alleviation Award.

Yihai Kerry Supports the New Round of Reform and Opening-up with Practical Actions

Overseas Chinese, especially the business communities of overseas Chinese, are important participants, supporters and witnesses of China's reform and opening-up and economic and social development. They are important forces in developing modernization and realizing the Chinese Dream of the great rejuvenation of the Chinese nation. As representatives of overseas Chinese enterprises, Wilmar International and Yihai Kerry have decided to continue to increase investment in the Chinese mainland, and actively participate in "the Belt and Road" construction. The executives even consider making Yihai Kerry and even Wilmar International a real Chinese company through listing in the main board of the Chinese capital market, supporting the new round of reform and opening-up with practical actions.

1. Yihai Kerry is increasing investment in China and feels full confident for future development prospects of China

Yihai Kerry firmly believes that China will become the world's largest economy and bring huge business opportunities to investors. Yihai Kerry has invested a total of more than

RMB yuan 30 billion in China, and is planning to invest far more in China in the next 3 to 5 years than that in the previous 30 years. The group will mainly focus on areas demanding high technical standards which the country encourages FDI to invest. Tangible efforts include newly establishing more than ten new large-scale projects, and upgrading more than 40 existing factories from all respects.

The group has full confidence in the development prospects of the Chinese economy and in the governance capability of the central government. The Chinese economy enjoys a solid foundation, strong development momentum and huge development potential. According to the current economic development rate, China will double its GDP in the next decade. This will propel a substantial increase in the total amount of food consumption in China, which at the same time, demands food quality to reach the world's advanced level with large steps forward, which indicates huge business opportunities and market changes.

Yihai Kerry has deeply encouraged and inspired by China's policy of deepening reform and opening-up since the 18th National Congress of the CPC, after which the central government has mounted efforts in the reform. Measures taken include streamlining government approval, respecting market rules, reducing distortions in market mechanisms by administrative interventions, and improving the business environment. The reform efforts have been further intensified after the 19th National Congress of the CPC. As these reform measures yield tangible results, Yihai Kerry has witnessed and experienced the tremendous progress in the Chinese market environment and legal environment since the 18th National Congress of the CPC, and thus feels very optimistic for its development orientation. Yihai Kerry firmly believes that these measures constitute a firm and strong guarantee for FIEs to improve their operational efficiency, guarantee fair competition and safeguard their legitimate rights and interests. This will for sure reinforce the confidence of market players and release the domestic economic development momentum.

As an overseas Chinese enterprise, it should share the same breath and fate with the motherland. As the decision-maker of the group, Mr. Robert Kuok and Mr. Kuok Khoon Hong have repeatedly stressed that while investing in the motherland, the group should focus on the well-being and long-term benefits of the most compatriots, and should not make a profit as the sole purpose. There is still a way to go for China's grain and oil industry to narrow the gap with developed countries in comprehensive processing, intensive processing, green development, brand building and international competitiveness improvement. Therefore, overseas Chinese enterprises such as Wilmar International are needed to push the transformation and upgrading of the grain and oil industry in China.

2. Yihai Kerry supports "the Belt and Road" construction and aims to be a bridge and outpost for the new round of opening-up in China

"The Belt and Road" Initiative plays a particularly important role in the new round of opening-up strategy of China. Considering the different culture and business environment

between China and countries and regions along "the Belt and Road", it has been a major test for many Chinese companies in controlling the market and cultural risks. China boasts a large pool overseas Chinese communities who have established a good network of social relations in the country of investment, and are familiar with local politics, civil and business conditions as well as resource endowments. Further, they have established mature commercial channels and are experienced in operations, and most of them hold dear and deep feelings for the motherland.

As an overseas Chinese group, Singapore Wilmar International Group started from the tropical oil business in Southeast Asia, and gradually expanded its business to South Asia, Central Asia, Australia, Africa, Eastern Europe and Far East Russia among other regions. In the process, it gradually developed into the most influential grain and oil enterprise group along "the Belt and Road". If the country is in need, Wilmar International is willing to give full play to its unique advantages and build bridges for agricultural cooperation between China and countries along "the Belt and Road" to support the new round of opening-up with practical moves. In addition, it is recommended that the country issue more investment and trade incentive policies to countries along "the Belt and Road", such as increasing the number of goods enjoying preferential tariffs on imports for Africa, lifting inspection and quarantine barriers for importing agricultural products from Russia, Kazakhstan and Ukraine, encouraging to construct warehousing and transferring facilities along the borders in Manchuria and Xinjiang to facilitate the import of edible oil, grain and oilseeds in bulk, and granting special import quotas for commodities such as wheat from Kazakhstan, as well as rice and sugar from Myanmar.

3. Actions are made to list the group on China's mainboard, and play the benchmarking and leading role of overseas Chinese enterprises

Wilmar International, the largest listed company in Singapore, was listed on Singapore Exchange in 2006, and held a market value of RMB yuan 99.1 billion as of July 31, 2018. Since the 18th National Congress of the CPC, the Party Central Committee and the State Council has made continuous efforts in deepening reforms and expanding opening-up. Under this backdrop, the management of Wilmar International has further strengthened its determination to take root in and serve the motherland, and highly recognize the development prospects of the country. Wilmar International intends to divestiture Yihai Kerry, an important part of the currently listed assets, so as to promote its listing back in the capital market of mainland China. It aims at turning Yihai Kerry into a modern enterprise owned, governed and shared by the Chinese, which will further integrate into the domestic economic system to better serve the reform and opening-up and food security strategy in China.

Yihai Kerry's application for A-share listing reflects the confidence of the large-scale overseas Chinese enterprise groups in the country and their determination to continue to support the country's development. If the application is approved, it will be conducive to

take advantage of the benchmarking and demonstration effects of patriotic overseas Chinese enterprises. It will encourage overseas Chinese, while focusing on national development strategies, to give full play to the edges and resources of the capital, technology, management and network. As such, they will contribute to the campaigns against the three major challenges, build bridges for promoting "the Belt and Road" construction, and bring new momentum to the new round of deepening reform and opening-up. All such efforts aim at making new contributions to realize the Chinese dream of the great rejuvenation of the Chinese nation from all respects.

In the past 30 years since entering China, Yihai Kerry has enjoyed sound development with stable profitability consecutively for years. All major business indicators lead the industry, indicating sound business expansion capability and sustainable development potential, which brings stable and predictable returns to investors. If Yihai Kerry is successfully listed, domestic investors can have the opportunity to share the stable profits of its operation and development. As part of the Singaporean listed company Wilmar International, Yihai Kerry currently holds a wide range of low-cost financing channels, and quite a number of international financial capitals have been looking for opportunities to invest in Yihai Kerry. It is worth noting that Yihai Kerry should attribute today's achievements to the reform and opening-up in China, be grateful to the support of the Party committees and governments at all levels, and give back to the trust of thousands of Chinese consumers. One should never forget the water source as he drinks. Yihai Kerry should create the opportunities for domestic investors to share the benefits of Yihai Kerry's development, through the listing on the A-share market.

4. Yihai Kerry has enhanced the scientific and technological innovation capability of the grain and oil industry in China

Subsidiaries of Wilmar International have set up R&D facilities in China, Russia, Malaysia, Singapore, Indonesia, India, Vietnam and Australia among other countries and regions. In November 2009, Wilmar International invested to establish Wilmar (Shanghai) Biotechnological R&D Center Co., Ltd. in Shanghai, China (i.e. Yihai Kerry R&D Center, hereinafter referred to as the R&D center), with the aim of supporting China to realize the transition from a major grain-producing country to a power of the grain and oil industry. From a global perspective, the R&D center gathers top talents specialized in the scientific and technological research of agriculture, grain and oil industry to engage in technological innovation. The R&D center promotes the technological transfer of cutting-edge technology to China, and helps Yihai Kerry Group to drive China to transfer from a "major grain and oil consumption country" to a "power in grain and oil technologies". In this way, it makes the country hold the right to speak in the international grain and oil community with practical actions.

The chairman and legal person of the R&D center is Prof. Nam-Hai Chua who is a world-

famous plant molecular biologist, a tenured professor of Rockefeller University, and a foreign academician of the Chinese Academy of Sciences. The R&D center also hires scientists from home and abroad in the industry as senior consultants to form a research team. It currently has about 300 researchers, of which nearly 70% holds master's and doctoral degrees of well-known universities at home and abroad, and hires a large number of experienced R&D project managers who are familiar with the market.

Up to now, the R&D center has invested a total of several billion yuan and has become one of the largest pure R&D centers in the global grain and oil industry. In the R&D building covering about 40,000 m^2 are nearly one hundred laboratories and more than 1,000 scientific equipment, including gas chromatography-, liquid chromatography-, gas-liquid combined chromatography-, and inductively coupled plasma mass spectrometers, as well as four-stage tandem rod time-of-flight mass spectrometers, and mid-infrared/near-infrared spectrometer among a large number of advanced equipment which represents an asset worth nearly RMB yuan 100 million. In order to meet the needs of industrial transformation of R&D results, Yihai Kerry Group has established a number of pilot test bases in Shanghai, Lianyungang, Qinhuangdao, Kunshan, Qingdao and Fangchenggang, all with complete experimental and piloting conditions to carry out technological research, product design, as well as pilot testing.

Since its establishment, the R&D center has focused on five priorities of grain and oil technology and product development, new product and technology consulting, product technology services, scientific and technological cooperation and exchange, and cultivation of professionals in the grain and oil industry. The R&D center makes innovative R&D in cooking oil, special oil, grains, food and oleochemical, with the commitment to improve the current grain and oil processing technology and product quality. It strives to develop green and white biotechnology, lead the advanced consumption philosophy and support a healthier life. At the same time, the R&D center also focuses on providing transformation and upgrading solutions for grain and oil enterprises to achieve sustainable development goals of continuous resource optimization, energy consumption reduction and environmental friendliness. Annually, the group invests 3-5% of its profit as R&D funds in grain and oil research projects. Up to now, more than 500 scientific research results have been or are being patented.

Case 4 Nestlé invests in China

Nestlé leads sustainable development in China

China becomes Nestlé 's second largest market in the world

Founded in 1866 and headquartered in Vevey, Switzerland, Nestlé is currently a world-renowned food and beverage producer dedicated to nutrition, health and well-being. Nestlé owns more than 2,000 brands worldwide, covering infant nutrition, drinking water, coffee, pet food, professional solutions, dairy products, health sciences, frozen food, condiments, etc. In 2018, the turnover was 91.4 billion Swiss francs.

The importance of the Chinese market increased after China became the world's second largest economy. Since 2013, China has become the second largest market for Nestlé Group in the world. In addition to the increase in business volume, this change in place has also significantly enhanced the influence of the Chinese market on other markets, and strengthened the leading role of Nestlé China's management team in determining the group's investment in China. At present, Nestlé operates 31 factories, 3 Innovation Centers and 3 R&D Centers (Beijing, Shanghai, Dongguan, Shenzhen, Xiamen and Taizhou), 1 Dairy Farming & Training Center (Shuangcheng, Heilongjiang Province), 1 Nestlé Coffee Center (Pu'er, Yunnan Province), 1 Food Safety Research Institute (Beijing), and 4 Customer Exchange Centers, and hires more than 40,000 employees.

Nestlé 's main product categories in the world are almost all produced and sold in China. At the same time, it also provides quality products to consumers through local brands such as Totole, Yinlu, Hsu Fu Chi, Dashan, Wuyang and Haoji.

Different from many food companies, Nestlé pays special attention to developing agricultural raw materials locally, which is also adopted in its operations in China. For example, the construction of dairy areas in Shuangcheng (Heilongjiang Province) and Laixi (Shandong Province), as well as coffee plantation projects centered around Pu'er (Yunnan Province), which all have been successful and recognized.

Since its establishment in Beijing in 1996, Nestlé Greater China has actively responded to and supported the development policy of the headquarters economy in the capital. It is the first multinational recognized as a regional headquarters in Beijing, with the serial number being 001 unchanged.

In 2008, Nestlé Beijing R&D Center was established. This R&D center focuses on consumer-oriented innovation, and mainly providing services to Chinese consumers and those in other Asian countries and the wider region. It also works closely with local universities and R&D institutions in China. In 2019, as Nestlé Beijing R&D Center was relocated to Wangjing, the distance to Nestlé

China Headquarters was further narrowed, which is conducive to close communication between the two. Based on close interaction and partnership with all parties, Nestlé Beijing R&D Center will deeply identify the needs of the consumers and the trends accordingly, thus creating more efficient, more innovative and healthier food solutions for Chinese consumers.

Creating shared value: Nestlé and China's dairy industry development

"Creating shared value" is the cornerstone of Nestlé 's business philosophy and an integral part of its business strategy. Nestlé believes that for an enterprise to achieve long-term success, it must create value not only for the shareholders, but also for the communities in which it operates, and for the society. Commitments to social responsibility must advance beyond the practice of merely following laws and pursuing sustainability. Nestlé thus put forward the solution of "Creating shared value", with a special focus on water, nutrition and agricultural community development. These areas are at the heart of Nestlé 's business activities running through the company's entire value chain.

The dairy, nutrition and ice cream business are pillars of Nestlé Group. The dairy business is also an important business of Nestlé China. Shuangcheng Nestlé , its first project in China, produces adult milk powder, cereals and infant formula. At present, Nestlé holds two dairy factories in China, one in Shuangcheng (Heilongjiang Province) and the other in Laixi (Shandong Province).

The history of Nestlé China also features the stories between Nestlé and the development of the dairy industry and agricultural communities in China. Like Nestlé 's other dairy plants around the world, Nestlé China performs a complete set of scientific methods and models for the development and control of milk source bases.

Under the rapidly changing market demand, Nestlé adopts a modern approach to cope with the development needs of the dairy industry, and assists dairy farmers to scale up from individual farming to village collective farming and even to large-scale ranches. This helps to fundamentally optimize the feeding of dairy cows, increase milk production, improve milk quality, and increase the income of dairy farmers. As such, sustainable development is brought to the next generation of dairy farmers who will be made to become entrepreneurs producing more commercially competitive milk, which will further turn Shuangcheng to become of the most reliable and safest milk-producing areas in China.

At present, the stable relationship between Nestlé and the rural households and ranches in Shuangcheng, on the one hand, guarantees the direct transfer of agricultural technologies to diary farmers to improve milk quality and output. On the other hand, it ensures that they obtain long-term stable and reliable income through dairy farming, thereby improving the standard of living of dairy farmers in Shuangcheng.

Nestlé China decided to invest in Nestlé Dairy Farming & Training Center in

Shuangcheng, as a means to improve sustainable development through the modernization of dairy farming. The center is professionally designed and equipped with demonstration farms aimed at increasing the capacity of farmers, professionals, students and investors in the dairy industry (the center is open to all those engaged in the dairy industry).

Completed in October 2014, Nestlé Dairy Farming & Training Center, with advanced training facilities, is located in Shuangcheng, Heilongjiang Province. It is designed with a training center and two dairy farms of different sizes. By partnering with first-class domestic and international universities, as well as leading companies in all areas concerning dairy farming, Nestlé Dairy Farming & Training Center is able to provide world-class training and ranching practices for those involved in the dairy industry across the country.

At present, Nestlé Dairy Farming & Training Center focuses on economic benefit management. In order to build top-notch ranches in China, the ranch management team works with DFI partners to form a strong alliance in studying the reasonable mix of feed, improvement in the comfort of dairy cows, bio-safety management, milking process and application of information management. They develop scientific management processes that are strictly implemented to achieve a sharp rise in the KPI index of the ranch.

Creating shared value: Nestlé Coffee in China

Globally, Nestlé does not operate any of its own commercial coffee plantations. Instead, Nestlé focuses on developing sustainable coffee farming in remote rural areas of the countries in which it operates. As long as there is the possibility, Nestlé will help the country in which it operates to become a producer of finished products with added value and of raw materials. For example, in China, Nestlé not only purchases coffee beans from Yunnan, but has also established a coffee production plant in Dongguan (Guangdong Province) and Laixi (Shandong Province).

Through this global coffee policy, Nestlé has contributed to the significant improvement in the living standards of tens of thousands of coffee farmers and suppliers across China and around the world. In the meantime, providing technical assistance to farmers is an important part of the coffee policy. The technical assistance includes passing on expertise and experience related to the sustainable production and processing of coffee beans. During the training, Nestlé encourages coffee farmers to exchange expertise and experience, and provides various technical materials for them. In addition, Nestlé also encourages farmers to improve quality and productivity, thereby helping them to increase their income.

Nestlé 's coffee development strategy in Yunnan follows a globally successful and widely accepted mode of operation. The essence of the strategy lies in the practice of prioritizing long-term rather than short-term benefits. Therefore, Nestlé believes that any activity and investment can only bring long-term benefits to the group so long as the country gains.

After more than 20 years of hard work, Nestlé 's coffee plantation activities in Yunnan have exerted a profound impact on the regional economy. Pu'er (Yunnan Province) has gradually developed into a high-yield and high-quality coffee bean production area that has attracted the attention of the global coffee industry.

Nestlé has helped Yunnan to develop coffee bean production to ensure that the group can source high-quality coffee beans for the production of Nestlé coffee. Now, Nestlé has become a stable, reliable and fair buyer of coffee beans from Yunnan, which helps Pu'er to achieve economic prosperity in the province.

Yunnan boasts an ideal climate for coffee plantation. Nestlé has always been committed to ensuring that the beans planted by coffee farmers meet high-quality standards. In the process of achieving this goal, Nestlé 's technical assistance and training are the keys to success. Nestlé not only passes on advanced and sustainable planting methods in the region, but also introduces a new variety of high-yield arabica coffee. These efforts have promoted the overall development of coffee plantation areas in Pu'er (Yunnan Province).

In 1992, Nestlé China opened a coffee agronomy service in Yunnan Province to provide technical advice to coffee farmers, and support local coffee development. Meanwhile, the group has also cultivated coffee seeds suitable for local soil conditions and climate to increase the yield and quality of its coffee beans.

The presence of Nestlé has catalyzed coffee development in Yunnan, and promoted local coffee plantation and overall economic development in the region. Today, there are about 123,000 rural households engaged in the coffee plantation in Yunnan. They grow about 104,000 hectares of coffee with an annual yield between 70,000 and 80,000 tons.

It is obvious that the presence of Nestlé has catalyzed coffee development in Yunnan, and promoted local coffee plantation and overall economic development in the region. Nowadays, coffee has become one of the main local crops.

In the meantime, Nestlé has been tirelessly providing coffee farmers in Yunnan with the most advanced expertise and technology to enhance the growth and competitiveness of the local coffee industry. Efforts are made to create a reputation among global coffee buyers and enthusiasts, and ultimately drive the demand for coffee beans planted in Yunnan.

So far, Nestlé has sent six generations of foreign experts and a team of Chinese experts to work in Yunnan. The foreign experts include John Pater, Hans Fessler, Marrten Warnderff, Jan De Smet, Wouter De Smet and Gonzalo Contreras. Mr. Wouter De Smet, a Belgian, is the son of the fourth-generation expert Jan De Smet, and has worked in Yunnan for nearly 10 years.

During his 2014 visit to Belgium, President Xi Jinping published a signed article in the local media Le Soir, and mentioned the story of Wouter De Smet who helped coffee farmers to become prosperous in Yunnan. He thus is a typical example of enhancing the friendship between the Chinese and Belgian people.

In 2010, Nestlé launched the Nestlé Coffee Program, a global initiative designed to

create value for all stakeholders in the coffee supply chain, from coffee farmers to consumers and to Nestlé itself. The program includes a series of goals to optimize Nestlé 's coffee supply chain. Based on the 200 million Swiss francs invested in the past decade, Nestlé will invest another 500 million Swiss francs in its coffee project by 2020.

In June 2012, Nestlé 's coffee plantation project in Yunnan won the "Global Business and Development Award" on the eve before the UN Sustainable Development Summit in Rio de Janeiro, Brazil. The awarding activity was hosted by, inter alia, the United Nations Development Programme to promote business activities playing an active role in the development of communities an enterprise operates. In the same year, Nestlé 's efforts were also awarded the "Best Practice Award for Social Development" at the First Annual Conference of the United Nations Global Compact Network China.

In 2016, Nestlé Coffee Center was established in Pu'er. The center integrates training, technical assistance, experimentation and modern warehousing, providing a new and larger platform of cooperation for the development of the local coffee industry.

In addition, since 2014, Nestlé has been running a scholarship program in Yunnan, which is open to outstanding students from filed rural households of Nestlé 's Agronomic Service Center engaged in the coffee plantation. The program encourages them to receive high-level professional education, and recognizes the contribution made by rural households in the local coffee industry. Nestlé Scholarship provides 5,000 yuan/year/person, and supports as long as 4 years for outstanding students. It is open to undergraduates, and in-school students at junior colleges and vocational schools.

Nestlé is the first multinational to invest in agriculture in southwest China. It has been adhering to the business philosophy of "creating shared value" and partnering with Yunnan Province to promote the industrialization of coffee production.

Creating shared value: healthy children with Nestlé

As part of the Chinese Children's Nutrition, Health and Education Program, Nestlé launched the Global Healthy Children Programme in 2010 to address the dual challenges of obesity and malnutrition. In recent years, as the quality of life continues to improve, there has been a significant increase in obesity, especially among adolescents. At the same time, due to the lack of important micronutrients such as calcium and iron, more and more children, especially those in rural areas, are suffering from malnutrition. According to the fourth survey on the nutritional and health status of Chinese residents, in larger cities, the proportion of overweight or obese children aged 7-12 is nearly a quarter for boys, and 15% for girls. Among those aged 6-17, about 12.7% suffer from anemia. Among those aged 6-12, 2.9% lack vitamin A. Children in rural areas are three times more likely to experience low body weight and growth retardation than those in urban areas. In addition, the data also show that 13.8% of

children aged 6–12 in rural areas suffer from anemia, and 10.4% lack vitamin A.

Nestlé Healthy Children Program is carried out in collaboration with the Chinese Nutrition Society, with the aim to improve the nutritional and health status of the children aged 6–12 in urban and rural areas. An expert team was formed with the experts from the Chinese Nutrition Society and the National Institute for Nutrition and Food Safety of the Chinese Center for Disease Control and Prevention. Considering different groups of the population, the experts actively popularize knowledge on nutrition and health and explore educational models as well as intervention methods through adopting scientific teaching and evaluation methods. The expert group has also made special efforts to prepare the Healthy Campus textbook series including the urban and rural versions as well as the teachers' manual, and opened the Children's Health Net of China.

In addition, the content of the Healthy Children Program is added to nutrition & health course at school, and a series of online and offline activities have been held, such as Healthy Children's Carnival, Parent–Children Marathon and World Chef Day among others. These activities are held to pass on nutrition–related knowledge to the children through gaming, advocate exercising, and develop healthy living habits. By the end of 2018, the "Chinese Children's Nutrition, Health and Education Program—Nestlé Global Healthy Children Programme" had walked a long way for 7 years, covering 19 provinces and municipalities directly under the central government, including Anhui, Beijing, Henan, Hubei, Guangdong, Guizhou, Jiangxi, Jiangsu, Liaoning, Sichuan, Shandong, Shanghai, Tianjin, Shanxi, Yunnan, Xinjiang, Tibet, Shaanxi, and Qinghai. The program benefited 38,000 teachers and 5.5 million primary school students.

Nestlé Global Healthy Children Program channels the children to establish a balanced eating habit and improve their physical fitness by popularizing advanced and authoritative knowledge on nutrition and health. Nestlé hopes to provide such a public welfare platform to strengthen the bond between children's health knowledge and their health behaviors.

The results show that there is a significant improvement in the children's health and nutritional status, especially that the visibility of "Chinese residents' diet pagoda" witnesses a 59% increase. In addition, the children know more about the diversified food types, the nutritional value of coarse and fine grains, the impact of beverages and boiled water on health, the impact of breakfast on health, as well as the nutritional value of fruits and vegetables. At the same time, the lively games which are developed under the project for children integrate the knowledge of dietary plates, nutrients, as well as eating–exercising balance, which helps to form a nutrition–based education model that is easy to be promoted in the education system. The games also constitute a scientific basis for relevant national departments to develop measures on children's nutrition and health education.

Nestlé 's value orientation does not stop at providing safe and healthy food to the society, or fulfilling corporate social responsibility through charitable activities. To take a step

further, Nestlé focuses its value on how to advance the great social undertaking of promoting the nutritional health of Chinese children. In order to make children around the world eat more nutritious and healthy, Nestlé always adheres to the concept of creating shared value, upgrades its nutrition proportions, and promotes the Nestlé Healthy Children Program worldwide. Every year, Nestlé upgrades about one-third of its global food and beverage portfolio to make it more nutritious. Sugar, salt and fat are reduced, whereas the nutrients that people lack are increased, such as vegetables, fiber-rich cereals, vitamins and minerals. In 2017, the group put more than 1,000 new products into the market to meet children's nutritional needs. Nestlé is committed to adding 750 million servings of vegetables and 300 million servings of fiber-rich cereals and beans to its products, and further reducing salt by 10% and sugar by 5% by 2020. Nestlé is working hard to achieve this goal.

The reform and opening-up in China has changed the course of history. In just four decades, this most populous country has become the world's second largest economy. More importantly, China's economic growth has brought countless opportunities to itself and other countries around the world. In particular, the National Health and Family Planning Commission issues the *National Nutrition Plan (2017-2030)* in 2017, showcasing the country's determination and orientation to improve the nutritional and health status of its people. Under its development goal of "improving the quality of life and contributing to a healthier future", Nestlé cares about the nutritional and health status of people throughout their lives. Therefore, Nestlé 's lines of business and goals are very consistent with this practice, and there is a broad space for participation and development. In China, Nestlé enhances its business with diversified investments, including training and technical assistance for rural households, R&D innovation, manufacturing and food safety.

In recent years, Nestlé has, on the one hand, sped up product innovation, such as Nestlé coffee office solutions, healthy fast food solutions, and special products through e-commerce, such as the organic product portfolio with "Garden of Life" from the US. In addition, Nestlé China has also established an incubator team that put more than 60 new products, doubled than last year, into the market last year. On the other hand, it focuses on consumer participation and experience, such as organizing Sense Café pop-up shop, and developing smart AI with the voicing function, as well as Nestlé -Xiaomi MIUI, a digital platform to popularize knowledge on nutrition and health. The Industrial *Guidance Catalogue for FDI* issued in 2017 further expands the fields of opening-up, and the "encouraged" category adds special medical-purpose formula food and other products in line with the orientation of industrial restructuring and optimization. Actively responding to national policies, Nestlé established a special medical-purpose formula food factory in Taizhou, Jiangsu Province in 2018, bringing Nestlé 's global R&D results and the most cutting-edge products in this field to Chinese consumers in a timely manner.

Nestlé is very optimistic about the future development of the Chinese market. It will

continue to strive for the health of the Chinese and make unremitting efforts for the economic development in China. Nestlé will continue to display global nutritious and healthy food, enhance the life quality of the consumers, and contribute to a healthier future.

Case 5 CJ invests in China

"Sharing" makes an enterprise stronger

CJ invests in China: a "low-profile" miracle

Since the launch of reform and opening-up four decades ago, China has been constantly improving its investment environment to attract FDI, and more and more multinational enterprises have obtained great returns from their investment in China. Meanwhile, FIEs have also invigorated the economic development of China and accelerated the integration of China into the global economy.

Compared with big names such as Samsung and SK, the CJ Group of South Korea seems to have kept a somewhat "low-profile" among Chinese people. Few of them know that the low-profile enterprise has been engaged in the production of the time-honored brand of China—"Baiyu" tofu; the nucleotide and lysine produced by CJ enjoy the biggest market share in Asia; its CJ Rokin Logistics has been ranking No. 1 among the Top 100 Cold-chain Logistics Enterprises in China for 5 consecutive years; the company even translated a classic Broadway musical into Chinese for touring, breaking new ground for the musical theater industry in China.

CJ is a lifestyle company established in 1953 as "Cheil Jedang" (Korea's first sugar manufacturer). For over 60 years, the company has upheld the vision of "creating a healthy, happy and convenient lifestyle for people". Through innovative and diversified development, CJ Group now has four main businesses closely related to people's daily lives, i.e., food & food services, biotechnology & pharmaceuticals, retail & logistics and entertainment & media. The four businesses have not only created household brand names one after another in South Korea, but also made its foray into overseas markets and received wide recognition in China and the global market.

In 2018, CJ ranked among Fortune Global 500 for the first time by virtue of its robust business capacity and international competitiveness, securing a place in the specialized field of global retailing for Korean enterprises. In 2019, CJ was listed once again among Fortune Global 500 with an operating revenue of US$ 26.836 billion, moving up 30 places. This achievement is the result of CJ's globalized development, and also serves as the best proof for its growth in China. As of the end of 2018, CJ had set up 143 legal entities in 80 cities in China, with an operating revenue of RMB 20.3 billion, ranking among the best in terms of income generation on overseas markets. Park Keun Tae, President of China Headquarters of CJ Group, owed CJ's achievements to the reform and opening-up of China. "China implemented a series of overall reform measures during the reform and opening-up, which

not only transformed the economic, political, and cultural conditions of China, but also helped many foreign enterprises benefit from the rapid economic development and the huge market of China."

Keeping a Foothold in China: "Localization" Is the Key

When the reform and opening-up began in 1978, CJ Group set up an office in Hong Kong in order to get to know the emerging Chinese market of unlimited potential as soon as possible. In 1992, China and South Korea established diplomatic relations with each other. And two years later, CJ Group made its bow into mainland China.

Multinational corporations usually have a history of several decades or even centuries. An important factor for their rapid development is the reproducibility of the business model and managerial experience. Many multinational enterprises would copy their established business models when entering the Chinese market, but an important precondition for the quick copy is a similar market environment. Although China and South Korea are neighbors, the two countries have many differences in politics, economy, culture, policies and market opportunities. Upon its entry into China, CJ Group was not adapted to the local conditions despite its plenty of preparations.

In 1994, CJ Qingdao Food Co., Ltd. was established with "DASIDA Beef Powder", the 37-year-old star product of South Korea, being first introduced into China. This product owns over 80% of the market share in South Korea and is an essential seasoning in Koreans' kitchens, while it was not accepted by Chinese consumers at that time. CJ was not discouraged by the unsatisfactory start and began to investigate the Chinese cuisine culture, learning that more than 90% of Chinese people were using chicken powder for cooking. The "DASIDA Beef Powder", though popular with Korean consumers, does not suit the taste and living habits of Chinese consumers. Hence, relying on its years of technological advantages in the food sector, CJ developed the "DASIDA Chicken Powder" based on the original beef powder, which has secured a place in the seasoning market of China thanks to its fresh flavor and hygienic security.

President Park Keun Tae said, "That unforgettable experience taught us that if we want to gain a firm foothold in China, we must implement localization. Localization doesn't mean we don't have to innovate. Our ultimate goal is to perfectly combine innovation and localization and to set new consumption trends." Afterward, CJ established a food R&D center in China for its food business, which developed numerous new products on the principle of "localization + innovation". Thus came many series of products such as the "DASIDA" seasoning series, "bibigo" instant food series and "Hatbahn" rice series, which have successfully ascended to the front rank in the Chinese food industry.

At the 1st China International Import Expo in 2018, CJ set up a 300 m^2 exhibition area

of healthy, happy and convenient lifestyle themed with "Live New", showcasing globally competitive products that satisfy the demand of Chinese consumers, such as Hatbahn instant rice and bibigo dumplings. Park Keun Tae said during the press interview on the Expo, "We elaborately selected these food products for Chinese consumers. They are safe, healthy, nutritious, delicious and convenient, and can satisfy Chinese consumers' demand for instant food under the new consumption trend. It is particularly worth mentioning that the 'bibigo' dumpling series are manufactured through zero-pollution mechanical automation in the whole process with the steaming and refrigeration techniques peculiar to CJ. The series are catering to the taste of Chinese people and well received among Chinese consumers."

Relying on the localization experience of the food business, the biotechnology & pharmaceuticals business of CJ also made some achievements in China. CJ BIO is a pride of CJ Group, ranking No. 1 in the world for nucleotide, lysine, and tryptophan. It is leading the global biotechnology market by virtue of its sophisticated technology and productivity for quality products. In 2004, CJ BIO established a factory in Liaocheng, Shandong, China to produce lysine, threonine, and nucleotide; in 2012, it set up the second factory in Shenyang; then it carried out eight phases of capital increase and expansion in Liaocheng, with an accumulative total investment of about RMB 4 billion and a tax amount of RMB 1.86 billion. In 2018, relying on the opportunity of new and old kinetic energy conversion in Shandong, CJ gave full play to its strain R&D ability, biological fermentation technology, and the industry-leading advantage in nucleotide to accelerate the expansion and development of core advantageous products, investing for the 9th phase of nucleotide expansion project in the development area. After completion, the project will be the largest nucleotide production base with the best quality in the world. The biological feed business of CJ is also constantly adjusting its development strategy according to the market demand of China. After the factory set up in Chengdu, Sichuan in 2003, 10 other factories have been established so far in 10 different cities including Shenyang, Qingdao, Tianjin, and Changchun.

In addition to the localization of products and marketing, talent localization is also a main factor for CJ's rooting in China. Since its entry into China, CJ has always been practicing talent localization with the philosophy of "talent first". CJ's talent training system, cooperative talent training values, and recruitment system focusing on local talents are highly praised by employees and society. Now CJ Group has 24,000 employees in China, among whom there are only 200 Korean employees. In CJ China, Chinese proficiency is one of the assessment criteria for Korean employees. The Korean employees need to first receive Chinese training in South Korea, learn Chinese history, culture, local customs and practices and economic market conditions, and then must pass an exam before going to China. "There is a saying in The Analects of Confucius, 'Sharp tools make good work.' Effective communication is very necessary for carrying out the work. It is also one of the reasons for CJ's steady development in China," said President Park.

Developing in China: Win-win Results through Cooperation

If localization is the precondition of CJ's rooting in China, strategic cooperation with Chinese enterprises is the best way for CJ to develop and make profits in China. During the 25 years, on the principle of "equal cooperation, mutual complementation, win-win orientation, and mutual development", CJ has carried out all-round cooperation with Chinese enterprises in its various businesses and achieved outstanding results.

Food & food service: In 2007, CJ cooperated with Er Shang Group which owned the time-honored Chinese brand, "Baiyu Tofu". Relying on its advanced technology, excellent management philosophy, rich market operation experience, and strong product R&D ability, CJ helped upgrade the "Baiyu" brand in terms of market operation, production technology, business management, etc., increasing the competitiveness and development capacity of the traditional production and marketing company in an overall manner. Now Baiyu bean products rank No. 1 in market share in North China. Relying on the successful cooperation experience with Er Shang Group, CJ accomplished the cooperation with Sichuan Ji Xiang Ju in 2011, promoting Sichuan pickled vegetables throughout China.

Entertainment & media: In 2006, the CGV Cinema under the entertainment & media business of CJ cooperated with Shanghai Film Group to make its foray into China. Now CGV has established 128 cinemas in China, ranking among the best cinema companies in China. The CGV Cinema is a comprehensive cultural space integrating film watching and recreation. With various special effects film halls and special services, it offers the customers "experience beyond the film". Therein, the 4DX hall and SCREENX hall of CGV are patented technology of CJ Group. These two special effect halls are now cooperating with Chinese cinemas such as Wanda, UME, and Jackie Chan Cinema and gradually expanding nationwide.

In 2011, CJ entertainment & media made a Chinese version of the world-famous Broadway musical, Mamma Mia. The successful introduction and touring of this musical started the "era of Chinese musicals". In order to promote the performance of *Mamma Mia,* CJ Group established United Asia Live Entertainment Co., Ltd. together with Shanghai Media Group Limited and China Arts and Entertainment Group Ltd., which is devoted to creating a "Chinese Broadway". Afterward, other musicals produced by CJ, e.g. Cats in 2012, *Finding Destiny and The Feast of Princess* in 2013, also saw great successes in the touring in China. CJ also cooperates well with Chinese enterprises in the film field. *A Wedding Invitation, Twenties Once Again,* etc. set an example of typical China-Korea cooperation and promoted the exchange of film cultures between the two countries.

Retail & logistics: CJ logistics business entered China in Jun. 2004. In 2015, CJ Logistics joined hands with Rokin Logistics. With the powerful logistic technology support of CJ Group, CJ Rokin Logistics started a new journey of smart logistics, ranking No. 1 among the Top 100

Cold-chain Logistics Enterprises for 5 consecutive years. In 2017, in response to the future trend, CJ Rokin Logistics constantly enhanced its R&D investment and sci-tech innovation, so as to improve its competitiveness. The "TES Strategic Research Center" was built as a result, with an investment of over RMB 12 million, including a floorage of 900 m^2, provided with over a hundred pieces of sophisticated instruments and equipment that cover the automation, unmanned, and intelligent technology of logistics. It is the first scientific research center of CJ Group in China focusing on sophisticated logistics technology and equipment, and the first overseas logistics R&D center of CJ. The establishment of this center marks the transfer of the sophisticated technology and system platform of CJ Logistics in South Korea to the Chinese market, so as to increase the technical strength of CJ Logistics and further enhance the foundation for taking root in the Chinese market.

Afterward, CJ Logistics carried out multiple cooperative projects with many Chinese logistics companies in various professional fields, such as Smart Cargo, Speedex and Alog for comprehensive development in China. So far, CJ Logistics has set up 23 legal entities and has been doing business in over 40 cities in China, with a sales volume of RMB 7.5 billion in 2018. In China, CJ Logistics can provide not only traditional international freight forwarding service, but also customized one-stop logistics solutions such as contract logistics, intra-city delivery, China Railway Express transportation, cross-border e-commerce, EPC project logistics and logistics consulting. The present achievements of CJ Logistics are closely related to the market policy of China and are the results of the implementation of the cooperative and win-win strategy.

Growing in China: Practicing Corporate Responsibilities

"Serving the country with business" is the original intention of CJ Group, and also the root cause for CJ's growth. Mr. Lee Byung Chull, the founder of CJ Group, once said, "The greatest virtue of human society is a contribution. For mankind, nothing is more meaningful, more valuable and higher a life goal than this. So the mission of running a business is to contribute to the country, the citizens and mankind. "

Sticking to that philosophy, CJ Group grew into the largest food enterprise, became the leader in the culture and entertainment field, guided the development of the logistics industry in South Korea and produced numerous products with No. 1 market share in the biotechnology field, successfully contributing to the economic development of South Korea. What's more, under that philosophy, CJ Group also carried out a lot of public benefit activities and initiated the CSV (Creating Shared Value) strategy, practicing its social responsibilities as a global lifestyle enterprise.

CJ did that in South Korea, and also in China. Since it entered China in 1994, CJ has accumulatively invested RMB 16 billion, created over 20,000 job opportunities and contributed to the economic development of China in such fields as food, logistics, film and food additives.

Besides the corporate economic responsibilities, CJ also performs its social responsibilities in China relying on its business advantages. It contributes to the social development of China through all-round CSV activities in such aspects as talent education and training, art dream inspiration, China-Korea cultural communication and regional environmental protection. "CJ Dream Classroom" is a long-term public welfare program co-sponsored by CJ Group, China Friendship Foundation for Peace and Development and China-Republic of Korea Friendship Association, dedicated to promoting the balanced development of art education for children by renovating classrooms, donating teaching materials, etc. This program has been held for 12 sessions in Beijing, Hubei Province, Shandong Province, Sichuan Province, Jiangsu Province, Shanxi Province, Yunnan Province, etc. and benefiting over 10,000 students of 20 schools since 2012. In addition, CJ established the "CJ Dream Baking Classroom" program to teach vocational skills and help poor students to increase their employment competitiveness, empowering them to grasp the future in their own hands.

Park Keun Tae holds that CJ, as a multinational lifestyle enterprise, has an obligation of promoting industrial communication between China and South Korea. Ever since its entry into China, CJ has been devoted to establishing communication platforms for the people of the two countries in such fields as film, performance and adolescent education. The "Chinese Korean Share Your Dream Short Film Festival" has already become a bond of screen culture communication between the two countries. Adhering to the philosophy of discovering and cultivating film talents and adding new vitality to the film industry, the Festival provides opportunities of mutual learning and communication for Chinese and Korean young directors through a series of activities every year, such as collection and appraisal of film works, film panorama and master class. Outstanding young directors selected from this program will get rewards, honors, the chance of study in South Korea, as well as the opportunity of becoming a contracted director of CJ Entertainment. "CGV Duoduo's Film Class—China-Korea Teenager Film Creation Summer Camp" is an activity held by CJ to inspire and foster the film dream of teenagers. Under the guidance of film professionals, the Chinese and Korean teenagers will jointly create a film in the Camp from preliminary planning and shooting to later stage editing, production and promotion. In the Camp, they stay together and communicate with each other day and night, establish a strong friendship and fulfill their film dreams. Regional environmental protection is another big investment of CJ Group. Over the past 12 years, CJ BIO has invested US$ 1.5 million in Liaocheng, Shandong Province to improve the local environment and popularize environmental protection knowledge.

Since CJ entered the Chinese market more than 20 years ago, it has shouldered the economic and social responsibilities of a multinational enterprise in China while enjoying the benefits of China's reform and opening-up, steadily propelling its businesses forward. In the future, CJ will continue increasing its investment in China. Creating a healthy, happy and convenient life for more Chinese people will always be an unchanging commitment of CJ Group.

Case 6 Intel invests in China

Intel: Growing together with the IT industry of China

Development history of Intel in China

In the 1980s, the PC industry of China just took its first step. Intel, just having entered China at that time and like other multinational companies, was not familiar with the Chinese market and could only test each step before taking it. During that period of time, Intel gradually comprehended the environment and rules of the emerging market of China, discovered some industrial opportunities and accumulated its preliminary experience. On that basis, Intel developed its business development strategy in China—grasping the opportunity of computer popularization and growing with the IT industry in China.

By the end of 1995, Intel and Legend (current Lenovo) formally entered a cooperative relationship. Then a marketing storm of "ten-thousand-yuan Pentium" swept over China, rousing the strong interest of the consumers. That encouraged Intel to cooperate with multiple Chinese OEM partners to bring about the rise of the entire IT industry in China. Two years later, the local OEM partners of Intel, such as Legend, Founder and Tongfang, saw an increase of market share from 30% to 70% in the Chinese PC market. And Intel attached greater importance to and put larger investments in China accordingly. Taking root in China and cooperating with the local IT industry for win-win results became an inevitable course to success. Then Intel entered the new stage of "fitting in".

In 2006, Intel realized that it must adjust its development strategy to the national policy of China when the IT industry and PC market of China have a global influence. Intel has established a marketing and industrial cooperation base in Beijing, a technical research and product development base in Shanghai, and package test and chip fabrication bases in Chengdu and Dalian, which made China the strategic hub of Intel with the largest investment and the most complete functions outside the US. Intel has also been a community of localization in China. It responded to the national strategies of Pudong Development, Western Development and Northeast Revitalization with its deployment in Shanghai, Chengdu and Dalian, and became one of the most successful multinational companies in China.

Now Intel has about 8,200 employees in China with a total agreement investment of about US$ 13 billion. China is the place with the most comprehensive deployment of Intel beside its headquarters in the US, covering frontier research, product and technology development, sophisticated manufacturing, industrial ecological cooperation, marketing, customer service, venture investment and corporate social responsibility.

Regional Planning Based on Strategies of China

1. Investing in Pudong: Spotting the Strategic Coherence Point

Intel made its first large-scale investment in China in 1996, i.e. its first chip package test factory in China, located in Waigaoqiao Bonded Area, Pudong, Shanghai. With an investment of US$ 539 million, the factory was then the largest FDI project in Waigaoqiao Bonded Area, boosting the investment of other IT and sci-tech projects to some extent.

Although it was later integrated into the Chengdu factory, Intel's investment in Pudong still has important significances—Intel found the strategic coherence point and began a positive interaction with China, with tacit understanding ever increasing. In Sept. 2005, Intel Asia-Pacific R&D Center settled down in Shanghai Zizhu Science-based Industrial Park, becoming the largest product and technology R&D base with complete functions outside the US. It boasts comprehensive R&D capability, almost covering the business units of all platforms of Intel. It's now leading the research and promotion of technologies such as big data, cloud computing, kernel software/hardware and applications, unceasingly writing new legends.

2. Building the Factory in Chengdu: Helping the West Create a New Pole of Chinese IT Industry

The Western Development Strategy of China and the establishment of the Chengdu chip package test factory of Intel are the second strategic fit between the two.

In the initial several years of strategic implementation of the Western Development, the infrastructure and various supporting services lagged behind despite the supports of policies. There were many multinational companies investing in the West, but few projects input over US$ 100 million. During that period, Intel's investment in Chengdu stood out as a leading example. In 2004, Phase I of the Intel Chengdu factory was commenced with an investment of US$ 375 million. With multiple additional investments between 2005 and 2009, the factory rapidly became one of Intel's three wafer processing factories and one of the largest chip package test centers of Intel around the globe.

In Dec. 2014, Intel declared it would invest US$ 1.6 billion in the next 15 years to comprehensively upgrade the wafer preprocessing, packaging and test of the Chengdu factory, and to introduce advanced test technology into China for the first time. In Nov. 2016, Intel Advanced Test Technology was successfully put into production in Chengdu. The technology can test various types of Intel products including the high-performance computing, 5G communication, tablet PC, smartphone, Internet of Things and wearable device. Thus the Intel Chengdu factory successfully completed the significant "innovative change" integrating chip package test, wafer preprocessing and advanced test technology, and became the only advanced test technology factory outside the US.

The powerful industrial linkage mechanism created by Chengdu factory produced a

1:10:100 butterfly effect on the electronic information industry of Chengdu, i.e. the investment of RMB yuan 1 can drive a benefit of RMB yuan 10 in the secondary industry and RMB 100 in the tertiary industry (including raw material supply and output of downstream applications), and uncountable effects in the service industry. Besides, the Chengdu factory practices "people-oriented" corporate social responsibilities, actively returning to the local community and supporting the cultivation of local innovative talents, which shows its corporate spirit in a comprehensive manner. As the benchmark of "green manufacturing", Chengdu factory won the highest award of Intel, "Intel Global Quality Award", and the LEED Silver Award of US Green Building Council, making great contributions not only to extensive industry chain upgrading and regional economic development, but also to the social development of Chengdu and even Southwest China.

3. Investing in Dalian: Energizing the Rejuvenation of the Old Northeast Industrial Base

In 2003, the State Council of China developed the strategy of rejuvenating the old northeast industrial base, and Dalian played a demonstrative role in it and shouldered the historic mission of leading the old industry conversion and independent innovation of the Northeast. In March 2007, Intel declared that it would build a factory in Dalian, which was commenced in September that year and put into production in 2010. The Intel Dalian chip factory, with an initial investment of US$ 2.5 billion, is a 300 mm wafer factory which is Intel's eighth in the world and first in Asia. It vigorously propelled China's development in chip fabrication, semiconductor technology talent training, IT industry cluster and environmental protection, etc.

In October 2015, Intel declared that it would invest US$ 5.5 billion to upgrade the Dalian factory into a non-volatile storage technology manufacturing base. The project was put into production in July 2016. It has been the largest investment of Intel in China so far.

Just like its Chengdu factory, the Intel Dalian factory is also a model of green manufacturing. It sticks to the highest environmental protection standard in design, construction and operation, and has set a benchmark in terms of water-saving transformation. Meanwhile, it attaches great importance to the cultivation of local talents and carries out extensive cooperation with local government, schools, industry chain partners and communities to promote sustainable development, winning the honor of "The Best Foreign-invested Enterprise Fulfilling Social Responsibilities in Dalian" for consecutive years.

4. Investing in Shenzhen, Xi'an and Guiyang

Shenzhen is the "window" of China's reform and opening-up, an important high and new technology R&D and manufacturing base, as well as a significant node of further jointly carrying out the new strategy between Intel and China. In 2014, Intel declared the construction of its smart device innovation center in Shenzhen and the establishment of the "Intel Capital China Smart Device Innovation Fund" which amounted to US$ 100 million, to encourage its partners to innovate in such fields as ultra-mobile device, wearable device and Internet of

Things.

In May 2011, Intel signed an investment agreement with Xi'an High-tech Industrial Development Zone to set up a mobile communication R&D center in Xi'an with an investment of US$ 15 million, which will be dedicated to the R&D of the next-generation mobile communication chip. Xi'an High-tech Industrial Development Zone made great efforts to build a leading position in the IT industry and a world-class high-tech park, which was a good example and strategic drive for other cities. That is another milestone in Intel's development in China.

In June 2015, Intel signed a memorandum of cooperation with the People's Government of Guiyang Municipality to jointly promote the smart city construction, big data industry and mass innovation space development of Guiyang, to build an innovation platform integrating three dimensions. In August 2017, Intel, China Artificial Intelligence Industry Innovation Alliance and the People's Government of Guiyang Municipality signed a memorandum of strategic cooperation to establish a long-term strategic partnership in the AI field, fully explore and release data value, accelerate the development of Guiyang as the first national-level core area of big data comprehensive test and promote the AI application and innovation of China.

Driving Industrial Cooperation and Enhancing Partnerships

Intel always focuses on technological innovation. As an important component of the global R&D system, Intel made a systematic R&D resource layout in China. Intel Labs China, located in Beijing, is one of Intel's global innovation hubs, which was "upgraded" from the Intel China R&D Center in 2009. It highlights the ever-increasing position of the market and the R&D ability of China in the global market. In November 2016, as the Intel Data Center Group settled down in Zizhu Digital Creativity Hub, Shanghai, Intel Asia-Pacific R&D Center had developed into one of Intel's largest comprehensive R&D bases in Asia. In addition, Intel has other 4 R&D centers in China. These centers are open engines for the technological innovation of Intel, continuously empowering Intel in technology, application, service and industrial cooperation. They not only develop techniques related to the Chinese market, but also have an important goal of developing global influence.

Intel cooperates with the industry, university, research and application circles in China with open innovative architectures to continuously propel the development of the information industry and the integration of various industries and emerging technology such as the internet. In December 2016, Intel joined the founding of the Edge Computing Consortium to establish a cooperation platform of the edge computing industry, promote the open collaboration of IoT and ICT, incubate the best practice of industry application and drive the healthy and sustainable development of the edge computing industry. In June 2017, Intel, together with JD, Inspur and iFLYTEK, initiated the China Artificial Intelligence Industry Innovation Alliance. And Intel

provides end-to-end architectures and technology from things, network to cloud, aimed at continuously providing new power for the development of the intelligent robot industry.

As for the support for independent innovation, Intel declared in September 2014 that it would invest RMB yuan 9 billion (approx. US$ 1.5 billion) in Spreadtrum Communications under Tsinghua Unigroup and the holding company of RDK Microelectronics to jointly develop cellphone solutions based on Intel architectures and communication technology and to expand the products and applications of Intel architecture mobile devices in China and the global market. In February 2017, Spreadtrum released the 14 nm LTE chip platform based on the Intel architecture, which, oriented to the mid- and high-end smartphone market in the world, was put into mass production in the second quarter of 2017.

Reconfigurable computing, combining the high flexibility of general-purpose computing and the high performance and low power consumption of dedicated computing, is recognized as the next-generation ground-breaking integrated circuit technology. In April 2015, Intel declared the cooperation with Tsinghua University to propel the R&D of new computing hardware and software based on the reconfigurable computing technology with independent intellectual property rights. In January 2016, Intel signed an agreement with Tsinghua University and Montage Technology to jointly develop a new general-purpose processor integrating reconfigurable computing and Intel X86 architecture technology, for which Intel will provide funds and other resources. In April 2017, Montage Technology, together with Tsinghua University and Intel, declared the successful release of the Jintide server CPU applied for the security controllable data center.

Intel carries out in-depth cooperation with Chinese partners in key fields. It launched the Tianchi Medical AI Contest with Alibaba Cloud, etc. to challenge early-stage lung cancer diagnosis; it cooperated with iFLYTEK to promote the full application and practice of voice technology and AI; it cooperated with JD to have increased the online performance of image identification by more than 4 times, and that of image copyright protection by nearly 2.3 times. As for 5G, as the only chip enterprise that has got the IMT-2020 (5G) Information Task Force certificate in the first stage of China's 5G technology R&D and test, Intel assisted in completing the test of key 5G wireless and network technology, jointly promoted the globally uniform 5G standard, and cooperated with operators and technology vendors such as Huawei and ZTE to build a complete end-to-end 5G ecosystem.

Intel keeps expanding industrial cooperation. Firstly, it supports "mass entrepreneurship and innovation" and incubates the potential of innovation. After taking the lead in launching the "Intel China Mass Innovation Space Accelerator" program in 2015 and the "Maker Popcorn" program in 2016, Intel again launched the "Intel China Innovation Accelerator" in March 2017. So far, Intel has set up 15 joint innovation accelerators and 3 open innovation labs in 8 cities in China, established partnerships with more than 100 professional institutes in the innovation ecosphere and incubated and accelerated thousands of innovation projects.

Besides, Intel has been supporting and co-organizing the China-US Young Maker Competition for 4 consecutive years, vigorously supporting the innovative and cultural exchanges between Chinese and American young people.

Intel Capital is one of the earliest foreign direct investment organizations making strategic venture investments in China. With the philosophy of investing in innovative technology, inspiring entrepreneurship and driving the development of industry chains, it supports the local sci-tech innovation and the establishment and development of the industrial ecosystem of China by means of strategic investment, etc. The main investment fields of Intel Capital in China include cloud computing and service, big data analysis, the Internet of Things and intelligent devices. Since it began to expand in China in 1998, it has accumulatively invested over RMB yuan 1.9 billion in more than 140 sci-tech companies, and 40 portfolio companies have been successfully listed or purchased. Besides, Intel Capital has established multiple special funds in China, including "Intel Capital – China Angel Fund" (RMB yuan 80 million in total), "Intel Capital – China Intelligent Equipment Innovation Fund" (US$ 100 million in total), "Intel Capital – China Technology Fund II" (US$ 500 million in total) and "Intel Capital – China Technology Fund" (US$ 200 million in total).

Undertaking Social Responsibilities and Leading Enterprise Innovation

Intel has well recognized that the constantly changing social needs have endowed enterprises with the power of continuous innovation. So Intel has been planning its products and service based on the social needs, integrating the localization strategy and innovation gene into corporate responsibilities, throughout every link of its operation management.

As for educational innovation, Intel has been supporting the innovative development of China's education business and cultivating innovative talents for 22 years, identified as the best partner by the Ministry of Education of China. In terms of basic education, Intel is devoted to cultivating the next generation of innovative talents. In the past 15 years, it has trained 2,440,000 primary and middle school teachers, benefiting over a hundred million students, and has supported 499 Chinese students to have won 285 prizes at the Intel International Science and Engineering Fair. In terms of higher education, Intel has been building an innovation ecology of industry-university-research cooperation, cooperating with over 100 top universities in China, benefiting about 150,000 college students each year.

In terms of sustainable environmental development, Intel devotes itself to reducing the emission from its own operation and supply chain, helps other industries to reduce climate footprint with Intel and ICT technology, and promotes industrial progress and policy change.

In terms of community innovation and social governance, Intel holds that not only technological innovation, but also people-orientation and public participation are required, and that everyone should be mobilized to build a sustainable innovation ecosphere. Intel

stimulates the vitality of communities and explores their deeper needs through activities such as "DIY MY CITY", and provides comprehensive solutions with its expertise and technical capacity, making the communities and cities smarter, more livable, and more people-oriented while promoting social innovation.

Intel is dedicated to creating a healthy and safe working environment for employees. It carries out multiple health and safety programs to let the employees enjoy high-quality lives. Intel has even figured out a cultivation mechanism suitable for Chinese innovative talents. It has established the I2R (Idea to Reality) program in China, aimed at better catalyzing the innovative ideas of the employees, giving play to the vitality of innovation.

Intel is devoted to unifying its businesses, industrial responsibilities and social responsibilities. It explores the new growth points of industrial ecology based on people's livelihood and the social needs, and addresses social challenges with innovative technology and modes, helping to solve the problem of sustainable development of industries, cities and even the country. During that process, Intel gave full play to the leading role of responsible innovation and is highly recognized by all sectors of society, rated as a "Social Responsibility Leader" by the government, professional institutes and media for consecutive years.

Intel believes that creating the future is better than predicting it. Innovation is the inexhaustible impetus of development, which is also the pursuit of Intel. As Intel has witnessed the dramatic changes in China over the past three decades, it is full of confidence in the future development of China and will keep forging ahead with its Chinese partners!

Case 7 Hyundai Motor invests in China

Running forward with an open China

In 1978, China's annual output of sedans and off-road vehicles was lower than 5,000 vehicles. Automobiles were a luxury out of reach for Chinese consumers. No one had ever expected that the third Plenary Session of the Eleventh National Congress of the of CPC held that December would lift the curtain of reform and opening-up and usher in an epic change of the country. In the next 40 years, industries were changing every single day, and the automobile industry also saw unimaginable changes. China's automobile production and sales volume exceeded 28,000,000 vehicles in 2018 (29,000,000 vehicles in 2017), ranking No. 1 in the world for 10 consecutive years. Automobiles are no longer any luxury for Chinese consumers today, and all kinds of brands can be seen everywhere in China.

The automobile output of China was 222,000 vehicles in 1980 and exceeded 1,000,000 vehicles 12 years later in 1992. And in that very year, China and South Korea established diplomatic relations, ending the nearly 50 years of non-communication. Then Korean automobiles began to enter the Chinese market through import. Hyundai Sonata and Kia Qianlima gradually came to the notice of Chinese consumers. 10 years later, in 2002, the automobile output of China reached 2,000,000 vehicles, walking onto the second step. It was only another step forward for the Chinese automobile industry, but a milestone for Hyundai Motor. In that year, the two brands under Hyundai, Hyundai Motor and Kia Motors, established joint ventures with Chinese enterprises respectively and made their formal foray into the Chinese market. Hyundai Motor contributed to the reform and opening-up of China while enjoying the great impetus provided by the Chinese market to make it the fifth largest automobile enterprise in the world.

A Catching-up Latecomer

China joined WTO on December 11, 2001. In July 2002, Kia Motors, Dongfeng Group and Jiangsu Yueda Group jointly established Dongfeng Yueda Kia Motors Co., Ltd.; and in October 2002, Hyundai Motor and Baic Group jointly established Beijing Hyundai Motor Co., Ltd. Henceforth, Hyundai Motor formally entered the Chinese market, and, as a representative of "Korean cars", has secured an important place in the Chinese automobile market through more than ten years of hard work.

Hyundai was still a latecomer in the then Chinese market. Most multinational automobile enterprises had already established joint ventures in China before Hyundai came to China. Latecomers have to make every effort to catch up. Beijing Hyundai was established only five

months after the signing of the letter of intent between the two parties, and the first batch of new cars was produced only one month later. Then the company even made greater efforts and realized an accumulative production and sales volume of 1,000,000 vehicles in the fifth year, bringing out a myth of "Hyundai speed" in the industry. Afterward, it broke all the industry records of the shortest time for the sales volume of 2,000,000 vehicles, 3,000,000 vehicles, and 4,000,000 vehicles.

On December 24, 2018, Beijing Hyundai held a grand "ceremony for having ten million users" to celebrate its accumulative production and sales volume of 10,000,000 vehicles. That is a major milestone on the way, which was achieved by Beijing Hyundai only using 16 years. Before that, the 5 millionth vehicle of Dongfeng Yueda Kia was produced on April 9, 2018.

Marching forward with Perseverance and Working Hard on Internal Strength

Hyundai Motor, established in 1967, is no doubt a young enterprise compared with other automobile multinationals. The young company, vigorous and fearless, toughly went through all the stages from greenhand to maturity. Naturally, it has endured all the cynicism and contempt on its youth, as well as all the unprovoked troubles even after its maturity. However, with their typical determination and pursuit of quality, the staff of Hyundai finally won the recognition of global consumers for their excellent quality and reasonable price after decades of hardships.

Almost 10 years after its establishment, in 1976, Hyundai Motor released its first passenger car, which accumulated certain popularity in the domestic market of South Korea. At that time, the US was the center of the global automobile industry, where the market competition was the fiercest and the consumers were the most captious. An automobile enterprise would never be the first class in the world if it fails to secure a place in the US market. After elaborate preparations, the 20-year-old Hyundai Motor exported its first Pony car to the US in 1986. However, the car was poorly received in the market and the consumers doubted its quality and security. In order to turn around the situation, the staff of Hyundai kept improving their technology quality day and night and soon promoted the 10-year and 100,000-kilometer warranty and replacement service for their new cars, which was twice the warranty mileage of most automobile enterprises at that time. They advertised the quality of Hyundai vehicles in that way, which showed their confidence because if the quality fails, that warranty would directly lead to their bankruptcy. But it turned out that, instead of bankruptcy, the brand image of Hyundai was gradually improved. Around 2000, Hyundai Motor had a much better image among American consumers, and its sales volume also saw a drastic increase. But it still sells small and medium-sized (especially small-sized) vehicles with the highlight of cost performance.

Technological development and quality improvement are always throughout the development history of Hyundai Motor. Decades of quantitative accumulation has finally

brought qualitative changes. In the 1990s, Hyundai Motor almost won all the awards of the automobile industry. Particularly, its high-end vehicle "Rohens" won the "Car of the Year of the US" in 2009, and the market view about Hyundai Motor was fundamentally changed. Now its single vehicle price has exceeded that of many old brands and its period of low quality and low price has gone.

In conclusion, the image of Hyundai Motor has gone through three stages in the American market, i.e. the first stage of low quality and low price, the second stage of high-cost performance and the third stage of superior quality, price and brand.

In 2018, Hyundai and Kia sold 1,257,300 vehicles in the American market (1,275,200 vehicles in 2017; 1,420,000 vehicles in 2016), keeping a market share above 7%.

In the same period, Hyundai also saw rapid development in the European market. In 2018, Hyundai and Kia sold 1,037,600 vehicles in the European market (995,100 vehicles in 2017; 947,000 vehicles in 2016), keeping a market share above 6%.

Now Hyundai Motor has developed from a domestic enterprise relying on the single market of South Korea into a true multinational. Its global sales volume reached 7,540,000 vehicles in 2018. And it ranked fifth in sales volume among global automobile enterprises for many previous years.

Rooting in China and Keeping Improving

In 2017, based on the policies of "Beijing-Tianjin-Hebei Integration" and "Yangtze River Economic Zone", Beijing Hyundai set up its fourth and fifth factories in Cangzhou, Hebei and Chongqing, completing its layout of "five factories in three cities" with the productivity reaching 1,650,000 vehicles. Dongfeng Yueda Kia also set up three factories in Yancheng, Jiangsu with the productivity of nearly 900,000 vehicles. Hyundai Commercial Vehicle established Sichuan Hyundai Commercial Vehicle in Ziyang City, Sichuan Province to produce various types of trucks and coaches.

By the end of 2018, Hyundai Motor had invested more than US$ 20 billion in China. In addition to three complete vehicle enterprises, it also jointly or solely established 19 legal entities of auto parts such as module, engine and transmission, 28 other auto-related legal entities and 8 offices, setting up a business structure focusing on complete vehicles and supported by parts and components, steel, construction, logistics and finance. Large quantities of auto parts enterprises and supporting service enterprises have gathered around its complete vehicle factories in Beijing, Chongqing, Cangzhou of Hebei and Yancheng of Jiangsu, forming large-scale automobile industrial parks. Hyundai and Kia have directly created more than 40,000 employment opportunities and about 250,000 employees are working in their affiliated or supporting companies.

In order to get closer to the consumers and achieve full localization, Hyundai established

the Hyundai Motor China Technology R&D Center in Yantai in February 2013 and the Big Data Center in Guiyang in 2017. Yantai Center is the largest overseas R&D center of Hyundai Motor, with the main business of developing exclusive vehicles for the Chinese market including the complete set of R&D processes from vehicle design to testing. The Big Data Center is aimed at further promoting the localization of Hyundai Motor. Relying on the science of big data, not only the natural environment and special road conditions of China, but also the driving habits of Chinese consumers will be taken into full consideration in the R&D of new cars. All those measures make Hyundai Motor more localized.

Currently, most of Hyundai's mature vehicle types, which have been tested in the international market, are sold in the Chinese market. Sonata, Mistra, Elantra, Tucson, and IX of Hyundai and the K series, Sorento, and Carnival of Kia are very popular among the Chinese consumers.

The Chinese Market Is the Global Market

China has been the largest automobile market in the world ever since 2008. Now the sales volume in the Chinese market is larger than the sum of the next coming US, Japan and India. The Chinese market has assembled almost all the automobile enterprises, brands and technology around the world. And it leads to the latest trend and business model of the automobile industry. We can say that the center of the global automobile industry has transferred from the US to China. The Chinese automobile market is just the global automobile market. The Chinese market has seen unprecedented fierce competition, and no enterprise can neglect it.

Hyundai Motor encountered unexpected difficulties in 2017 with a drastic decline in sales volume. It began to recover in early 2018, but the Chinese automobile market has seen the first negative growth period over the past 28 years. The entire passenger car market declined by 4.1% in wholesale and 6.0% in retail. It hasn't turned for the better in 2019. In the first half of the year, the wholesale declined by 13% and retail by 8.7%. Despite that, Hyundai Motor still showed many highlights. Beijing Hyundai still achieved positive growth with the performance of the exclusive vehicles for China jointly developed by the Korean headquarters and Yantai R&D Center, Encino and La Festa. The high-performance sports sedan, La Festa, achieved the sales volume of 1,500 vehicles within 50 days.

2019 started the brand technology era of Hyundai Motor, and is also a year of Hyundai products. Besides the brand-new Santa Fe and Elantra already on the market in the first half of the year, a series of new vehicles will be released successively, including Elantra plug-in hybrid, new Verna, Encino BEV, La Festa BEV, new ix25 and new Sonata.

It can be said that Hyundai Motor has laid a solid foundation in the Chinese market, especially in the general category, while it has just kicked off in products of high-end brands.

Genesis (also known as "Lawrence" and "Equus" in the international market) and the N series high-end brands, which have been tested in South Korea and the European and American markets, are also sold in small quantities in the Chinese market through import. Korean organizations in China, as well as some Chinese consumers, also begin to embrace the high-end brands of Hyundai Motor. The high-end brand sales entity for China was established in Shanghai last year. Genesis will soon come on stage in the Chinese market.

He Who Makes Use of New Energy Wins the World

Hyundai began to develop new-energy vehicles fairly early. It released Avante hybrid in 2009, Blue One BEV in 2010, Tucson hydrogen FCV in 2013, and Sonata plug-in hybrid in 2015. It is the first to own 4 technical routes among the numerous automobile enterprises. The sales volume of Hyundai's new-energy eco-cars has been ranking No. 2 in the world for many years. Such BEVs as Hyundai KONA ("Encino" in the Chinese market) and Kia Soul are frequently seen on the European and American streets.

Now Beijing Hyundai and Dongfeng Yueda Kia have implemented full-scale production of BEV, hybrid and plug-in hybrid vehicles. Encino BEV, Elantra plug-in hybrid and La Festa BEV of Beijing Hyundai will be released in China successively, and so will the compact SUV New Generation Sportage R, the new small-size BEV SUV, K5 plug-in hybrid and KX3 BEV of Dongfeng Yueda Kia. Most of these vehicles are provided with multiple intelligent configurations, such as IDAS and wireless charging for cellphones.

The endurance mileage under the electric-only mode of plug-in hybrids will reach 85 km, and the largest endurance of BEVs under comprehensive working conditions will exceed 500 km.

The goal of Hyundai Motor is to release 38 new-energy vehicle types by 2025 and introduce them to China as soon as possible.

Among the next generation new-energy automobile techniques, the hydrogen FCV of Hyundai is recognized as the most outstanding in the industry.

Hydrogen is the most abundant element in the universe, which is inexhaustible to humans, so some experts believe that hydrogen is the ultimate energy source for human beings. The petroleum reserves on the Earth are continuously declining, and our environment stress is getting greater and greater. The energy structure of China is featured by "abundant coal, limited natural gas and scarce petroleum", with extremely low per capita quantity of oil and gas resources, only 5.3% and 7.7% respectively of the world average level, and our foreign-trade dependence of oil and gas resources is constantly increasing, which has become a hidden danger to our national energy security. Hydrogen FCVs do not use petroleum and have advantages such as energy-saving, environment-friendly, high energy efficiency and simple structure. As predicted by McKinsey & Company, by 2050, FCVs will have accounted for 20%

to 25% of all vehicles around the world.

In 2017, the Ministry of Industry and Information Technology, the National Development and Reform Commission, and the Ministry of Science and Technology jointly issued the Mid- and Long-term Development Plan for Automobile Industry, which listed FCVs as a field requiring substantial support. And according to the National Fuel Cell Development Roadmap of China, by 2030, China will have built 1,000 hydrogen refueling stations, and the quantity of FCVs will have reached 1 million. Local governments, academic and business communities have attached unprecedented importance to hydrogen energy. 2018 is even called "the start of the hydrogen cell era" within the industry. By the end of 2018, 10 provinces, municipalities and autonomous regions and 16 cities had issued their hydrogen energy development plan. In the first half of 2019, most local governments successively issued their hydrogen energy plan.

Hyundai Motor began to develop hydrogen FCVs in 1997 and successively developed multiple experimental vehicles. It released the first generation fuel cell SUV in 2013, and the second-generation hydrogen fuel cell SUV, NEXO, during the 2018 Pyeongchang Winter Olympics. NEXO has a driving range of 800 km (under European NEDC working conditions), can smoothly start up in a low-temperature environment of -30℃ and has a lifetime over 5,000 hours. All indicators of it have reached the highest level in the industry. The power system and more than 100 kinds of core parts were also successively developed along with the complete vehicle. The coaches have seen the first and second generations, too, and those now in the market are the third generation hydrogen fuel cell coaches. Besides, large trucks and logistic freight cars will soon be released.

At present, Hyundai Motor is investing lots of manpower and material resources in the promotion of a hydrogen energy society, regarding it as a kind of contribution to society. In September 2018, Hyundai cooperated with the Industrial Development Institute of Tsinghua University to have established a hydrogen energy fund worth US$ 100 million, for incubating and investing in infrastructure and technology innovation start-ups on the hydrogen energy industry chain. At the end of August this year, Hyundai established a "Hyundai Hydrogen World" on Nanjing Road, Shanghai, to introduce hydrogen, hydrogen energy and hydrogen fuel cell in the hope of popularizing hydrogen energy and promoting the development of a hydrogen energy society.

Together for a Better Future

Hyundai Motor Group always attaches great importance to corporate social responsibilities. Adhering to the public benefit philosophy of "devoted to public welfare practices with stakeholders, together for a better future", it has established a social contribution practice system of 4 Moves. "Green Move" focuses on environmental protection; "Safe Move" is aimed at popularizing the knowledge of traffic safety; "Happy Move" is for organizing volunteer services; and "Dream Move" is dedicated to the public benefit practices

in education, culture and sports, etc. The Saline-alkali Dry Lake Basin Treatment Project carried out in Inner Mongolia from 2008 has seen the completion of 50,000,000 m^2 of grassland restoration in Phase I, and the treatment method of utilizing perennial plants will be explored in Phase II.

The Group has been rated No. 1 for the social responsibility index in the automobile industry for consecutive years in the "Corporate Social Responsibility Appraisal of Chinese Academy of Social Sciences" issued by CSR Research Center of CASS.

Complete vehicle enterprises like Beijing Hyundai and Dongfeng Yueda Kia and parts and components enterprises of the Group like Mobis and Dymos all carry out social contribution activities independently, which is a beautiful sight in their respective areas.

Case 8 Dow Chemical invests in China

Excellent manufacturing based in China

Dow Chemical (hereinafter referred to as Dow) collects the knowledge of science and technology to provide high-end material science solutions necessary for human progress. The company, boasting one of the most extensive and the most powerful solutions in the industry, can solve complex global challenges with its strong technology, asset integration, scale effect, and competitive capacity. By means of the market-driven industry-leading business portfolio (including high-tech materials, industrial intermediates, and plastics), the company provides the customers in high-growth markets such as packaging, infrastructure and consumer care with various categories of differentiated-technology-based products and solutions.

Established in 1897, Dow is a Fortune Global 500 company headquartered in Midland, Michigan in the US. The company has been doing trade business in China since the 1930s and established its office and factory in Hong Kong between the 1950s and early 1970s. With an office established in Guangzhou in 1979, the company made its official foray into the market of mainland China. In the following 40 years, with the deepening of reform and opening-up and the rapid development of the Chinese market, the company has been continuously growing and expanding in China. Now the Chinese market is Dow's second largest market. The company totally has 10 business centers and 9 production bases in Greater China with about 3,200 employees. The Shanghai Dow Chemical Center located in Zhangjiang High-tech Park, Shanghai, is Dow's business and innovation center in the Asia Pacific, as well as its largest integrated R&D center around the world, which boasts world-class professional R&D technology and market-oriented application development capacity.

Investing in China in Spite of Challenges

The development history of Dow in China embodies the progress of China's reform and opening-up:

Between 1980 and 1990, the first-tier cities in the tide of reform and opening-up became the hubs for foreign companies to open up the Chinese market and serve the customers. Dow successively established offices in Guangzhou, Shanghai and Beijing.

Between 1990 and 2000, as China's domestic market was activated and the demand growth sped up, Dow set up production bases in Ningbo, Wuhan, Guangzhou, and Shanghai, expanding its capacity to satisfy the demand of the Chinese market.

Between 2000 and 2010, the demand for China's domestic market was constantly increasing with increased talent gathering effect and innovative momentum. During this period,

Dow set up its Greater China headquarters in Shanghai, established a complete organizational structure, increased its investment in production bases, set up a wholly-owned manufacturing base in Zhangjiagang provided with multiple advanced integrated production lines, and established the Asia-Pacific R&D and Innovation Center in Zhangjiang High-tech Park, Shanghai in 2009, actively attracting local innovative and technical talents to serve the local market more efficiently.

Since 2010, as China has become the second largest economy and the customer market with the greatest consumption potential in the world, it has seen ever-increasing positions in international trade and politics, and has become the center exporting high-quality products and innovative achievements to the world. During this period, Dow successively established offices in Chengdu, Harbin, Wuhan, Xinjiang and Xi'an, extending its service network to the entire country and "the Belt and Road" market in the west. It opens a new factory every year and expands capacity continuously to satisfy the ever-increasing market demand, and has set up customer innovation centers in multiple cities to cope with market challenges together with the customers.

The ever-deepening of reform and opening-up and the long-term prosperity of the Chinese market have attracted Dow for continuous investment and introduction of advanced manufacturing concepts and product technology. China's leading achievements in digital service has driven Dow to explore more convenient service modes. And the ambitious manufacturing strategy and environmental commitment of the Chinese government accord with the specialty and vision of Dow as a world-leading material science company. Dow's investment orientation in China just agrees with the stage focuses of China's reform and opening-up.

Excellent Manufacturing with a Focus on Environment

Dow now has 9 production bases in Greater China. Just like the other production bases located in 31 countries around the world, its bases in China not only adopt first-class manufacturing technology and strict safety management, but also actively carry out the uniform world-level environment, health and safety management system, to minimize the impact of production and operation on the environment.

Dow Chemical Zhangjiagang Production Base, located in Yangzijiang International Chemical Industrial Park, Zhangjiagang City, Jiangsu Province, is a world-class production base and Dow's largest base in China, which owns the largest and the most advanced integrated organic silicon production plant in China. The base, covering an area of 1,400,000 m^2, with about 1,000 employees and a total investment of US$ 2.5 billion, is the largest foreign-invested enterprise in Zhangjiagang. It includes multiple production lines like the 120,000-ton P-series alcohol ether production plant, and the siloxane plant and fumed silica plant with a total

annual capacity of 210,000 tons. The base, with an investment of over RMB 100 million in environmental protection, is provided with complete internationally advanced exhaust gas and sewage control systems and other environmental protection facilities. Since its establishment in 2002, it has been normally operating, with a pollutant discharge much lower than the national standard. That has fully reflected Dow's commitment to customers and society, as well as its consistent sustainable development strategy of guaranteeing the economy, environment and social benefit. Dow Chemical Zhangjiagang Production Base has been rated as the "Advanced Enterprise in Safe Production" by Suzhou and the "Unit with Best Responsible Care Practice" by China Petroleum and Chemical Industry Federation for multiple times, becoming a demonstration unit of safe production in Zhangjiagang, visited by over 1,000 delegates from the government, enterprises and industry associations every year.

Meeting Challenges with Innovative Technology

Dow provides innovative products and technology for addressing global challenges, including safer and fresher food, cleaner energy, more energy-saving buildings and healthier personal care products. Its innovation capacity is frequently rewarded: "R&D 100" award for 10 of its innovations in 2017 and the "Edison Award" for 4 of its innovations in 2018. Dow is constantly contributing to human progress with its leading R&D and innovation capacity.

The company has deployed its world-class R&D capacity in China. Shanghai Dow Chemical Center located in Zhangjiang High-tech Park is Dow's innovation center in Asia Pacific, which has more than 100 labs and the earliest chemical high throughput lab in China. More than 400 top scientists and engineers make concerted efforts to satisfy customer needs based on the local market. Dow's accumulative R&D investment in China has exceeded RMB yuan 1.2 billion in recent three years (excluding IIFA).

In China, Dow focuses its innovation on comprehensive solutions conforming to the economic transition and sustainable urbanization of China. We focus on the innovation of three strategic fields: sustainable packaging, infrastructure and consumer care. For example, with the rise of various e-commerce platforms in China, large quantities of goods are delivered to the consumers through express delivery, and thus the numerous packing materials have caused public and industrial concerns about the environment. The sustainable packing material of Dow saves more raw materials than traditional packing materials and is recyclable while providing equivalent durability, flexibility and function, and reducing the impact on the environment while keeping the food fresh. Now Dow is cooperating with e-commerce enterprises like JD, assisting them with their commitments in green industry chain and eco-packaging.

Dow's R&D team in China not only develops innovative solutions for the local Chinese market, but has also successfully introduced some achievements for the local need into

the international market, benefiting the consumers in other markets around the world. For example, in allusion to domestic consumers' concerns about indoor air quality, the R&D team of Shanghai Dow Chemical Center has developed a kind of anti-formaldehyde interior paint that can capture and resolve the formaldehyde in the air due to decoration. This technique, which is also well received in the international market, is a significant innovation milestone of the Chinese R&D team of Dow.

In China, Dow actively cooperates with customers, the academic community and the government for innovation, so as to better create commercial value and promote sustainable progress. Shanghai Dow Chemical Center is provided with a customer innovation center, where Dow's scientific research personnel closely cooperate with the customers, holding more than 40 brainstorms every year and transforming the opportunities and novel ideas in the end market into profit-supporting solutions.

Dow is devoted to cooperating with top-class universities, providing financial aid for joint research projects and excellent students, involving six domestic universities including Fudan University, Shanghai Jiaotong University, East China University of Science and Technology, Peking University and Tsinghua University. The company has established a material research center with Fudan University, which has made outstanding achievements. Dow has technical headhunters, which is rare in the world, to keep an eye on emerging cutting-edge technologies of colleges and universities, national scientific research institutions and technological innovation enterprises. And it will carry out joint R&D through various means based on potential research and analysis and evaluation.

Upgrading Service for Customers

Dow attaches great importance to customer service, and that's one of the reasons for its success in the Chinese market. In addition to the exclusive customer service department and hotline, its offices distributed in major areas in China provide local customers with more convenient services.

China is the largest mobile communication equipment user market in the world, where the rapidly developing e-commerce and data platforms provide the consumers with richer and faster information channels while setting higher requirements for the customer service level of enterprises. In the past three years, Dow has established virtual customer innovation centers in Guangzhou and Chengdu offices, providing local customers with real-time technical support via online communication technology.

In February 2018, Dow declared the official launch of its Asia-Pacific Digital Business Center, bringing its digital transformation into a new stage. The Asia-Pacific Digital Business Center is in Shanghai Dow Chemical Center, It is Dow's business competence exhibition center in Asia Pacific, which will hold design thinking seminars, promote market-oriented

innovative projects and endeavor to create next-generation digital business solutions to better serve the customers. The Digital Business Center advocates a customer-centered digital thinking model, making customer communication and interaction more convenient, pleasanter, and more efficient. The Center, provided with the most advanced technology, can rapidly test, develop and deploy digital solutions, thus creating demands, optimizing customer experience and addressing the challenges when the products enter the market.

In December 2018, the 1688 official flagship store of Dow was opened online, providing more convenient online sales services for Chinese customers. That is an important milestone of Dow's digital transformation through the cooperation with 1688 enterprise procurement and wholesale platform under Alibaba, as well as an important measure of Dow to continuously improve customer experience and further expand market opportunities.

People-Oriented and Caring for the Future

In addition to assets investment related to production and R&D in China, Dow has also invested lots of capital and energy in talent training and corporate social responsibilities, to contribute to society.

Talent development is the core of Dow's business growth and success in China. Dow is always devoted to creating the best workplace while actively implementing business strategies that conform to the priorities of the Chinese government and the market. It encourages the employees to release their potential by advocating a diversified and inclusive culture and promotes an on-the-job learning mechanism to develop and cultivate local talents.

Having developed from offices with dozens of people into a large-scale enterprise with more than 3,200 employees in China, Dow provides the Chinese employees with exciting development opportunities, flexible workplaces, and competitive compensation and benefits. The employee turnover rate of Dow has been the lowest in the manufacturing industry for many years.

The company provides the employees with multiple training and learning opportunities to help them adapt to the challenging and constantly changing Chinese market. There are more than 1,000 training and learning programs on the internal website of Dow, from which the employees can choose to constantly update their knowledge and skill structure during their working time, helping them to work in the best state.

99% of Dow's employees in China are local talents, and 95% of its managerial positions are taken by Chinese employees, which is a great model of localization of multinationals in China.

Dow has 9 multi-culture teams that provide resources for employees with different cultural backgrounds and concepts, helping them to be fully engaged in their work and achieve career success.

Dow has always been devoted to fulfilling corporate social responsibilities in China, supporting and participating in many projects in advocating the idea of sustainable development, scientific education, and promoting community success, which has produced profound influences. Meanwhile, as a leading sustainable development enterprise, Dow carries out a series of capacity building programs with the government and relevant organizations to share its best practice with small and medium enterprises and to help improve the sustainable development level of the industry.

Dow and Junior Achievement (JA) China, a non-profit educational organization, have been jointly carrying out the "Our City" sustainable development elective since 2008, benefiting over 620,000 students. The company also cooperated with China Association for Science and Technology to have set up the "Dow Chemistry Lab" in the sci-tech museums in Tianjin and Heilongjiang Province, visited by nearly 300,000 audiences every year, helping the audiences understand the great contributions made by chemistry to our daily life and sustainable social development through interaction. Dow has been the only official partner of the Chinese Chemistry Olympiad since 2013, which is participated by 150,000 senior high students every year. And the company has donated 13 Hope Schools via China Youth Development Foundation.

During more than ten years in the past, Dow has accumulatively invested about US$ 10 million in various corporate social responsibility projects.

The company has won many honors thanks to its people-oriented corporate culture and outstanding performance in corporate social responsibility. It is rated as "Excellent Corporate Citizenship in China" by China Committee of Corporate Citizenship under China Association of Social Workers for 6 consecutive years and certified as "China's Top Employer" by China Top Employers Institute for 12 consecutive years.

Sustainable Development by Exploration and Innovation

With the constantly opening-up market and deepening economic structure reform of China, the huge Chinese consumer group requires safer food, more comfortable products, more convenient service, and more environment-friendly technology, so the Chinese market's demand for high-end materials will keep increasing in the long term. Accordingly, the chemical industry has entered a brand-new investment cycle, where domestic and overseas leading enterprises are focusing on future market opportunities through M&A and investment.

Dow will continue to seek investment opportunities in China, perfecting the product lines and improving the service quality. It will make use of its technical advantages and sustainable development experience while actively exploring innovative products with local customers and partners, to contribute to the green future of China.

The cornerstone laying ceremony of Dow's brand-new high value-added organic

silicon resin factory was held in June 2019 in the integrated organic silicon production base in Zhangjiagang. The new factory will be put into production in 2021, to satisfy the ever-increasing demand for relevant industries in China, Asia-Pacific, and emerging markets for special organic silicon products. It has been the third production line invested by Dow in China in the past three years, which fully shows Dow's confidence in the Chinese market and reflects its consistent focus on market change and constant optimization of investment value.

Case 9 Cargill invests in China

Plowing the land of reform and opening-up and paving the way for developing in China

The economic society of China has drastically developed for over 40 years since the reform and opening-up. As one of the earliest foreign-owned enterprises in China, Cargill has witnessed and participated in this 40-year progress. In the tide of the reform and opening-up, Cargill not only enjoyed remarkable development, but also dedicated itself to the agricultural development of China, sharing the benefit brought by globalization with its Chinese partners.

Investing in China with great achievements

As a diversified multinational group integrating food, agriculture, finance, and industrial products and service, Cargill does business in 70 countries and regions around the world, with 154 years of operating experience and profound insights. Since it entered the Chinese market in the 1970s, Cargill has always been making long-term investments in China. Its development in China progresses with the ever-deepening reform and opening-up, with the same pace of the economic and social changes.

In the initial stage of reform and opening-up, many enterprises were advancing cautiously by trying, and so was Cargill, who just entered the Chinese market and was exploring the way of fitting in. In that period, Cargill was mainly establishing joint ventures with Chinese partners to carry out primary product trade, introducing advanced techniques and technologies into China and helping Chinese customers sell high-quality products to foreign countries. For example, the company established a joint venture oilseed crushing plant in Shandong in 1988.

After the initial attempt and exploration, Cargill began to expand its business in China between 2000 and 2015. Its main business departments in the world successively set up branches in China, with increasing operation points and employees. In this period, Cargill became one of the earliest foreign agricultural product enterprises with the domestic dealership. And it invested mainly by building factories in this period. As of 2015, it had owned more than 30 feed factories in China.

In the recent 7 years, encouraged by the favorable policies for foreign direct investment in China, Cargill has accelerated and expanded its investment in China. In addition to building new factories and expanding the existing ones, it has also set up R&D centers, innovation centers, and business sharing centers, with an obvious increase in strategic investment. Major investments in recent years include:

The first food innovation center of Asia-Pacific in Shanghai in 2016;

Expansion of Cargill Nanjing Sharing Business Service Center in 2018;

Commencement of Cargill's Phase-II animal protein deep processing project in Chuzhou in 2018, and official production in 2019;

Expansion of Cargill's biochemical capacity in Songyuan, Jilin with an investment of RMB yuan 750 million in 2019;

Establishment of the Asia-Pacific Personal Care R&D and Application Lab in Shanghai in 2019.

So far, Cargill has had more than 50 operation points in China, with over 10,000 employees, extending to 25 provinces and autonomous regions. Cargill's 5 major business units in the world are all doing business in China, and all of Cargill's businesses are somehow reflected in the Chinese market, covering multiple fields, such as the value chain of grains and oilseeds, animal nutrition, animal protein, starch and starch sugar, grease solution, thickening and stabilization solution, trade financing and settlement, metals and sea transportation, and beauty care.

Assisting with Agricultural Industrial Upgrading of China

Agriculture, rural areas, and peasants are the fundamental issues related to our national economy and the people's livelihood. With the advancing of agricultural and rural reform, agricultural industrial upgrading is imperative. As a leader in the global food and agriculture field, Cargill is devoted to introducing its world-leading technology and philosophy into China, actively playing the role of forerunner and promoter of agricultural industrial upgrading in China, and contributing to agricultural modernization, rural development strategy, and income increase of the peasants in a comprehensive way. It also promotes China's agricultural transformation, upgrading, and sustainable development by increasing the efficiency and added value of the production, processing, distribution, and trading of agricultural products.

Cargill began to explore the agricultural products processing industry in China in the 1990s, as one of the few foreign-owned enterprises that invested in this industry at that time. After a period of exploration, Cargill began to increase its investment in 1992. Now Cargill's business in China involves basic materials, deep processing, trading, and financial products of agricultural products, which also propels the upgrading and transformation of its partners and customers.

Promoting the protection of grain resources and stabilizing the raw materials of the agricultural industry

Since Cargill began to do business, it has been closely cooperating with rural communities and trying its best to help the peasants to increase income and grain yield. In strict accordance with the national policies and regulations, Cargill actively contributes to the stable, safe, and effective supply of grains by taking advantage of both the international and domestic markets.

The company began to cooperate with Jilin Provincial Administration of Grain in 2015 on

the granary construction aid project. Cargill has donated more than 700 grain storage facilities in Jilin Province, making grain storage safer, helping the peasants to reduce loss and increase income, as well as stabilizing the raw material supply of the agricultural products processing industry. The new granaries can help the peasants better cope with the problem of courtyard grain storage under the market environment. The company has also done a lot in terms of improving peasants' grain storage skills in winter by means of natural drying.

What's more, it initiated the "Peasants Training" program as early as in 1992. So far it has accumulatively trained over 3,500,000 peasants in China. Cargill also cooperates with WWF and customers to provide corn planting training for peasants in Northeast China, which covers the whole process from planting, harvest, to storage.

Extending the industry chain and increasing the added value of agricultural products

The development of the agricultural products processing industry is extremely necessary and has a broad market. To effectively extend the industry chain of agricultural products processing and increase the added value of agricultural products has far-reaching significance to increase peasants' income and realize agricultural modernization.

The Sino-US Cargill Biotech Industrial Park invested by Cargill in Songyuan, Jilin was put into production in 2001. The Park, with deep processing and trading of corns as the main business, turns the corns into a number of high added value products, such as feed, starch, modified starch, maltodextrin, and glucose powder, fully utilizing the resources and extending the entire industry chain. In 2017, Cargill invested RMB yuan 2 billion (approx. US$ 299 million) to build the largest corn deep processing project in Asia in Songyuan City, Jilin. And it declared to make another investment of RMB yuan 750 million (approx. US$ 112 million) in 2019 to expand the corn deep processing capacity of the Songyuan factory. After completion, the corn processing capacity of the factory is expected to reach 2 million tons/year, with RMB yuan 10 billion of output value and RMB yuan 1 billion of profit and tax annually. The project has significant meaning in leading and driving the cooperation between upstream and downstream industry chains, the construction of Songyuan corn deep processing industrial park, the promotion of deep processing of agricultural products in Songyuan, and the promotion of industrial transformation and upgrading.

In April 2017, the joint venture Hebei Jiahao Grain & Oilseeds Co., Ltd. invested by Cargill with around RMB yuan 700 million (about US$ 100 million) was put into operation, with an annual oilseed crushing capacity of 1.32 million tons. The factory can not only provide high-quality refined vegetable oil that helps the industry to better satisfy consumers' demand for quality food, but also provide animal feed products such as bean pulp to satisfy the demand of livestock breeding and animal protein. Meanwhile, Cargill invested about RMB yuan 700 million (over US$ 100 million) to establish Hebei Jihai Port Service Co., Ltd. to transport the raw materials of oilseed processing and crushing of Jiahao factory and serve the domestic

and international trade. Cargill declared in 2019 that it would make another investment of about RMB yuan 2.07 billion (US$ 0.3 billion) to carry out the construction of Jiahao Grain & Oilseeds Phase II.

Empowering the trade of agricultural products and promoting the development of commodity options and futures

Cargill boasts diversified agricultural products businesses. It not only purchases and processes cereals, oilseeds, and other agricultural products, providing them to food manufacturers, food ingredients and animal nutrition enterprises, but also provides products and services for farmers to help them provide products of higher yield and quality. Meanwhile, in addition to importing grains from other regions to satisfy the Chinese market, Cargill China also has many export businesses. For example, 10%–15% of the products in Songyuan factory, e.g. maltodextrin and malt syrup, will be exported to Southeast Asia.

Agriculture is a fluctuating industry, and the annual income of the peasants is decided by weather and the supply–demand relationship. To help the peasants lock in their income through financial instruments is a general practice in the world. In the end of 2018, Cargill was invited to the listing conference of corn options in Dalian Commodity Exchange, where it discussed with the Exchange and industrial counterparts about how to avoid risks with financial derivatives such as options, hedge against the risks, ensure greater guarantee for the peasants while maximizing their planting benefit, and help them to increase income. Now Cargill is trying to combine some financial futures products of the Exchange with the purchasing process, to provide the peasants with management targeted at their expected income, so as to reduce the risks due to great fluctuations.

In addition to options, Cargill also carries out futures trading. Its industrial park in Songyuan, Jilin has a futures delivery reservoir area for four kinds of agricultural products, i.e. corn, starch, soybean, and bean pulp, which is the largest comprehensive industrial park integrating corn and soybean trading and deep processing in China.

Focusing on Consumption Upgrading and Benefiting the Consumers

Currently, the Chinese consumer market has seen constantly increasing total quantity, optimized structure, and innovating supply modes. Consumption has been the No. 1 driving force of economic growth for 5 consecutive years. According to the Ministry of Commerce, the Chinese consumer market has entered a new stage of steadily expanding consumption scale, increasingly diversified consumer demands, and ever upgrading consumption structure. Under this momentum, Cargill, with many years of experience in the Chinese market, has also seen the huge development potential of the Chinese consumer market.

The income of Cargill in the 2018–2019 fiscal year reached US$ 113.5 billion, 29% of

which was the sales revenue and other incomes from the Asia-Pacific, which has been the market with the largest contribution except for North America. And China is particularly important in Asia-Pacific, which is a major strategic market of Cargill. That means Cargill's investments in China have achieved outstanding performance as a whole, especially those in such consumption fields as animal protein, grain and oil production, and beauty care.

Influenced by the strong performance in China and the adjustment of consumption structure, Cargill's investments in China always focus on the upgrading trend of consumption, including dietary structure adjustment, consumer demand change, food innovation and security, etc.

Closely following the dietary structure adjustment and providing more high-quality protein

With the increasing living standard and changing the dietary habits, the dietary structure of Chinese people is varying rapidly, with drastically increasing consumption of protein. The chicken consumption in China has always been growing steadily. According to the National Bureau of Statistics, the per capita poultry meat consumption of Chinese urban residents reached 9.7 kg in 2017, which is nearly 10 times of that in 1978. The data of the Ministry of Agriculture and Rural Affairs have shown that chicken has become the second largest meat consumption product in China, which accounts for about 15% of the total meat output in China. With the improvement of people's living standards and increasing pursuit of a healthy lifestyle, the chicken market in China still has a huge space for growth.

In September 2013, the animal protein full industry chain strategic project invested by Cargill in Chuzhou, Anhui was officially put into production, which was the largest single investment of Cargill in China at that time. In June 2019, the animal protein deep processing Phase II factory in Chuzhou, Anhui expanded by Cargill with RMB yuan 338 million (US$ 48.8 million) was put into production. After the expansion, the Cargill animal protein deep processing factory not only can better satisfy Chinese consumers' increasing demand for high-quality protein, but also is able to export cooked products in large quantities to overseas markets.

In addition, Cargill's animal protein business unit promoted a brand-new e-commerce brand of high-quality meat products in 2016, Sun Valley, which provides Chinese consumers with convenient and high-quality chicken and beef products.

Focusing on food innovation and catering to the complex and constantly changing consumer demand

According to the "Fixing Asia's Food System" investigation report in 2018 of the Economist Intelligence Unit (EIU) entrusted by Cargill, the demand of Chinese consumers for sustainable and healthy food is increasing day by day, while food innovation is the key to solving that problem. Facing the increasingly diversified demands of the public for flavor, nutrition, and health, Cargill has devoted itself to food R&D and innovation.

In 2016, Cargill established its Shanghai Innovation Center by integrating multiple product businesses. The strong R&D team of the Center helps the customers to develop nutritious and safe innovative food, whose innovation target focuses on three consumer-demand-oriented fields, i.e. ingredient flavor, nutrient content, and innovative menu research. Before that, Cargill had set up an innovation research center in Beijing.

Sticking to food safety and providing reliable products

With the drastic change in consumers' food demand, food safety has become the top priority of the consumers. Cargill has always regarded food safety as the foundation of all its businesses, and has developed and practiced rigorous food safety standards.

In 2019, Cargill has newly established a food safety and technology center in Songyuan industrial park, which focuses on the testing, research and training in the field of food safety, as well as the process improvement and product development of the corn processing and food ingredient industries. In addition to serving the businesses of Cargill, it will also serve other enterprises in and around the industrial park as a third-party testing center.

In August 2017, Cargill, China Institute of Veterinary Drug Control, and China Agriculture Press jointly published the Manual of Veterinary Drugs for Chicken to help reduce the use of antibiotics in the chicken breeding market in China. The company has won one of the highest awards in the food industry of China, the Seven-Star Award, for many times thanks to its world-class poultry meat processing equipment and standard procedures, which is a great reward for Cargill's achievements in building a high-standard food safety system.

Focusing on environmental protection and providing zero-waste personalized solutions

Research reports have shown that now consumers are not just focusing on the product, but are paying more attention to the value brought by the brand and the product, as well as the philosophy behind the product.

As consumers' demand for environmental protection is increasing day by day, Cargill established its Asia-Pacific R&D and application lab for the beauty care business in February 2019. With the philosophy of "zero-waste for beauty care", relying on more than 150 years of insight in the agricultural and grain field, the lab introduces food-grade raw materials of personal care products into the Chinese market. Cargill tries its best to provide Chinese customers and consumers with natural, degradable, and sustainable personal care raw material solutions by sharing its experience in sustainable raw materials of personal care products, focusing on addressing various challenges in natural raw materials in the personal care field.

Practicing Corporate Responsibilities and Assisting with Sustainable Development

Cargill invests 2% of its profit before tax into various corporate responsibility projects, to ensure the supply of convenient, safe and nutritious agricultural products and food, promote

educational innovation, protect natural resources, and promote community development. Cargill is devoted to corporate citizenship in China. Its corporate responsibility projects in China mainly focus on the following three fields: food safety and nutrition—devoted to agricultural modernization, rural development, and nutrition improvement of China; environmental sustainability—practicing environmental sustainable development, and benefiting the community—making constant efforts to create lively and stable communities.

Helping the peasants to increase productivity, income, and living standard

Cargill helps the peasants to improve their production skills and get rid of poverty through training. In 2017, Cargill cooperated with the international charity organization, Heifer International, and its partner, Sichuan Haihui Poverty Alleviation Service Center, to launch a poverty alleviation project that helped the local poor households to increase income, get rid of poverty, and finally achieve sustainable development by supporting them to breed broiler and layer chickens.

Cargill China calls on its employees to take action in reducing the wasted 1/3 food in the world and to care for the malnourished children in poverty-stricken areas. Since it launched the "Extra Cargill Meal" program in 2015, Cargill has donated more than 280,000 nutritious meal packages to students in poverty-stricken areas.

Cargill is well aware of its mission in resource conservation coming from its global influence. In order to propel the environmental governance of the steel industry and promote the propaganda of environmental education, Cargill cooperated with the environmental protection publicity and education centers in Guangdong and Shandong and China Environmental Protection Foundation to have held multiple lectures on environmental protection laws and regulations. A four-year "Environmental Protection Caravan" activity has also been launched to spread the concepts of environmental protection and ecology. By the end of 2017, the caravan had been to 18 cities and influenced over 1,100,000 people.

Sustainable success is closely related to the healthy development of local communities

Cargill, governments, NPOs and all sectors of society are jointly helping children in rural areas acquire better educational resources, including infrastructure construction, library donation, and volunteer teaching. Between 2008 and 2013, Cargill helped more than 40 primary schools in poverty-stricken areas to reconstruct or repair their teaching buildings, and donated "Cargill Cares Library" to 20 schools.

Cargill also has a strong volunteering culture. Its employees have established Cargill Cares Council around the world to help communities. Between 2004 and 2017, the 45 cares council in China contributed more than 200,000 hours of service to benefit the communities. Cargill China Cares Council also carried out a series of public benefit activities, such as "the 150th anniversary of Cargill's dream", rescue after Wenchuan earthquake, and the World Earth Day.

Upholding the Mission of "Benefiting the World" and Increasing Global Contributions of Cargill China

In the 40 years since the reform and opening-up, Cargill has always been cooperating with Chinese partners to promote systematic methods for food safety, nutrition, and food system innovation, and with peasants to help them increase productivity and ability to enter the market. As China has grown into the second largest economy in the world, Cargill China has been more and more important in its global layout.

In 2018, Cargill again expanded its Nanjing Business Center. In addition to increased job opportunities and improved talent skills, the Nanjing Business Center, as the only service center in Northeast Asia, will also provide human resource support and procurement service for Japan and South Korea.

In September 2017, Cargill Beauty set its Asia-Pacific headquarters in Shanghai. With the perfecting of the business structure of marketing, product management and application, and R&D, the Cargill Beauty Care Asia-Pacific R&D and Application Lab was also launched in Shanghai this year. The Lab will cover the frontier research and application in the personal care field of the entire Asia-Pacific.

The Chinese market, while developing into an important growth pole of Cargill, is also becoming the regional strategic center of more and more units, from marketing and trading to R&D and innovation, transforming from a pure business market into a regional function center. In the future Chinese market, Cargill will keep increasing its investment in the agricultural industry, consumption, and community development on the one hand, and keep improving Cargill China's role in the global market on the other hand.

The past 40 years is a period of drastic changes in the agriculture of China and a period of successful development of Cargill in China. As China keeps promoting the reform and opening-up and the government has developed multiple policies on foreign direct investment, China not only has become a rapidly developing emerging market, but also will lead the world in many aspects in the future. The huge economic volume and population of China ensure a broad market for Cargill and make the country one of Cargill's key strategic centers of innovation and development in the world.

In the future, Cargill will keep developing innovative solutions, establish close partnerships, and uphold the mission of "benefiting the world in a safe, responsible and sustainable way", to help create a more sustainable future for global agriculture and contribute to the agricultural development of China.

Case 10 AGC Group invests in China

AGC Group grows with China

AGC (formerly "Asahi Glass") Group, established in 1907, is a representative Japanese manufacturer in the material field.

In 2018, Asahi Glass changed its century-old name that was familiar to Chinese people into "AGC (Ai Jie Xu in Chinese)". That's because the business fields of the group keep expanding and the original glass industry in the name can no longer fully reflect it. The new Chinese name "Ai Jie Xu" also implies that it will "surpass Asahi Glass to be an outstanding entity".

Currently, the main businesses of AGC Group cover the fields of glass, chemistry, electronics, and industrial ceramics, etc., and many of its products enjoy the No. 1 market share in the world. AGC has also made great investments in the field of life science, in the hope of cultivating it into a pillar business in the future.

As for its original glass business, AGC is the only company in the world comprehensively covering buildings, vehicles, displays, semiconductors, electronic components, healthcare, and consumption, etc., ranking No. 1 in the world in terms of the total sales of glass products.

More importantly, in its history of over 100 years, AGC has always been investing in R&D to change the glass materials through innovation and to provide the most advanced materials for growth industries of all generations to support industrial development. Therefore, AGC has been able to continuously grow for more than a century.

Meanwhile, AGC runs chemical, electronic, and industrial ceramic businesses. These businesses have different features, product lives, supply chains, and revenue models. When managing the portfolios, AGC pays attention to integrate different technology with the businesses.

Therefore, AGC has invented "the glass that can easily get rid of fingerprints on smartphones" (glass × chemistry) and "the glass that can continuously receive 5G radio waves on the fast running car" (glass × electronics).

Historical Relations between AGC and China

AGC's investment in China is closely related to the development of China, especially the development history of China's manufacturing industry. Its investment patterns also match with the various development stages and national policies of China. Its history is a history of "supporting the development of China and growing with China".

103 years ago, in 1916, AGC began to import salt from Liaoning Province and Qingdao, as the raw material of glass. That's the earliest commercial intercourse between AGC and China.

Before the establishment of diplomatic relations between China and Japan, AGC's investment in China was mainly purchasing raw materials from China. In that sense, it was pure "trade" type investment.

Before the reform and opening-up in 1978, the China-Japan Trade Agreement was signed in 1974, which established an official trade system based on diplomatic relations.

AGC has a long trading history with China, and once exchanged with the delegation of the electronic industry of China. In 1977, AGC received a project negotiation from the International Trade Promotion Association. The project was exporting color TV (kinescope) valve manufacturing plant and technology to Shaanxi color kinescope general plant (Xianyang) in China, titled "Color TV Glass Bulb Project in China".

AGC believed that to support the development of the neighbor that was about to reform and open up would definitely drive the development of itself. So it signed the contract of the project in the first year of the reform and opening-up of China, i.e. 1978.

Upon signing the contract, besides its technical capacity, AGC was widely acclaimed for its earnest attitude and passion for solving all kinds of problems. The project was AGC's first large-scale plant and technology export project in China, involving various relevant personnel and differences in languages and customs. But the project team members worked together and properly controlled the cost. The project was finally a great success, which also contributed to the revenue of AGC.

Besides, AGC's outstanding technical capacity and elaborate cooperation system shown in the project won the attention and trust of China's Ministry of Electronics Industry and the local TV valve industries. Afterward, it received factory orders from Chengdu for black-and-white and color valves and from Xianyang for expansion due to incompetence of other American companies; and Shenzhen Zhongkang Company invited AGC to aid the establishment of a color TV valve manufacturing joint venture in Shanghai.

So the TV valve business of AGC enjoyed significant development.

Beginning from the TV valve project, various plant and technology supply vigorously developed in China: exporting relevant chemical equipment and technology to the joint petrochemical plant in Shandong Province in 1978; exporting equipment and technology of float glass to Hebei Province in 1979; exporting equipment and technology of caustic soda by ion exchange membrane method to Shanghai in 1984; providing electrolytic cell technology for China National Chemical Construction Corporation; providing relevant chemical equipment and technology to Jinxi in 1986.

So in the initial stage of reform and opening-up, AGC invested in China through "plant and technology supply", supporting the launch of reform and opening-up and the development of China.

Economic Development after the 1990s

With the establishment of laws for the joint venture with Chinese state-owned enterprises in China in 1990, AGC began to actively propel its joint venture business in China, in the hope of taking root in China. Especially during the new climax of reform and opening-up after 1992, AGC grabbed the chance and began direct investment in China.

In 1992, AGC established Guangdong Float Glass Company and Dalian Float Glass Company for building and vehicle glass, which were jointly funded by China, the US, and Japan.

Guangdong Float Glass Company was mainly operated by AGC. AGC earnestly implemented the advantages of the Japanese manufacturing industry, i.e. 5S education (Seiri, Seiton, Seiso, Seiketsu, and Shitsuke), management education, free education of Japanese culture and Japanese conversation education, basics of manufacturing industry, and basics of social man.

The company, at a loss in the beginning, eliminated its aggregate losses in about 2 years and began to operate in a comprehensive way, which became a great success and a symbol of the reform and opening-up.

Guangdong Float Glass Company became Chinese asset after the American capital was withdrawn, while Dalian Float Glass Company was taken over by AGC and became Asahi Special Glass (Dalian) Co., Ltd. (the current AGC Special Glass (Dalian) Co., Ltd.), which then continuously introduced new equipment from Japan and became a special entity in the Asian market with exclusive manufacturing technology.

When China just rose as the largest automobile and construction market in the world, AGC devoted itself to the utmost technology and quality support and the cultural communication between China and Japan.

In addition to the initial investment, AGC constantly sent managers familiar with the plants to carry out steady education for Chinese technicians, in order to increase production efficiency and product quality.

That's the investment of AGC.

In the same period, Zibo Asahi Electrofusion Materials Co., Ltd. (the current Zibo AGC Alumina Materials Co., Ltd.) was established in 1993, which was a successful representative of AGC's joint venture business in China.

With the rapid economic development under the reform and opening-up, the demand for the glass necessary for infrastructures was increasing, and relevant laws on the joint venture between state-owned and foreign-owned enterprises were getting more mature. Under this background, the firebrick company, which is necessary for glass kilns, came into being.

AGC looked for partners across China, and finally selected the state-owned enterprise in Zibo City, Shandong Province, "Zibo Industrial Ceramics Factory", as a candidate. The decisive reason was that the factory director, Zhang Qishan, had very similar values with AGC.

The main electric furnaces and processing equipment of the company were all imported from Japan, but some peripheral equipment was designed by AGC and produced in China. However, all the Chinese drawings adopted the "first angle method", which was different from the "third angle method" adopted in Japan. So the responsible person from Japan completed massive comparison and review on all the design drawings before the subscription of the equipment. The step-by-step accumulation and the sense of responsibility accomplished the company's widely reputed high quality.

Besides, the company has been implementing the same management method and product manufacturing policy as in Japan since its establishment. Although the products are relatively expensive and took a long time to get popular, their quality is recognized around the world. Now, most of the major Chinese customers are all using the products of Zibo AGC.

In 2003, the company set up a local R&D center, devoted to R&D in China while actively introducing new technology from Japan. The development system crossing China and Japan plays a significant role.

In addition to contributing to the revenue of the parent company in a historic long term, AGC also contributes to the quality improvement of China's glass industry with its high-quality firebricks.

The company has become one of the symbolic enterprises of a successful Sino-Japan joint venture.

In conclusion, AGC developed rapidly in China after 1992 by investing through "joint venture factories" and giving full play to its advantages, including the honest and elaborate factory management, the high quality brought by uncompromising craftsmanship, and the education highlighting talents and skill improvement.

When China Grows into the Largest Market in the World

Since 2000, especially since the Lehman crisis in 2008, AGC has accelerated its investment in China, because China has grown from the "world factory" into the "world market".

The glass for vehicles and the displays of flat-panel TVs and smartphones is particularly worth noting.

AGC successively established 100% solely-invested automotive glass factories in Qinhuangdao in 2003 (a joint venture in 1995), in Suzhou in 2004 (processed glass for vehicles in 2016), and in Foshan in 2008.

With the maturing society, China is speeding up into the auto era. The automobile output was 5,720,000 vehicles in 2005 and increased to 24,500,000 vehicles in 2015. In the same period, the output of the US slightly increased from 11,950,000 vehicles to 12,100,000 vehicles, and that of Japan reduced from 10,800,000 vehicles to 9,280,000 vehicles, while China saw an increase of over 4 times and ascended to No. 1 in the world.

In this fast-growing market, AGC mainly provides glass for Chinese factories of Japanese, European and American automakers. The basic investment standpoint of AGC is, as a global supplier, to provide China with world-class technology, quality and service and to improve customer satisfaction.

In recent years, the automobile business of AGC has not only had increased contributions to the sales and profit in the Chinese market year by year, but also contributed to the improvement of auto quality in the Chinese market.

Another No. 1 market in the world is the display market.

As mentioned above, AGC's first investment in China was the CRT TV glassworks export. Color TVs were gradually popularized and developed to larger sizes in the 1990s. To satisfy that demand, AGC successively set up Shanghai Asahi Electronic Glass Co., Ltd. and Beijing Asahi Electronic Glass Co., Ltd. to produce kinescope glass and relevant glass materials. Shanghai Asahi Electronic Glass Co., Ltd. made great contributions to the development of China's TV and kinescope industry by producing the most advanced large-size products at that time, greatly contributing to the profit of AGC as a representative Japanese enterprise at that time.

In the late 2000s, when TVs transformed from the kinescope era to the flat panel era, AGC withdrew from kinescope-related business and began to invest in liquid crystal glass. As LCD panel glass requires extremely high quality, there are only three companies in the world that are capable of mass production of the glass for LCD TVs. And AGC has a high market share among them.

Then, as the production of LCD panels shifted from Japan to Taiwan and South Korea and, from 2010, was more clearly shifting to mainland China, AGC successively made large investments in Kunshan and Shenzhen.

The LCD TV glass can be as thin as 0.5 mm and as large as 3 m × 3 m. AGC's electronic components manufacturing and management technology makes mass production possible.

AGC integrated its R&D achievement in 20 years, the intelligent simulation technology in high-temperature kilns that cannot be observed from outside, and the well-developed process into its final liquid crystal glass and carried out mass production in China.

When China was ascending to be the largest market in the world, AGC actively invested in the automobile and display industries via B2B mode, supporting the market growth with materials, as China is one of the most important markets of AGC.

That can be called a "solely invested B2B" investment.

Innovative Development Period

"Innovation" has become a permeating key concept in China in recent years. New technology, new products, and new business models are rising in China. Excellent pioneers such as Alibaba and Tencent are supporting young entrepreneurs.

To go with the tide, AGC hasn't stopped at its existing strong fields, but has made full use of its advantages to propel upfront investment in the emerging fields in China. Specifically, AGC is cooperating with leading Chinese companies and the academic community in such fields as semiconductor electronic technology, fluoride technology, and life science to combine its various material techniques with the emerging fields in China.

Though AGC has R&D bases in Japan and Europe, it is necessary to enhance its R&D capacity in China in the future.

This "innovation" type of investment, even if it cannot bring benefits immediately, will be a footstone for the development of AGC while supporting the future development of China.

Investments in China necessary for multinationals: As mentioned above, AGC invests in China not only by establishing factories. It establishes long-term friendly and trusting relationships, educates people with excellent skills and management ability, regards compliance and governance as the global standard, and, most importantly, supports the growth and development of China. Those are what AGC is striving for all the time.

To achieve all those purposes, the company surely will spend money and may lose some orders.

But to pursue short-term benefits is not sustainable and won't make a century-old enterprise remembered in history. History has proven that dishonest enterprises will surely disappear.

Besides, to carry out business and investment in China requires an enterprise to contribute to solving the social problems of China.

AGC not only implements high-level environmental protection measures in factory operation, but also helps China to address environmental problems. AGC supports Mr. Qu Geping (awarded the "Blue Planet Prize" funded by AGC Foundation in 1999) and his activities, who is reputed as the "father of environmental protection in China".

AGC Group will make the following investments in China in the future (some already in implementation).

Provision investment for customers in the constantly growing Chinese market

Specifically, investing according to the growth of automobiles, display, and public infrastructure.

Growth investment for promising industries

Specifically, investing in new growth fields, such as semiconductor, biotechnology, new

smart mobility, and smart city.

Function investment and human resource investment necessary for supporting the growth

Specifically, the above developing functions, plus legal compliance, environmental safety, intellectual property, etc.

AGC plans to set up a comprehensive foothold in Shanghai in 2020.

The first and third items above have two common viewpoints: "open innovation" and "transition from quantity to quality". AGC Group boasts many advantages in the material manufacturing industry and has accumulated many exclusive techniques over 100 years. However, in order to keep up with the growing speed of the Chinese market, AGC holds it necessary to cooperate with the capable and energetic Chinese companies, instead of isolating itself from the outside.

Though the Chinese market is constantly growing, a haphazard investment may harm the sustainable development of the industry. Effective investment targeted at high quality instead of quantity will be the mainstream in the future. For example, recently, "the most advanced environmental and energy-saving technology and the latest technology" have been introduced to the automotive glass factories of AGC. Another mainstream in the future will be the investment in combining China's social problems with cutting-edge technology.

This is an era where the countries and regions around the world are getting closer to each other and are more influential on each other, no matter it is good or bad. AGC will keep mutual trust and will always honestly carry out production and provide high-quality products in the Chinese market and be proud of a manufacturer despite possible difficulties in the future.

Case 11 IKEA invests in China

Work with China to create a better daily life

Founded in Sweden in 1943 by Ingvar Kamprad, IKEA is the world's leading home furnishing product brand. Adhering to the vision of "creating a better everyday life for the many people", IKEA is committed to offering a wide range (approx. 9,500) of well-designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them.

Over the past 76 years, IKEA has been making progress and expanded from a tiny business selling through a mail-order catalog in a small Swedish village to a giant that provides hundreds of millions of consumers with furnishing inspirations worldwide. As of August 31, 2018, IKEA had been running 422 stores in 50 markets around the world, with total sales of Euro 38.8 billion, over 2.5 billion online website visitors, 957 million offline store visitors, and 208 thousand employees.

IKEA involves in China's development

With the Reform and Opening-up since 1978 and the rapid economic growth in China, the people's livelihood has been improving. The country started an in-depth and extensive exchange with the rest of the world, and the local consumers' demand for a better life is increasing. In 1998, IKEA opened its first retail store in mainland China, bringing a steady stream of home inspiration and solutions to Chinese consumers. It has witnessed the changes and improvement of China's household life driven by the fast local economic and social development over the past 21 years, and the Chinese consumers are inspiring and influencing IKEA in turn. IKEA's business in China has grown rapidly, setting up stores and LIVAT shopping centers in more cities and establishing many IKEA business units. Meanwhile, IKEA actively fulfills its corporate social responsibility, which exerted a positive impact on China's society, economy, and environment.

2019 marks the 70th anniversary of the founding of the People's Republic of China. At this important historical timing, looking back its investment and the progress made in China's market, IKEA, challenged by changing market demand, is to promote industrial reform with innovation and partnership to bring a better life to more Chinese consumers and support and promote further social and economic growth in China.

China as IKEA's key market

China is IKEA's sole market outside Sweden with a full supply chain that covers product

design, testing, production, procurement, warehousing and distribution, retail and shopping center. It operates via the franchising system and Ingka Group and Inter IKEA Group are running separate business units under IKEA brand in China to carry out IKEA's vision of "creating a better everyday life to the many people".

Ingka Group

The group is responsible for retail, shopping center, and group investment. As of August 31, 2018, it had more than 13,000 employees in China. As one of the main businesses of Ingka Group, IKEA Retail has opened 27 stores, 2 experience centers, 3 allocation centers and 7 distribution centers in mainland China. In the fiscal year 2018 (Sept. 1, 2017–Aug. 31, 2018), the total sales of IKEA in mainland China reached RMB yuan 15.5 billion (an increase of 9.3% year on year). The number of store visitors was over 100 million.

Inter IKEA Group

The core business of the Group includes franchise, supply chain and IKEA industry, which constitute IKEA's franchising system. As of August 31, 2018, IKEA had more than 2,300 employees in China making the company's largest buyer in the world, accounting for 28% of its total global volume. It has reached a strategic partnership with around 300 suppliers and created over 1 million jobs for the whole industrial chain.

IKEA in China

The 1960s to 1980s: Budding

IKEA began purchasing natural fibers from China in the mid–1960s. At the end of 1980, it opened its first small trade office outside Europe in Hong Kong; in 1981, IKEA started a business directly with its partners and purchased furniture from China for the first time. Ingvar Kamprad, founder of IKEA, visited China in the same year, and became more and more interested in China.

The 1990s: Thriving

In the 1990s with further opening–up in China, IKEA had set up offices in Qingdao, Shanghai, and Shenzhen. In the mid and late 1990s, it closely worked with local companies and provided technical support and financing, and lowered product prices. In 1995, the total procurement of IKEA in China reached around US$ 18 million; it worked with 25 suppliers, many are illuminating companies. By 2000 the total procurement had reached US$ 645 million and its suppliers totaled 275 in China.

In the late 1990s, with strong government support, IKEA opened its joint–venture stores in Shanghai in 1998 and Beijing in 1999 respectively, bringing home inspiration, solutions, and a Nordic lifestyle and comfort experience to Chinese consumers. It was the first time IKEA to open stores in China and also the start of the company to reach Chinese consumers.

After 2000: Fast expanding

IKEA started growing fast since 2000. The stores in Beijing and Shanghai were well received then and even attracted customers from Jiangsu and Zhejiang Provinces. In 2001 China joined the WTO, and IKEA was also determined to expand its business in China. It opened new stores and business units in major Chinese cities including Beijing, Shanghai, Guangzhou, and Chengdu.

Retail: in April 2003, the first "new generation" IKEA store opened in Shanghai, which upgraded customer experience to a new level—the store is equipped with a dedicated large warehouse, an office building, two retail display areas for furnishing displays and furniture items, a children's area, restaurants, cafes and snack bars. On the day of opening, IKEA Xuhui Store received nearly 85,000 customers, a new record of the number of visitors of IKEA in the world. With China's being more open to the world, the Chinese government began granting permission to foreign companies to set up a wholly-owned retail business in China. IKEA China acquired the shares of Beijing and Shanghai stores from its joint venture partners, and thus fully owned the business in China. Later IKEA entered Guangzhou and Chengdu respectively, gradually penetrating South China and inland markets. Since 2013, IKEA Retail has accelerated its expansion in China by opening 2 to 3 new stores each year in Tier 1 and Tier 2 cities, providing more consumers with access to IKEA's products and services. As of July 2019, IKEA Retail had opened 27 stores and 2 experience centers in China. It also launched e-business in October 2018, and the business has covered 227 cities nationwide.

Shopping center: Ingka Centers entered China in 2009. It built the brand LIVAT Centers by working with IKEA Retail to set up the party experience centers for the local public. Currently, the three LIVAT centers run by Ingka Group in China are located in Wuxi, Beijing, and Wuhan respectively. The total investment is over RMB yuan 10 billion, with a construction area of more than 1 million square meters. The total commercial leased area is over 500,000 square meters, and the annual visitors are nearly 60 million. The other new established projects are located in Changsha, Shanghai, and Xi'an, with a total investment of more than RMB yuan 16 billion. In the coming years, IKEA is going to open more LIVAT centers in China to provide better party experience to more customers.

Logistics allocation: With China being more important to IKEA, it set up the first allocation center in Songjiang District, Shanghai in 2005, and the State Administration of Foreign Exchange granted special permission to the center to do settlement in foreign currency. This is the first foreign-funded warehouse that follows foreign currency settlements outside the free trade zone. In 2007 IKEA moved its APAC logistic service office from Singapore to Shanghai; in 2008 it set up its second allocation center in China in Fengxian District, Shanghai; in 2016 it established IKEA's first allocation center in north China—Tianjin Allocation Center.

Product R&D: In order to reach Chinese and APAC consumers, IKEA set up its first product R&D center outside Sweden in Shanghai, China in 2011 to fast respond to the need

of local consumers, and provide them with more suitable and featured IKEA products. In addition, the R&D center can work more closely with local suppliers who are the partners of product development to design quality and affordable products to China's market.

Procurement and logistics: IKEA has made remarkable achievements in procurement and logistics since it entered China in 1990. It is now a strategic partner to about 300 Chinese suppliers, providing more than 1 million jobs for the whole industrial chain, with an average partnership of 11 years. In the fiscal year 2018, China was IKEA's largest buyer in the world, accounting for 28% of its global purchase volume.

Production and manufacturing: In 2006 IKEA Industry Dalian Plant was put into operation. The plant was administered by IKEA Industry and is the first green company built by IKEA in China. It covers an area of 37 thousand square meters and used to produce IKEA's classical products like an armchair, footstool, rocking chair, and other PO Ä NG series items. Since 2015 it has begun launching new products including PO Ä NG armchair for children, PELLO armchair and FROSTA round stool. In 2013 IKEA Industry Nantong Plant was put into operation, and it is the group's first investment in China. The plant covers an area of 139 thousand square meters and the designed capacity is Euro 60 million. It employs European production technology, and is a manufacturing plant with high efficiency and output. In addition, it has the largest renewable energy project in Asia. Its self-generating capacity of solar photovoltaic panel reaches 3.5 million kWh, which cuts carbon emission of around 3,600 tons.

Product testing: In 2010 IKEA Test Lab and Training Centre (ITTC) was established in Fengxian District, Shanghai. It is IKEA's first laboratory outside Ä lmhult, Sweden. The center provides professional testing services and issues accurate and reliable testing reports for customers; it also offers technical training to all functional departments along the supply chain to better ensure the implementation of IKEA quality requirements and improve product quality. Since its official operation on January 4, 2010, the center has been accredited by China National Accreditation Service for Conformity Assessment (CNAS) and Consumer Product Safety Commission (CPSC) of the US. The current testing service provided covers cardboard packaging materials, furniture, textiles, toys, curtains, leather, food contact materials, components and parts and chemical testing. In March 2018 the center undertook the construction expansion, and the total area was enlarged to 15 thousand square meters. In 2018 the total report issuance was over 60,000 and the total testing methods reached 210,000.

IKEA's contribution to China's economic and social development

Specialized home furnishing brand

IKEA believes in the perfect combination of beauty, practicality, quality, sustainability and low cost for quality design. It follows the principle of "democratic design" and holds

that excellent products shall be affordable by everyone. The company's business starts with understanding people's needs for life. Each year IKEA pays visits to households around the world to understand their needs and dream for home, combine the needs with supplier's capability and work out the solutions to a better life.

Take M˚LA felt-tip pen, for example, IKEA selects non-toxic, hard plastic material and washable paints as basics for the pen, given that children may put the pen into their mouth, knock with it on painting board, or scrawl everywhere. It has been in close communication with the supplier at the design stage and done numerous customer investigations and revised many times before finally building this little pen out.

IKEA's business philosophy is carried out through all the stages ranging from design, procurement, packaging, distribution, retail to other procedures. By improving product design and optimizing production procedures and materials, IKEA is committed to making its products cheaper and more affordable to people. According to incomplete statistics, it has lowered the overall price by 50% over the past 21 years via optimization and improvement so as to provide Chinese consumers with a more friendly pricing system.

IKEA shares its research results, knowledge, inspiration and solutions on home life through various channels like IKEA stores, websites, Home Guide catalog, applications, social media, and offline events, in order to raise people's awareness, attract their interest, and help them build a better life. In FY 2018, IKEA had built more than 1,000 showrooms in IKEA stores in China. The visitor number was over 100 million, the membership is around 22 million, and the social media account followers were over 15.5 million.

Yu Qing, a 10-year member of the IKEA Membership Club, said," I was 18 when I met IKEA for the first time. I have been affected by the brand for years. Homelife means not only wallpaper, a sofa in the living room, but also a nice impression on life. It can be the light that illuminates the desk, or a delicate fruit plate on the tea table. IKEA gives a lot of meaning to life and home. I have had more and more durable small items from IKEA without going to large furniture malls or spending much money, and been given many storage and organization solutions. I am now good at life, too. It is great experience, and thank you, IKEA."

Another IKEA consumer under the network ID of ‘Sasame Apple' said that "BILLY bookshelf was the first IKEA furniture we bought when we had our first apartment. It had occupied the whole wall and became the place for my over 600 books even before I put the bed in the room. It has been with us for 5 years. We go to IKEA store every month and the kitchen, bathroom, bedroom, study room and living room are all full of IKEA items ranging from accessories, light bulbs, plugboards, flowerpot, plants, hooks, napkins to shelf, shoe cabinets, and chests of drawers. .IKEA has been part of our life."

Song Bing, founder of Pineapple & Zebra Home Guide, said, "IKEA keeps changing since 2007. Looking back at IKEA's Home Guide over the past decade you will wonder whether IKEA tried to keep up with the trend and times, or it is the one that shaped people's aesthetic

pursuit of home, or both. What we could see in IKEA's catalogs is both IKEA's evolution and perhaps the change of our understanding about life."

Sustainable development

IKEA hopes to exert a positive impact on mankind and the Earth, and sustainable development means to protect the environment and resources to ensure sound development in the long term. By following its sustainable development strategy of "people and planet positive", IKEA has integrated the idea into every aspect of its business. It is working with its partners to build a more sustainable future.

More sustainable home life products: IKEA offers more than 400 sustainable products and solutions for everyday life and help consumers to live a more sustainable life, e.g. suspended flowerpots and flower on balconies, textiles in bedrooms, elevating desks in office areas, kitchen faucets, lighting, sorting bins, food storage containers and eco-friendly bags. In addition, IKEA prepares sustainable home life showrooms in stores to provide customers with green life inspiration. It is working with external organizations to spread the idea of sustainable development to more people. The company aims to bring a better life to more than 1 billion people within the planet's tolerable limit by 2030.

Recyclable and climate friendly-products: As of August 31, 2018, 60% of IKEA's products are made of renewable materials and 10% of recyclable materials. The company aims to employ new recycling design principles for all products with renewable and recyclable material by 2030. It will explore recycling services to make all the products reused, repaired, resold, reused or recycled. 100% of cotton and 85% of wood used in IKEA's products are from sustainable sources; 94% of fishes and seafood are certified by Marine Stewardship Council (MSC) and Aquaculture Stewardship Council (ASC), which means that they come from sustainable and responsible sources. Meanwhile, IKEA is committed to phasing out disposable plastic products from all product lines and restaurants by 2020. It is working hard to be a climate-friendly company during its business development and be a green consumer by 2030.

IKEA has been working hard to find ways to reduce energy consumption and ensure a more sustainable operation. IKEA's stores in Foshan, Nantong and Ji'nan have met the green building standard (two-star). The office building of Shanghai Linkong LIVAT Center complex has won WELL sliver precertification, and Changsha LIVAT Center complex won LEED sliver precertification. At the end of 2018, IKEA started using an electric truck for distribution in Shanghai, aiming at a ‘zero emission' goal, and in 2020 it will ensure all its business sites to be equipped with charging piles.

Creating a Better Life for People and Communities: In 2016, working with suppliers, IKEA launched the "I Care" project to provide migrant workers with family dorms and try to get school admission opportunities for their children. It set up after-school activity centers for children so migrant workers can bring their children from hometowns for reunion and live together. By 2018 IKEA has worked with 11 suppliers and built 177 family dorms and 11

after-school centers. In addition, it works with various parties and has opened dream centers in communities where migrant children are concentrated, providing them with a safe after-school learning area and playground for a happy childhood and a better social environment. By far IKEA has opened six community dream centers in Shanghai, Tianjin, Chengdu, and Xuzhou. In 2018 IKEA Retail donated RMB yuan 500 thousand, the sales revenue of SAGOSKATT stuffed toy series to the Paradise Program under One Foundation, to support the construction of student playgrounds in 5 schools in Dazhou, Sichuan Province and Tianshui, Gansu Province as well as local sports tutor trainings for better leisure environment of rural children in western China. A total of 2,379 children has been benefited from the project.

Employer Brand: IKEA's employees are a diverse group of people who are candid, enthusiastic and down-to-earth about home items. They come from different regions and backgrounds with a shared vision—to create a better everyday life for many people. IKEA has won a number of honors by 2018 including "Universum China Most Attractive Employers" for consecutive 10 years, Zhilian "China Top 100 Best Employers" for consecutive 3 years, and been shortlisted 51job "China Top 100 Model Employers" for consecutive 3 years.

Strategic partnership: IKEA's business model is to develop products based on customer needs and existing products to reach manufacturers and end customers closely. It engages in with suppliers under a strategic partnership and hopes to share the same values and business model and grow with them. For suppliers, a long-term partnership with IKEA can help them become world-leading manufacturers, providing them with customer needs, home life knowledge, new tech and practices as reference. It offers them a platform of communication and exchanges, invites them for gathering on a regular basis and hold mutual visit and exchanges. In addition, IKEA hopes that suppliers can provide more innovative solutions to products or production, create their own unique advantages, and remain in a leading position in the industry. IKEA encourages them to cooperate with universities, colleges, research institutes, industry associations, etc., and facilitate to build functioning platform and ensure their full growth.

IKEA's Future in China

IKEA's future + strategy

IKEA has witnessed and involved in the tremendous and profound changes of China's economy, society and life of the public, and has observed the emerging demand for home and home retailing industry arising from these changes. In order to better serve Chinese consumers and promote industry reform, IKEA released the "Future +" strategy to meet the coming challenges.

IKEA believes that it is necessary to focus on the nature of retail in a digital era, figure out who are the consumers and what they need, and provide them with products and services

beyond their expectations as well as more convenient product, service and experience. By following this idea, IKEA builds on its China strategy of "Future +" which is based on "Contact +", "Experience +" and "Service +", to create a better everyday life for the many people. In the coming three years it is going to input more in China.

Supply Chain Development: In 2015, the Chinese government promulgated and implemented the Made in China 2025 plan, advocating to adhere to the basic guidelines of "innovation-driven, quality-first, green development, structural optimization and talent-oriented", and to the fundamental principles of "market-oriented, government-guided, based on the present, having a long-term perspective, holistic implementation, key breakthroughs, independent development, and open cooperation". Since its entering China's market in 1990 IKEA has been working closely with the Chinese government to actively support the national development strategy and made contributions to China's economic restructuring and development. The company has made a number of action plans based on its own conditions to meet the policy and principle of Made in China 2025 plan.

Green Manufacturing: As a leading sector player, IKEA has carried out the full-process monitoring of its suppliers' special procedures years before the market standard entered into effect. IKEA will then seek breakthroughs and upgrades in materials, processes and other technologies to find alternative solutions to address the pollution problem. In the "13th Five-Year Plan" the country identifies to encourage recycling economy, carry out recycling-led growth, promote the recycling linking between life and production and accelerate the utilization of waste resources. IKEA will increase the share of recycling economy and recycled materials to cover in-production, inter-production and post-consumption cycles. The company hopes to further enhance its cooperation with governmental departments based on the Made in China 2025 plan, promote green manufacturing and create a green supply chain.

IKEA Procurement Standards (IWAY): As a leading company in sustainable development and compliance, IKEA hopes to establish a strategic partnership with relevant governmental departments to promote sustainable development and compliance implementation among suppliers in China. The company believes it will directly promote the sustainable and compliant development of regional enterprises.

Renewable resources: wood and plate resources. IKEA wants to become a partner of the government, turn challenges into opportunities and jointly produce renewable wood resources. In addition, it will introduce high-tech to promote industrial optimization and upgrading, develop and manufacture more products made of renewable wood for lean and automated green manufacturing.

Key process upgrading: In the Made in China 2025 plan, the government attaches great importance to the optimization and upgrading of domestic industries, especially in the industries with huge environmental impact and the key processes. IKEA has always been committed to sustainable development and key process improvement and enjoys a leading

position in energy-saving, dust control, and other areas. It plans to work closely with the government in related areas to make the huge supply chain of IKEA and its suppliers a leader in the industry upgrading. At the same time in the process of transformation and upgrading, it will build the industry benchmarks of the world's leading supplier representatives, so as to enhance the leadership of IKEA and its suppliers in the whole value chain, ensuring the suppliers and IKEA to be leading in the industry rather than being passive to meet the challenges.

Industrial upgrading and industrial information system construction: IKEA aims at communication and sharing throughout the entire supply chain, encourages cooperative innovation and seeks better solutions. At the same time, it will continue to help suppliers to achieve automation and lean production, and build a two-way information system for more convenient and accurate two-way information flow from the consumer to the manufacturer.

Looking back at the four decades since the reform and opening-up, China's economy has been developing rapidly, and the people's livelihood is improving year by year. IKEA is a witness of the huge change, and its business has benefited in the long run. It helped many of the Chinese consumers to have a better everyday life, too.

In the coming years, IKEA will further engage in China's economy based on its innovation and partnership with various parties to contribute to China's economic development and industrial upgrading and bring a better life to more Chinese consumers.

Case 12 Ricoh invests in China

Broadening the way in China with localized R&D

With the deepening of the reforming and opening-up, China has entered a new era of economic boom, sci-tech progress, and social development. And a number of multinationals are closely following the pace of China's economic and social development, constantly improving themselves and leading the industrial development. Ricoh Group of Japan is a typical example that has developed and expanded in China under that background.

The global CEO of Ricoh Group, Yoshinori Yamashita, after visiting China twice within half a year, declared on July 19, 2018 that Ricoh would invest 7.5 billion yen to build an intelligent plant with fully automated assembly engineering and plant transportation in Dongguan, Guangdong, to increase productivity and reduce 20% of the production cost. According to the plan of Yoshinori Yamashita, this fully automated plant to be put into service in August 2019 will make full use of the excellent technical talents of China and employ local industrial robots, to be the global demonstration plant of Ricoh Group in the future. This plant will also assume the function of intelligent customization, which could only be achieved in the US and the UK in the past. Under the background of office digitization, this plant is also regarded as an important link in Ricoh Group's overall reform, improving the revenue of its main business by integrating efficient production systems.

And earlier before on March 22, Doctor Yu Hao, the general manager of Ricoh Software Research Center (Beijing) Co., Ltd. declared in Beijing that Ricoh would jointly establish the "Joint Laboratory of Renewable Energy Sources and Artificial Intelligence" with a Chinese startup, Zhongkelifeng Technology Co., Ltd., to start a new stage of cross-border incubation and international crossover cooperation. The two parties will mainly cooperate in the field of renewable energy sources, and promote the research and industrialization of AI, IT, big data, cloud computing, and smart energy projects. At the signing ceremony, River Ricoh Innovation Accelerator under Ricoh Software Research Center exhibited the innovative achievements of a number of incubation projects, such as photovoltaic power station inspection UAV, panoramic vision VR/AR application, competitive intelligence analysis system, intelligent Chinese teaching, personalized clothing color printing, etc. jointly developed with local Chinese startups.

In 2018, through such iconic events of the new full-automatic intelligent plant with high efficiency and the in-depth incubation cooperation with local startups, investors, and government in venture capital investments, Ricoh showed the world its resolution of taking root in China and transforming from manufacturing to intelligent manufacturing, and all that is closely related to its innovation gene over the past 80 years.

80 years of constant innovation

The history of Ricoh is a history of constant innovation-oriented to the market. In its initial stage, Ricoh mainly produced sensitized paper, the production technology of which was derived from the Institute of Physical and Chemical Research of Japan at that time. The founder of Ricoh, Ichimura Kiyoshi, established Riken Kankoshi Co., Ltd. in 1936, which mainly produced and sold the sensitized paper. In 1950, Ricoh took the lead to establish the mass production system of cameras in Japan, which promoted the popularization of cameras. In 1955, the "Ricopy 101" copier was released, and Ricoh hence entered the field of office equipment. In 1974, the first high-speed fax machine for office in the world, "Rifax 600S", was released.

In 1977, Ricoh proposed the concept of "OA (office automation)" in the industry for the first time. In the 1980s, as the pioneer of OA, Ricoh successively released the office computer, word processor, optical storage system, laser printer, etc., which effectively increased the office efficiency. As the initiator of the digital revolution, Ricoh released its MFP (multi-function printer) IMAGIO320 in 1987, which was the first of its kind in the world. It released the small-size low-price "imagio MF200" MFP in 1996, contributing to the popularization of digital copiers. Ricoh kept promoting the networking and coloring of copiers thereafter. Leading the way to a global enterprise, Ricoh began to expand to the overseas market as an OEM in the early 1970s. In 1995, Ricoh Group acquired Gestenetner of the UK and began to establish a global sales support structure and propel its global expansion.

No matter an enterprise intends to transform its economic development mode or stick to sustainable development, it can only be effectively realized through technological innovation. Seen from Ricoh's history of nearly a century, the group has always been providing innovative products and services for customers since its establishment in 1936. All its employees adhere to the Ricoh mode and implement its entrepreneurship, which guarantees the constant development of the company into a reliable and prominent corporate citizenship, creating value for customers and society. In the fierce market competition nowadays, only the enterprises that develop excellent products and services satisfying the customer needs can remain invincible. In the face of the constantly changing market, an enterprise must have progressive innovative ideas, as innovation is the momentum of progress. And high-speed innovation and market-oriented product development are the very competitive advantages of Ricoh. Currently, the world-renowned Ricoh Group is doing business in 200 countries and regions around the world, with a global revenue of over 2 trillion yen. Its products cover multiple fields such as OA, industrial products, and consumer goods, including office image processing facilities that provide document output management service and IT solutions (e.g. MFPs and printers), production-type digital printers, digital cameras, and industrial products such as thermo-

sensitive media, semiconductors, and factory automation cameras.

As the Chinese market is opened to the world in an all-round way and its economy has rapidly integrated with the world, the country has provided a historic opportunity for all the powerful foreign companies that want to enter the Chinese market. Ricoh Group grasped the opportunity and took the lead, standing out in the furious market tide with its quality products, advanced operation philosophy, and complete service system. Ricoh has been rooted in China for nearly 50 years since the normalization of diplomatic relations between China and Japan in 1972.

From Selling to Manufacturing: Taking Root in China

Ricoh entered China through import and export trade in the early stage. With the normalization of diplomatic relations between China and Japan in 1972, Ricoh conformed to the times and took the usual route of multinationals when they would enter a new market—selling commodities to China via trade, thus expanding to the huge market of China. The earliest exported products of Ricoh in 1972 were copiers and fax machines. Since 1978, Ricoh has successively established sales companies in Hong Kong, Shenzhen, Shanghai, etc. to carry out business in China.

After the Southern Tour of Deng Xiaoping, China saw further reform and opening-up and economic development, and Ricoh also made increasingly larger investments in China. In 1993, Shanghai Ricoh Facsimile Co., Ltd. was established in Shanghai to carry out direct selling as a Chinese legal entity; in 1995, Ricoh Electronic Technology (Shanghai) Co., Ltd. was established to provide direct after-sales service; in 1997, Ricoh International (Shanghai) Co., Ltd. was established in the bonded area of Shanghai; imported MFPs began to be sold in China in 2000, and the accumulative output of fax machines reached 1 million units in 2002.

After China entered the WTO, Ricoh put more efforts into investing in China. Chairman of Ricoh at that time, Masamitsu Sakurai, said in 2003 that the rapid economic development of China had attracted extensive attention from the enterprises around the world, and Ricoh would enhance the local R&D and production for this huge market that would soon keep up with Europe and America. From then on, Ricoh began to value the technical capacity in the Chinese market and rely on the local capacity for product improvement and development.

In 2003, in order to improve the sales and service capacity in China, Ricoh incorporated the 5 previous companies and established the regional headquarters in China, Ricoh (China) Investment Co., Ltd., to manage its marketing in mainland China as a whole; in 2004, Ricoh Software Research Center (Beijing) Co., Ltd. was established in Beijing to carry out the R&D of cutting-edge technology such as AI and big data, the staff size of which exceeded that in Europe and America, second only to the headquarters; in 2006, Ricoh accelerated its transfer of development and design business to China; in 2009, the original imported digital printers

were all localized; in 2011, Ricoh invested US$ 73.6 million in establishing Ricoh High-tech (Shenzhen) Co., Ltd. to carry out lean manufacturing of high-tech products.

To this day, Ricoh (China) Investment Co., Ltd., as the regional headquarters, has had 13 subsidiaries of different functions such as design and R&D, production, logistics, and sales and service, and has started a four-in-one business model, with more than 10,000 employees. In 2017, Ricoh (China) Investment Co., Ltd., besides its Shanghai headquarters, still had 5 branches and 2 sales networks that were carrying out direct marketing in 8 regions. In addition, Ricoh is still doing business through agent networks all over China. Facing the constantly changing Chinese market, Ricoh has carried on its innovative spirit, kept considering more for the customers, combined R&D and the market, worked elaborately on product R&D and design to provide products and services that are truly suitable for Chinese users, and kept close communication with the users in the long run, thus having become a brand favored and trusted by Chinese users.

The core business of Ricoh China started from fax machines, including the office image output business of copiers and printers. In response to the diversified customer needs and the change of the market environment and in order to provide one-stop solutions to various difficulties in office work, the company successively promoted visual image (projector and interactive electronic LCD) products and IT services. In addition, in order to expand the business beyond the office, it began to aim at the production printing (printing industry) market in 2010. In terms of direct marketing, it now has about 20,000 customers, including representative state-owned enterprises and many large foreign-funded and Japanese enterprises. What's more, with the nationwide promotion of its products, Ricoh now has over 250 agent networks in China, 20% of which have been cooperating with Ricoh for more than 10 years. These reliable partners are the foundation of Ricoh's success in China. Now Ricoh has successfully entered the field of production printing and has been developing rapidly.

The wholly-owned subsidiary of Ricoh Group, Ricoh Software Research Center (Beijing) Co., Ltd., was established in Haidian District, Beijing in 2004. It is a world-class R&D center for cutting-edge technology and solutions arranged by Ricoh in the Zhongguancun area, which has made international level achievements in such forefront fields as AI, machine vision, embedded system development, wireless network transmission, big data mining, and natural language processing. It has obtained multiple domestic and overseas patents. In the more than 400 patents for invention it applied for in China, 146 have been awarded, and its solutions have been widely used in such industries as industrial automation, automatic drive, UAV, and big data mining both at home and abroad.

Since 2013, in addition to the R&D of Ricoh Group, the Center has been carrying out R&D for the demand in the Chinese market. The localization of multinational R&D enterprises involves not only the localization of the management staff, but also collecting local R&D demands in the Chinese market and returning the newly developed technology to the parent

company to expand its R&D scope. With the support of the government and the favorable atmosphere of "mass entrepreneurship and innovation", the Center has developed a brand-new path of localized R&D.

On January 18, 2016, the Center and Beijing River Huizhi Investment Management Co., Ltd. signed the agreement of strategic cooperation and established the River Ricoh Innovation Accelerator, for which the Center guaranteed the technological innovation, introduction, authorization, and support while River Huizhi provided the capital for entrepreneur teams. This is the first comprehensive crossover cooperation of a Japanese multinational with a Chinese venture based on its technical R&D system. On January 9, 2017, in accordance with the *Management Measures for Supporting Funds of the Entrepreneur Service Platform of Zhongguancun Science Park* (Z.K.Y.F. [2015] No. 61), examined on the special meeting of Zhongguancun Administrative Committee, "River Ricoh Innovation Accelerator" was included into the entrepreneur service supporting system of Zhongguancun Science Park as one of the 17 approved entrepreneur service organizations, and was designated "Innovative Incubator of Zhongguancun Science Park".

Seen from the R&D of various multinationals in Zhongguancun, a common problem is that the R&D enterprises make a lot of preparations for business development in China, but only a few projects can be implemented at last. The reason is that multinationals grant limited funds and authority to local R&D companies; and when a project is being promoted, the parent company has complicated review processes. So though the idea is good, it can hardly be incubated. In the past, multinationals offered relatively higher salaries than Chinese enterprises, but in recent years, that advantage has been weakened.

But multinationals have technological accumulation and experience in commercialization of technology, which, when combined with the local market and demand, accelerate the success of the R&D system of multinationals. Ricoh Software Research Center has enhanced its relationship with Chinese enterprises and the Chinese market in addition to completing the R&D work of its parent company. Particularly, the "mass entrepreneurship and innovation" policy of the Chines government has provided Ricoh with an opportunity to explore the industrialization and marketization of intellectual property with Chinese enterprises. Based on the global perspective, Ricoh is devoted to accelerating the transformation from R&D to productization and marketization, which is an innovation from R&D to commercial mechanism fostered by a large Japanese multinational in the Chinese market.

Afterward, a new energy startup in Beijing, Zhongkelifeng Technology Co., Ltd., was officially included in River Ricoh Innovation Accelerator in 2017. With the powerful technological and commercial support from Ricoh, the UAV intelligent inspection system jointly developed by Zhongkelifeng and Ricoh to be applied in PV power station operation, maintenance and inspection was put into commercial use that year. The system, based on Ricoh's advanced image recognition algorithm and machine vision technology, adopted the

method of deep neural network learning to replace the traditional manual inspection, which solved the problems of low efficiency, poor accuracy, and high cost of PV power station inspection. The system can detect component faults with precise positioning; its navigation tool, remote diagnosis system, and big data trend analysis function drastically increase the quality of power station operation, maintenance and inspection, effectively increasing the generating capacity and reliability, reducing the operation and maintenance cost, and maximizing the benefit of the investor. It is widely used in acceptance inspection of new power stations, operation and maintenance of existing power stations, and power station transaction evaluation. Now the product and technology are in the leading position in China, and are promoted to overseas markets like Japan via the developed mechanism of the Accelerator and the global channels of Ricoh.

On March 22, 2018, Ricoh and Zhongkelifeng carried out further cooperation to jointly establish the "Joint Laboratory of Renewable Energy Sources and Artificial Intelligence", which gives full play to the advantages of the Accelerator, Ricoh, and Zhongkelifeng as a typical crossover cooperation between technical innovation enterprises and international enterprises in the renewable energy field in China. To leverage the cutting-edge technology of Ricoh Software Research Center in image processing, machine vision, and AI, the global supply and marketing network and customer resources of Ricoh Group for the renewable energy software and hardware products, and the resource capacity and operational capacity of Zhongkelifeng in the renewable energy industry will accelerate the transformation of innovative achievements from R&D to productization and marketization and the verification of these achievements in the international market.

Through such innovation collaboration mechanisms like River Ricoh Innovation Accelerator, similar local R&D cooperation will achieve more fruits and realize Ricoh's transformation from manufacturing to intelligent manufacturing in China.

Case 13 Honeywell invests in China

Being a Chinese style competitor

2018 is the 40th anniversary of the reform and opening-up of China. Since the reform and opening-up, Honeywell has been developing more and more rapidly in China, growing with China with its sci-tech power.

Dancing with the dragon: Keeping developing in China

The history of Honeywell dates back to 1885. This century-old company is developed by creative technicians and outstanding leaders step by step. Their common values provide the company with unceasing momentum. The high-tech solutions of Honeywell cover the fields of aviation, automobile, building, residence, industrial control technology, performance material, and the Internet of Things. The company is devoted to integrating the physical world and the digital world in depth, solving the toughest economic and social challenges with advanced cloud computing, data analysis, and industrial Internet of Things technology.

Honeywell technology has always been accompanying China when it soars into the sky. Honeywell's history in China dates back to 1935. The company set up its first agency in Shanghai at that time. When former President Nixon of the US visited China in 1972, he was invited by the Chinese government to recommend elite enterprises in ten fields to help promote the modernization of China. Honeywell UOP was the only selected company in the oil refining and petrochemical field. Now it is rapidly developing in China. In January 2018, the brand-new catalyst production line invested by Honeywell in Zhangjiagang was officially put into the production of the exclusive catalyst used in the coal-made plastic process of Honeywell UOP, to satisfy the increasing demand of the Chinese market for plastic products. On the same day, the new R&D and engineering technology center of Honeywell UOP in China was officially established in Zhangjiagang, which is aimed at supporting the business development in Asia and satisfying the increasing demand for engineering and technical service.

In May 2017, the C919 airliner developed by Commercial Aircraft Corporation of China, Ltd. (COMAC) had a successful trial flight at Shanghai Pudong International Airport. That successful trial flight is not only an important milestone of the development of COMAC, but also will go down in the aviation development history of China and even the world. The success of the first independently developed airliner makes the "Chinese dream" of soaring in the sky come true. Honeywell is honored to have the chance to contribute to the success of C919. Honeywell has always been helping the aircraft industry of China to improve its competitiveness in the global market. In the future, Honeywell still hopes to enhance the cooperation with COMAC and make greater contributions to the long-range wide-bodied airplane and other projects.

Over the 40 years since the reform and opening-up, Honeywell has seen the flourishing business in China. Especially in the past 15 years, the company has actively participated in the economic and social development of China, with an accumulative investment of US$ 1 billion. From 2004 to 2017, Honeywell's employees in China increased from 1,000 to 13,000. And its revenue in 2017 increased by 6 times compared with that in 2004. In 2013, China became the largest market of Honeywell outside the US.

Now the four major business groups of Honeywell have all settled down in China, with the Asia-Pacific headquarters set in Shanghai and multiple branches and joint ventures in over 30 cities across China. Among its approximately 13,000 employees in China, 2,600 are R&D personnel. They are together creating a smarter, safer and more sustainable world of Internet of Everything.

Being a Chinese style competitor

The challenges faced by China are just the challenges faced by the world, e.g. energy efficiency, environment, and security. And the demands of the Chinese market are extremely diversified, from the high end, the middle end to the low end. So multinationals need to make better use of the local strength and develop products based on the demands and problems in China, regarding China as a part of their global business. In fact, once the problems of China are defined and products are produced accordingly, you will find that those problems are similar to those of other countries and regions. Products that have succeeded in China will also help with the expansion into other emerging markets, and even the developed markets of Europe and America.

Many multinationals brought the mature products and technology developed in the west to the Chinese market when they entered in, which is called "West for East". Honeywell put forward the "East for East" development strategy in the Chinese market in 2004, i.e. to satisfy the demand of the Chinese market with a series of localized product development and innovation. Then, the company further put forward the "East to Rest" strategy, i.e. to enhanced innovation with the great success of Honeywell in China, to promote its innovative products, technology, and solutions developed for the Chinese market to the global market, developed regions or high growth markets, and then to customize those products, technology and solutions according to the demands of different markets, thus serving the world with "Created in China".

The large capacity and diversified forms of the Chinese market provide an ideal platform for the development and growth of various local enterprises. Since 2010, Honeywell has no longer been comparing itself with other multinationals, but with some strong local companies, determined to be a "Chinese style competitor". Honeywell believes that if it can do better than Chinese companies, it will succeed in China.

Chinese local enterprises have their unique advantages. They dare to dream and take

risks, with fast actions. Multinationals must compare themselves with these local companies in all aspects. Chinese companies usually take good control of their cost, but cost control is only one aspect, and there are many other aspects such as R&D investment and market channel expansion.

What does "Chinese style competitor" mean to Honeywell? The company not only needs to take in the strong points of Chinese enterprises, but also needs to consider how to make itself with 13,000 employees in China as sensitive and fast as those of the small enterprises. It must have long-term visions and dreams, adventure wisely, stay open to both familiar and new ideas and stick to entrepreneurship and the attitude of "only success, no failure", fast in decision making and execution.

"Being a Chinese style competitor" requires a change of mind, the core of which is speed and empowerment. The company must empower outstanding employees to make decisions on site in real time. They must work in China with a strong sense of urgency. The development speed of China is a challenge for multinationals. Those enterprises that can successfully meet those challenges will be the real leaders.

Conforming to the macro development trends of China

China is accelerating its construction of an innovative country. Innovation has always been the impetus for the sustainable development of Honeywell. So we are glad to see the ever-increasing innovation ability of China, which will also benefit the development of multinationals like Honeywell in China.

Honeywell will keep grasping the macro development trends of China, so as to better satisfy the demand of the Chinese market. These macro trends involve the digital economy, the Belt and Road, Beautiful China, and intelligent manufacturing, which provide Honeywell with extensive development opportunities and enable it to play a bigger role in this energetic market.

Honeywell assists with the development of China by constantly increasing its R&D investment in China. For example, the company invested US$ 100 million in Zhangjiang, Shanghai in 2016 to expand the R&D and office area of its Asia-Pacific headquarters and China R&D Center by 50%. Now Honeywell has set up R&D centers in Beijing, Shanghai, Nanjing, Suzhou, and Xi'an, with more than 2,600 researchers, half of whom are related to software.

The digital revolution in recent years in China is changing people's life and work with exciting new products. These products connect everyone, integrated with software and data in a brand-new way. Honeywell is rapidly propelling the company into the digital new era of "software and hardware combination" through the development of software, data and service, and the software will be the core competence of the company. The company established the Connected Enterprise team in China in early 2017, which is its only regional team outside the American market, fully showing its emphasis and confidence in the Chinese market. We hope

the interconnection solutions of Honeywell can assist with the prosperity of the digital economy of China.

The unique "Eyes on Opportunities" strategy developed by Honeywell in China is highly consistent with the Belt and Road Initiative. Under the Initiative, Honeywell has joined hands with leading enterprises in China to "go out", particularly, cooperating with each other in the fields of infrastructure construction and energy development. Now Honeywell has more than 20 branches along "the Belt and Road", with over 3,200 local employees.

The company provides extensive local production and world-leading solutions, covering automation control, energy efficiency, buildings, safety and security, etc., able to solve crucial macro problems in the process of urbanization. Those solutions are applied in major vertical markets, including oil gas, airport, metro, hotel, urban complex, and healthcare.

In May 2017, Honeywell signed a cooperation agreement with Wison Engineering (China) Co., Ltd. According to the agreement, the two parties will jointly provide MTO technology and EPC service for overseas customers. As a leading EPC contractor in the chemical engineering industry in China, Wison Engineering is actively expanding its overseas MTO business, especially along "the Belt and Road" regions from China to Asia, Europe, and Africa.

Beautiful China under construction has brought many opportunities for companies like Honeywell. More than 50% of Honeywell's products and technology are related to environmental protection and energy efficiency. With more than 100 years of experience in sustainable development and energy saving, Honeywell can make great contributions to environmental improvement in China.

Honeywell boasts innovative expertise in air and water purification as well as personal protective equipment, and can satisfy China's increasing demand for personal health. The clean energy and process control solutions of Honeywell support the industrial upgrading of China by helping Chinese enterprises accelerate their transformation and energy efficiency improvement.

In May 2018, Honeywell published its first research report on the air quality of China, i.e. Honeywell Industrial Green Upgrade Report: Air Quality Management, which specifically analyzed the reasons for major atmospheric environmental problems in China and provided corresponding solutions to help enterprises to achieve the balance between "environmental protection" and "economic benefit" under the guidance of the national environmental policies. The report introduced multiple advanced techniques, services and products, to assist in fulfilling the vision of "Beautiful China".

On the very day of the publishing of the report, Honeywell declared the establishment of the Environmental Protection Research Institute of Honeywell (China) Co., Ltd. The institute, subordinate to Honeywell Performance Materials and Technologies, will focus on market and technical research, and is expected to annually publish one or two reports on China's status quo and market of environmental protection as well as the application and prospect of

environmental technology and to provide corresponding consulting service for enterprises and the government. Besides, it will also actively communicate and cooperate with colleges and universities, other research institutes, and environmental protection organizations to promote the establishment of a cross-industry alliance for the environmental protection development of China, gathering all walks of life to contribute to the "green hills and clear waters".

Honeywell can't succeed without the support of the Chinese government

Honeywell has actively fitted in China's reform and opening-up. During the rapid development in about four decades, the company has kept close cooperation with the Chinese governments at various levels.

Honeywell communicates with the government in all aspects, learns the policy trends, recommends and introduces new technology, presents its difficulties and needs in operation, shares its experience and technology in global operation, and offers suggestions for the economic and industrial development of China. The company also keeps close cooperation with the central ministries and commissions, and is greatly supported by them in new technology introduction and promotion. Honeywell Aerospace has taken an active part in the new technology promotion and application led by Civil Aviation Administration of China and has been supported by leaders of various levels of the Administration in the development and approval of relevant standards, making contributions to the safety, efficiency, and low-carbon environmental protection of the civil aviation of China. Honeywell was selected to be one of the major suppliers of the domestic airliner C919, which was also approved and supported by the Ministry of Industry and Information Technology. With the support of the National Development and Reform Commission (NDRC) and the Ministry of Commerce, Honeywell and Midea Group carried out the project of application of energy-saving low-carbon foaming agent in refrigerators, which is listed as a typical case of Sino-US cooperation to tackle climate change. Under the guidance of NDRC and the National Energy Administration, Honeywell and China National Petroleum Corporation jointly developed the aviation biofuel, which was tested with Air China. Honeywell also cooperated with State Grid Corporation of China to demonstrate the application of automated demand response technology in smart power grids. Besides, the company also established a partnership with the State Administration of Production Safety Supervision and Management (the current Ministry of Emergency Management of PRC) to jointly promote the introduction and application of new technology for production safety.

The support from the Chinese government for Honeywell is also reflected in other aspects. The Ministry of Commerce actively responded to Honeywell's difficulties and needs during operation by helping with the presentation, coordination and solving of the problems and guiding and supporting the company in anti-dumping, M&A, and final user certification. Supported by the State Intellectual Property Office, the local government, and relevant law-

enforcing departments, the company has successfully fought illegal infringements for many times and has safeguarded its legal intellectual property in China.

The implementation and operation of Honeywell's investment projects in China is also supported by the local government. Let's take Shanghai as an example. Leaders of Shanghai Municipality Government repeatedly visited Honeywell's Asia-Pacific headquarters and R&D center to learn its situation in Shanghai, listen to their difficulties and needs in operation, and encourage the company to enhance local R&D and cooperation with local enterprises, boosting the company's confidence in developing in Shanghai. The various departments of the Shanghai government are also concerned about Honeywell's development in the city. They actively respond to the demands of the company, provide great support in enterprise establishment, alteration, capital increase, talent introduction, customs and trade, and foreign exchange settlement, help to solve various problems and difficulties in daily operation, and implement various preferential policies, thus providing a favorable environment for the local development of the company. Similar stories also take place in other provinces and cities invested by Honeywell, e.g. Xi'an, Zhangjiagang, Tianjin, and Shenzhen. The great support of the local government has guaranteed the smooth operation of the company and boosted its confidence in investing and developing in various cities.

Future prospects

Facing the future, Honeywell is full of confidence in the Chinese market. As a traditional industrial enterprise, Honeywell is actively embracing the Internet era and is devoted to becoming a world-leading interconnected industrial enterprise. In terms of "things", Honeywell is looking forward to the constant policy support from the government to assist in its transformation from an advanced manufacturer to an industrial interconnected company; while in terms of "connection", Honeywell, in need of software talents of the interconnection industry, hopes the government would create a better environment for software talent recruitment by implementing more incentive measures. With the substantial support of the government, Honeywell is expected not only to produce high-quality "things", but to realize high-standard "connection" in the future, thus practically contributing to the deep integration of the industrialization and digitization of China.

China will comprehensively improve the development quality and level of its manufacturing and transform from an industrial country to an industrial power. And foreign-invested enterprises have become an inseparable part of the industrial development of China. Honeywell, as a foreign enterprise that has been developing in China for more than 80 years, will take an active part in the development strategy of China by enhancing the cooperation with domestic industries and enterprises under the fair market environment created by the government, thus contributing to the transformation of China into a manufacturing power.

Case 14 Samsung invests in China

27 years in China: Growth and gratitude

In 1936, harboring the ambition to serve his country as an entrepreneur, Lee Byung-chul, the founder of Samsung, launched his business by opening-up Masan Rice Mill Co-operative. Two years later, Samsung Trading Co.,Ltd. the precursor of Samsung, was established. From a rice mill to a multinational company listed among Fortune Global 500, the success of Samsung can be ascribed not only to its foresight of industrial development, but also to the development opportunities given by the times.

Milestones: Samsung's "Three Step Jump" investment in China

Samsung entered into the Chinese market right after China and South Korea established a diplomatic relationship in 1992. In the beginning, Samsung invested in some factories in Dongguan, Huizhou, Tianjin and other cities. Samsung established an R&D institute in China in 2000, and made its first foray into China's finance, hotels and other service sectors in 2005. During the past five years, Samsung invested in such cutting-edge industries as semiconductor, LCD panels, the power system of new energy electric vehicles, etc.

By the end of 2018, Samsung China had nearly 85,000 employees, and set up 157 organizations (including 26 manufacturing bases and 7 R&D centers) in Beijing, Shanghai, Tianjin, Suzhou, Shenzhen, Huizhou, Xi'an, and other cities. Its business scope covers electronics, finance, heavy industry, service sector, among others. In the field of electronics, Samsung manufactures complete products, e.g., smartphones and household appliances, as well as parts and components, such as semiconductors, LCD panels, batteries of new energy automobiles; in the financial field, Samsung is engaged mainly in life insurance, property and auto insurance, etc.; in the heavy industry, Samsung is involved in shipbuilding, engineering construction, etc.; in the service sector, Jinji Lake Shilla Hotel has been established in Suzhou; in addition, Samsung is also a provider of advertisements, security, catering and other services.

For the past 27 years, Samsung China has been constantly expanding its investment. By the end of 2018, Samsung's aggregated investment in China amounted to US$ 34.9 billion. The investment in the past five years exceeded US$ 18.1 billion, which accounted for half of Samsung's total investment in China.

For the past 27 years, Samsung China has experienced transformation and upgrading of its industrial layout, from labor-intensive industries, to capital and technology-intensive ones. Meanwhile, for Samsung's consumer electronics product business, a complete local industry chain incorporating design, R&D, procurement, manufacturing, marketing and after-sales services has

already taken shape. It is worth mentioning that Samsung's investment in the past five years (from 2014 to 2018) surpassed that in the previous 20 years. In 2018, Samsung cooperated with more than 4,100 local suppliers in China, with a local purchasing volume of US$ 27.7 billion. It has been Samsung's aim to take roots in China together with all its Chinese partners, achieve common development, and make a contribution to China and the well-being of its people.

Business philosophies: Talent and technology-based, self-transformation, and embracing the change

Samsung's business philosophies: based on the talent and technology to create the highest quality products and services, and to contribute to the development of human society. In addition, Samsung has five core values: first, respect for talents; Samsung upholds the tenet of "a company is its people", and provides as many opportunities as possible for its employees to exert their full potential; second, pursuit of excellence; Samsung is committed to making all-out effort to be the number one in the world in all the fields involved with constant enthusiasm and indefatigable spirit; third, leading the change; Samsung always takes initiative to change and innovate in a prompt manner, with the awareness that the company cannot survive by staying status quo; fourth, integrity; Samsung always sticks to integrity and honesty, maintains its reputation and ethical way of doing business, and pursues righteousness in all aspects; fifth, seeking win-win; as a member of the society, Samsung is devoted to the common prosperity of the local communities, the countries and mankind based on principle of win-win.

"Do your best for the future" – is a classic advertisement slogan of Samsung. This self-challenging spirit is also one of Samsung's business philosophies. "If it had not been for such spirit, Samsung would not have possibly made up its mind to shift from light industry to heavy chemical industry, then to manufacturing of electronic products", said an industry expert concerned about the development of Samsung for years.

Doing business is like sailing against the current; either a company keeps forging ahead or it keeps falling behind. With the promulgation of the Outline of the 13th Five-Year Plan and the implementation of structural reform on the supply side, China's economy has entered a stage of paying more attention to high-quality development. Against this background, Samsung, having been in China for many years, is well aware of the new opportunities ahead for self-transformation.

Lee Kun-hee, Chairman of the Samsung Group, urged employees more than once to embrace the change, and Samsung has practiced the philosophy of "self-transformation and embracing the change" in its business development in China.

What needs to be changed? First, the operation strategy should be changed. In recent years, Samsung expanded its business in China by shifting from the assembly of finished electronic products in the earliest days to manufacturing of core components and entering

the heavy industry, service and other sectors, to seek high-end and diversified development. In terms of business orientation, Samsung has kept up with the requirement of expanding domestic demand, and gradually shifted its target from being a manufacturing base for export to one for the domestic market, so as to adapt to the Chinese market environment characterized by constant upgrading of consumption structure. At the same time, in terms of investment, Samsung took the initiative to eliminate backward production capacity, shifting from labor-intensive processing to a capital-intensive, cutting-edge technology equipment industry. Data show that Samsung's investment in high-end industries in China has risen from 13% in 2012 to 55% in 2018, which indicates that in the past five years, Samsung's industrial layout in China has changed significantly, and there has been a clear shift in Samsung's investment.

In 2011, Samsung's first high-generation LCD panel production line in China was launched in Suzhou, Jiangsu Province, which was the first foreign-invested high-generation LCD panel project controlled by foreign investors in the country.

In 2012, Samsung invested US$ 10 billion in a high-end V-Nand memory chip project in Xi'an, which was then the biggest foreign-invested project in the electronics industry in China.

In 2014, Samsung SDI built an automobile battery factory in Xi'an, Shaanxi.

In March 2018, Samsung invested a further US$ 7 billion in Xi'an to start the Phase II Semiconductor Project, so as to meet the huge demands of the global IT market for high-end flash memory chips.

In April 2018, Samsung SDI invested US$ 800 million in Tianjin, to start the round shape battery project.

In December 2018, Samsung Electro-Mechanics (SEMCO) invested in Tianjin to built a vehicle-use MLCC (Multi-layer Ceramic Capacitors) factory, and other projects.

Samsung's early investments were primarily in the labor-intensive industries in the eastern coastal areas such as the Pearl River Delta, the Yangtze River Delta, and the Bohai Economic Rim. After 2012, while taking the initiative to eliminate its backward production facilities, Samsung shifted its investment focus to the central and western regions to support regional development by introducing top-notch enterprises engaged in semiconductor memory chips, automobile batteries, etc.

Taking as an example the Samsung semiconductor memory chip project in Xi'an, the first phase of the project alone has attracted more than one hundred supporting companies both from home and abroad, including Air Products & Chemicals from the U.S., Sumitomo from Japan and Huaxunwei Electronics. The project directly pushed forward the upgrading of the semiconductor industry in Shaanxi.

With the quickening pace of industrial upgrading advocated by the Chinese government and the adjustment of Samsung's business strategy in China, Samsung's production facilities in Tianjin has been constantly upgraded and transformed. In recent years, Samsung has abandoned the production facilities that had no competitive advantage, and promoted the

introduction of sophisticated and cutting-edge production facilities. Since 2018, high-tech projects have been implemented one after another, such as the round shape battery project of Samsung SDI, ceramic capacitors of SEMCO, etc.

Social Responsibility: Giving back to the Society through Public Welfare Activities

While pursuing its own development, Samsung has actively implemented its corporate social responsibilities, always upheld the concept of "being an enterprise loved by Chinese people and contributing to Chinese society". Back in 1992 when Samsung entered the Chinese market, Samsung legal persons in China, mainly with the support of employee volunteers, started to promote public welfare activities in the local communities, including social assistance and green environment. Over the past 27 years, Samsung has carried out programs of poverty alleviation in such fields as industries, education, health, and sports, and promoted the education of popular science and innovation for young people.

Industrial poverty alleviation: In 2005, Samsung launched the "One Heart, One Village" project, in which Samsung subsidiaries in China helped nearby villages on a one-on-one basis, so as to help them achieve affluence. In 2014, in active response to the "targeted poverty alleviation" strategy advocated by the government, Samsung China signed a strategic cooperation agreement with the China Foundation for Poverty Alleviation, and launched the industrial poverty alleviation project named "Beautiful Village of Samsung-Sharing Villages". The project was intended to help poor villages to get rid of poverty early, truly and thoroughly (never slip back into poverty) by the assistance in five aspects: industrial positioning and planning, village infrastructure construction, the establishment of villagers' cooperative organizations, village industrial construction and development, and village public services. Through the model of "targeted selection of villages, appropriate project, targeted funding and precise effect", the project was also intended to realize "five kinds of sharing with villages": tourists and villagers "sharing living environment", poor and non-poor households "sharing industrial resources", impoverished villages and surrounding villages "sharing development opportunities", and model villages and follow-up villages "sharing development experience".

Since 2014, the project has invested RMB yuan 30 million in Shi'erpan Village, Xuezhen Township, Fuping County, Shaanxi Province, and Nanyu Village, Laishui County, Baoding City, Hebei Province, in order to promote local poverty alleviation and development.

In 2018, Samsung China issued a new poverty alleviation strategy for 2018 to 2020, which focused on supporting poverty relief in three districts, three prefectures and contiguous deep poverty-stricken areas. Samsung also proposed to invest RMB yuan 150 million as special poverty alleviation funds within three years, of which RMB yuan 60 million will be earmarked to build 10 new tourism model villages and agricultural product bases, such as Baiyan Village in Leishan County, Guizhou Province, and Shuziwa Village in Yanyuan County, Sichuan

Province, etc.

Poverty alleviation by health improvement: In 2004, Samsung China and the China Disabled Persons' Federation jointly launched the project of "Jishan · Samsung Lights of Love—Sight Restoration Surgery", which started the rehabilitation treatment for 85 million disabled people in China. Starting in 2010, Samsung China started to provide all-around support for disabled people, covering not only visual handicap, but also hearing problems, intelligence deficiency and physical disabilities. In 2018, in order to benefit more impoverished families and be in line with the targeted poverty alleviation policy of the central government, Samsung China and the China Foundation for Disabled Persons jointly decided to focus on the poverty-stricken areas of Linxia of Gansu, Nujiang of Yunnan and Liangshan of Sichuan, and provide medical assistance to 3,000 cases of juvenile eye diseases within three years. The project accomplished 1,150 cases in 2018. By the end of 2018, Samsung Lights of Love project had fulfilled 20,050 cases of eye surgery in total. In June 2019, the "Jishan · Samsung Lights of Love" 2019 project was officially launched. With a view to really supporting the poor, and supporting the real poor, Samsung China declared to contribute additional RMB yuan 10 million to 1,000 cases of eye surgery for teenagers and children from poor families in three prefectures and three autonomous prefectures which were deeply impoverished, and to the renovation of several special education schools.

Poverty alleviation by education: Since 2004, Samsung China, in cooperation with the China Youth Development Foundation, formally established the "Samsung Fund for Project Hope" to build hope primary schools in poor areas. By 2017, Samsung China had built 150 Samsung Hope Primary Schools in 28 provinces (autonomous regions, municipalities). Since 2018, with a view to implementing the new Samsung China poverty alleviation strategy, the ground has been broken in four deeply impoverished areas of Dongxiang County of Linxia Autonomous Prefecture for 16 more Samsung Hope Primary Schools.

Since the launch of the Samsung Hope Project, Samsung China has carried out the projects of "Samsung Smart Classroom", "Samsung Smart Teacher Training" and "Popular Science Education in Rural Primary Schools" in a step-by-step manner according to different stages of rural education development. Based on its advantages as a technological enterprise, Samsung has been devoted to implementing public welfare projects that met social needs.

"Samsung Smart Classroom" was intended to guarantee the realization of information-based teaching. Since 2013, Samsung China has selected qualified schools among Samsung Hope Primary Schools, as beneficiaries of its donation of electronic teaching equipment and network facilities. By installing computers, tablets, projectors, printers and other teaching equipment for the schools, Samsung China built "Samsung Smart Classrooms" with information-based teaching conditions, to help students cross the digital divide, have the same educational opportunities as urban students, better understand the world and build dreams. By the end of 2018, Samsung had donated 106 smart classrooms, benefiting 37,100 students.

"Samsung Smart Teacher Training" was intended to enhance the soft power of rural schools. The teaching ability is the key factor for the effective use of smart classrooms, and the rural teachers also shoulder the responsibility of enlightening the students to pursue their dreams. Besides hardware donation, Samsung has also attached great importance to the training of rural teachers. Through high-quality educational resources, rich teaching experience both from home and abroad, and online and down-to-earth training sessions, rural teachers can learn how to use the facilities of Samsung Smart Classrooms to develop their courses and for their teaching. In addition, Samsung China also taught rural teachers how to use modern equipment, so as to prevent "difficult using", "complicated technology" and other problems in the later stage of facility donation. By the end of 2018, 6,603 teachers from Samsung Hope Primary Schools had participated in the "Samsung Smart Teacher Training" project, which greatly improved the overall quality of the teachers of Samsung Hope Primary Schools and injected strong impetus into improving the schools' teaching level.

"Popular Science Education in Rural Primary Schools" closed the gap between the dreams and reality of rural children. The project introduced international high-quality teaching resources, made full use of information-based Samsung Smart Classrooms, and carried out science courses featuring hands-on experiments and multimedia characteristics through special training for rural teachers. Since 2017, science courses have been offered to 100 classes of 41 Samsung Hope Primary Schools in China. In this way, Samsung made its contribution to bridging the education and knowledge gap between urban and rural areas.

In addition, in order to improve the educational environment in the central and western regions of China, since 2004, Samsung has been cooperating with Beijing Western Sunshine Rural Development Foundation and Beijing Enjoy Volunteering (EV) Center of Youth Development. They recruited college student volunteers across the country who were willing to spend their summer vacation working at summer camps in rural schools in central and western China. Each summer vacation, about 700 college students, after layers of selection, May Day training, online special training, off-line team building, and other training went to rural schools located in the poor areas of central and western China to work at a two-week summer camp. Since 2013, Samsung China has expanded the volunteers to include company employees. Each year, 100 employee volunteers have been selected to assist the college students at the sites for one week. By the end of 2018, a total of 8,768 college students and 512 Samsung China employees had participated in the "Western Sunshine" project as volunteers, benefiting 50,569 children in rural areas. In June 2019, the Starting Ceremony of Samsung's "Western Sunshine V Action" was held in Beijing. From July to August, more than 1,000 college students and 100 Samsung China employees went to 70 rural primary schools in poor areas of central and western China as volunteer teachers.

Sports field: Since November 2014, Samsung China and Samaranch Sports Development Foundation have cooperated in the project "Samsung China Youth Football Training Camp".

A senior foreign football coach was invited to act as the chief coach of the camp. Each year, football training activities have been offered to the students of football-featured schools in 10 cities around the country. In 2017, with the gradual maturity of the project, Samsung China pushed forward the project into economically underdeveloped areas lacking FDI resources, such as the northeast and southwest of China. Football training has been offered to teenagers in Baotou and Ulanhot of Inner Mongolia, Yanji of Jilin, Zhuzhou of Hunan, Tengchong of Yunnan, Zhenning of Guangxi and Qiongzhong of Hainan, etc. At the end of the same year, 19 excellent young players were selected from the year's training camps and sent to Spain for overseas training. Up to 2018, more than 7,000 teenagers have received free football training from foreign coaches through this project. In 2019, Samsung will again select and recruit 1,200 teenagers to join the "Samsung China Youth Football Training Camp", giving children in poor areas a chance to get in touch with the outside world and making their football dream come true. In the future, Samsung China will continue to carry out social welfare activities focusing mainly on industrial poverty alleviation, as well as disability assistance and education support.

"Popular Science Innovation" is an important part of Samsung China's public welfare strategy in the next three years. Teenagers are the future of the country and decide on the future development of science. In recent years, Samsung China worked together with China Association for Science and Technology, China Youth Development Foundation and China Women's Development Foundation to share international resources and push forward a series of projects under the name of "SOLVE FOR TOMORROW".

Since 2013, Samsung China has launched the "SOLVE FOR TOMORROW" projects in the form of team competition for middle school and college students across the country. With its advantages of world-leading technologies, rich experiences in innovation and global resources, Samsung China has been involved in the whole process of preparation and operation of the contests, and has provided opportunities for the winners to go to the United States for exchanges, thus helping Chinese teenagers fulfill their aspirations for science and technology.

In addition, regarding the cultivation of women in science and technology, Samsung China, in cooperation with the China Women's Development Foundation, launched the program "CWDF-Samsung STEM GIRLS". Using the international advanced concept of "STEM Education" (Science, Technology, Engineering, Mathematics Education) and focusing on sustainable development, the program was intended to improve the leadership, creativity and other "soft skills" of female students, and to cultivate trailblazing, self-confident, self-reliant, responsible and innovative women in the science and technology field.

For the past six years, Samsung China has taken solid actions in support of China youth science and technology, as well as popular science education. Just as Samsung has always adhered to the philosophy of "shared business operation" since its entry into China 27 years ago, Samsung has done its utmost to share its operating achievements with Chinese society and bring hopes to more people by carrying out various social public welfare activities in China.

"In China, For China"— Samsung China remains true to its original aspiration

In 2018, the Chinese Academy of Social Sciences issued the Blue Book of Corporate Social Responsibility of 2018, in which Samsung China was listed among top foreign-invested enterprises for the sixth consecutive year and ranked the fourth in the list. In addition, Samsung China won the "Chinese Charity Award" issued by the Ministry of Civil Affairs for many times, and the title of "Most Loving Donation Enterprise". For 11 years in a row, Samsung has won the "Most Respected Enterprise" award from the Economic Observer... In 2018, with the project "Samsung's Sharing Villages—Nanyu Village, Hebei", Samsung China was awarded the "Recommended Case of Targeted Poverty Alleviation Industry Development Model" by the "Great Country, Bound to Win in 2020" Targeted Poverty Alleviation Forum. Samsung China's "Samsung Smart Classroom + Smart Teacher Training" project won the "Best Social Contribution Prize" of 2018 Third CSR China Education Award, and Samsung China was honored as the "Best CSR Brand".

Since its entry into China 27 years ago, Samsung has taken root in China and grown in sync with China's economic development. As Huang Degui, the president of Samsung Greater China, said, "Samsung China will always remain true to its original aspiration, stick to its sharing of business achievements with the public, adhere to the concept of ‘in China, for China', endeavor to become an enterprise beloved by Chinese people and make contribution to the Chinese society."

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Afterword

Multinationals are the dominant force in economic globalization and cross-border investment. Throughout these four decades, investment from multinationals have promoted China's economic and social development, advanced globalization and the integration of the world economy, and deepened the international division of labor and reshaping of the global value chain, becoming an important phenomenon in the world economy. Studying and examining the history and lessons of multinationals' investment in China is of great significance to China's future reform and opening up, and has reference value for multinationals to better invest in China.

The Qingdao Multinationals Summit is approved by the State Council and sponsored by the Ministry of Commerce and the People's Government of Shandong Province. As an important national forum focusing on the issues, voices, and experiences of multinationals, and a new opening up platform linking the resources of multinationals, the Summit will follow the principles of internationalization, institutionalization and branding to create a high-end, professional, open and permanent forum. The series of research reports on Multinationals' Investment in China is one of the important products introduced by the Summit. As the first Qingdao Multinationals Summit 2019 is held at a crucial juncture of multinationals' four decades of investment in China, the Summit organizing committee took charge of the preparation of the research report Multinationals' Four Decades of Investment in China, with the intention of presenting a comprehensive and historical picture of multinationals' investment in China since reform and opening up.

In preparing this report, we sincerely appreciate the considerable support received from Coca-Cola (China) Investment Co., Ltd., Chia Tai Group (China) Investment Co., Ltd., Yihai Kerry (China) Investment Co., Ltd., Nestle (China) Investment Co., Ltd., CJ Group (China) Investment Co., Ltd., Caterpillar (Qingzhou) Co., Ltd., Intel (China) Investment Co., Ltd., Hyundai Motor (China) Investment Co., Ltd., Dow Chemical (China) Investment Co., Ltd., Cargill (China) Investment Co., Ltd., AGC Group (China) Investment Co., Ltd., IKEA (China) Investment Co., Ltd., Ricoh (China) Investment Co., Ltd., Honeywell (China) Investment Co., Ltd., Samsung (China) Investment Co., Ltd., Beijing New Century Academy on Transnational Corporations, the China International Investment Promotion Agency, the Institute of International Economy of the University of International Business and Economics, the European Union Chamber of Commerce in China, the Korea Chamber of Commerce in China, and the AmCham China.

The book is written in Chinese. The English translation is for information purposes only. In case of any ambiguity, the Chinese version shall prevail.