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China should cut barriers to foreign investment, says OECD

China should make the rules and regulations for cross-border mergers and acquisitions (M&A) more open and transparent to attract more and better foreign investment, according to a new OECD report.

Investment Policy Review of China 2006: Open Policies towards Cross-Border Mergers and Acquisitions charts the progress made by China in developing a regulatory framework for cross-border M&A in recent years. Some progress has been made. Approvals procedures for M&A have been speeded up and new laws enacted.

But more needs to be done. Foreign investment will help Chinese firms, particularly those that are state-owned, reduce indebtedness and get access to technology, marketing know-how and management techniques. This will give them the skills and expertise to expand abroad and better compete in the global marketplace, stimulating economic growth and development, the report says.

China's regulatory framework for cross-border M&A remains a complex and incomplete patchwork of laws, regulations and policy decisions made by various ministries and government agencies. A lack of transparency, coupled with low standards of corporate transparency and disclosure, makes it difficult for potential investors to carry out due diligence to accepted international standards. Valuing the potential liabilities of a firm is especially difficult.

At the same time, the Chinese government continues to close off so-called "strategic assets" to cross-border M&A without specifying which sectors are defined as strategic, or why.

To address these issues and remove other obstacles to cross-border deals, the OECD recommends that China:

- Streamline the approval process for cross-border M&A and make it more transparent;
- Put in place a sound competition framework;
- Further open its capital markets to foreign investors;
- Encourage its firms to increase corporate transparency and provide more up to date and accurate financial information to make it easier to value a potential acquisition, especially regarding a firm's liabilities;
- Relax foreign ownership restrictions. In particular, revise existing catalogues that list the type of firms that can or cannot be acquired by foreign investors.

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General Inquiries: Tel. (33) 1 45 24 97 00 - Fax. (33) 1 45 24 80 03/94 37 · **Research & Documentation:** Tel. (33) 1 45 24 80 88/80 89
www.oecd.org/media · **E-mail:** news.contact@oecd.org

Organisation for Economic Co-operation and Development, 2 rue André-Pascal, 75775 Paris Cedex 16, France · Tel. (33) 1 45 24 82 00 - Fax. (33) 1 45 24 85 00
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The report also recommends that China pilot these recommendations in the North-East of the country before rolling them out nationwide. This region, China's historical industrial heartland, has a high concentration of state-owned firms in need of restructuring and technological upgrading, as well as high unemployment and low productivity. Cross-border M&A could help rejuvenate the region's economy.

This report is the latest in a series of reports conducted by the OECD in co-operation with the Chinese government under a programme launched in 1995. China is not a member of the OECD, but it participates in the work of some OECD committees.

For further information about the report, please contact Kenneth Davies of the OECD's Investment Division.

Investment Policy Review of China 2006: Open Policies towards Cross-Border Mergers and Acquisitions is available to journalists from the OECD's [Media Division](#) ((tel.+ 33 1 45 24 97 00) or via the OECD's online library, [SourceOECD](#), accessible through the [password-protected website](#).

Investment Policy Review of China 2006: Open Policies towards Cross-Border Mergers and Acquisitions can be purchased in paper or electronic form through the OECD's [Online Bookshop](#). Subscribers and readers at subscribing institutions can access the online version via [SourceOECD](#).

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