Chinese FDI Strategy in Italy: The "Marco Polo" Effect

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Motivation

- In Europe the rapid expansion of Chinese FDIs is observed with a mix of fears and hopes:
  - Fears of unfair competition and uncertainty about acquired companies;
  - Hopes for fresh capital often rescuing companies in financial difficulties;
- Limited empirical research at the firm level on why Chinese companies are investing in developed countries.

OLI vs. LLL

- (OLI) model (Dunning, 1981) is not very useful to explain FDI from emerging countries, particularly to developed countries;
- The internationalization activity of firms from countries such as China in the developed world reflects attempts to acquire or augment strategic assets, such as new technologies and brands and to secure access to distribution networks, rather than exploiting existing assets (O);
- This view has inspired the Linkage-Leverage-Learning (LLL) framework proposed by Mathews (2002) to capture the idea that latecomer firms use FDI to leverage their advantages (e.g. costs, easy access to credit, institutional support) and learn about new sources of competitive advantages.

Main motivations for Chinese firms to venture in developed countries (1)

- **Market seeking investments (**Buckley et al; 2007)**:**
  - excessive competition in the domestic market has caused falling margins and overcapacity in certain mature industries such as textiles and clothing (OECD, 2008) ;
  - to take advantage of preferential access to market in developed countries (Luo and Tung, 2007);
  - to get closer to consumers;
  - to acquire distribution networks (Buckley et al, 2008);

Main motivations for Chinese firms to venture in developed countries (2)

- **Strategic asset seeking investments** (technology, know-how, managerial and marketing skills, brands and reputation) (Hong and Sun, 2006; Luo et al., 2010):
  - The modularization of production has enabled the disintegration of production processes, allowing the outsourcing of several activities, including both production and design and R&D. This strategy enables latecomer firms to outsource abroad those activities (usually the most skill and technology intensive) for which they lack the necessary capabilities. Therefore, strategic FDI in developed countries is a frequent option for many latecomer MNEs;
  - Strategic M&As provide a faster alternative to building technological capabilities in house, and, especially for developing country firms, allows access to more advanced resources through direct transfer of knowledge (Pradhan and Singh, 2008);
  - FDI aimed at sourcing assets not fully developed at home are reversing the traditional direction of knowledge flows (i.e. from parent to subsidiary) (Narula, 2010).

Research question

- **What motivates Chinese companies to invest in Italy?**
  - But why Italy is an interesting case to study?
- – In terms of stock, in 2008 Italy is ranked seventh among the countries of Europe (excluding Russia) with almost 135 million US$, corresponding to a share of 4.05%;
- – Emerging country MNEs are on the rise (Mariotti and Mutinelli, 2008);
- – Its economic system is rather peculiar among EU countries, sharing some features with China, such as a strong presence of SMEs specialized in “traditional” sectors.

Methodology

- New proprietary database from multiple sources:
  - *fDi Markets*;
  - *European Investment Monitor;*
  - *Zephir;*
  - Specialized business press;
  - MOFCOM in Milan and Association of Chinese Firms in Italy;
- In-depth interviews to key informers and to senior managers of Chinese affiliates in Italy with an open-ended questionnaire focused on investment motivations, the business environment in Italy and the strategies of internationalisation.

Main features of Chinese companies in Italy: small size

Table 1 – Employees in Chinese Companies in Italy

	1986-94	1995-99	2000-04	2005-10	n.a.	Total
<10	3	2	9	8	3	25
11-49	1	1	7	12	/	21
50-99	/	1	1	3	1	6
>100	/	1	2	4	1	8
Total	4	5	19	27	5	60

Source: Author's database

Sectoral and geographical distribution

Table 2 - Sectoral and geographical distribution of Chinese FDI in Italy

	Lombardy	Piedmont	Veneto	Lazio	Emilia	Rest of Italy*	Total
White goods	5	1	5	...	..	2	13
Automotive	..	5	..	2	...	1	8
Transport and Logistics	2	..	1	1	..	4	8
Trade services	3	1	..	..	1	..	5
Textiles	5	1	..	..	..	..	6
Electronics	5	..	..	1	..	1	7
Telecommunications	1	1	..	2	..	..	4
Metal products	4	1	..	..	..	1	6
Machinery	4	1	..	..	1	..	6
Chemical products	2	..	1	..	1	..	4
Financial services	3	..	..	..	..	..	3
Others**	2	..	2	1	2	1	8
Total	36	11	9	7	5	10	78

Source: Author's database

* Includes Campania, Liguria, Marche, Tuscany, Puglia, Basilicata and Calabria** Include other manufacturins (non-metallic minerals, bycicles, Jewerly, Toys, pens); food&tobacco and a diversified group.

Chinese FDI in Italy per activity

Table 3 - Chinese OFDI in Italy per activity

	1986-94	1995-99	2000-04	2005-10	n.a.	Total
Sales and Marketing	6	4	14	16	6	46
Manufacturing	..	..	7	12	2	21
Headquarters	..	..	1	2	..	3
R&D	..	..	1	3	..	4
Logistics and distribution	..	2	1	..	1	4
Total	6	6	24	33	9	78

Source: Authors' database

Main M&A operations by Chinese firms in Italy

Table 5 –Main M&A operations by Chinese firms in Italy

Year	Target	Acquirer	Sector	Size (employees)	Stake (%)
2001	Meneghetti	Haier	White goods	100	100
2004	Wilson	Wenzhou Hazan	Textiles	n.a.	90
2005	Benelli	Quianjiang	Automotive	100	100
2006	Elios	Feidiao Electrics	White goods	54	n.a.
2007	Hpm Europe Spa	Hunan Sunward Intellingent Machinery	Machinery	6	51
2007	Omas Srl	Xinyu Hengdeli Holdingns	Luxory goods	48	90
2008	Cifa	Changsha Zoomlion	Machinery	70	60
2009	Elba	Haier	White goods	150	20

Source: Author's database

Market seeking Chinese FDI in Italy:

- 38 projects are in market related activities;
- Some investments are “trade following” (e.g. logistics);
- Increasingly, offensive investments:
  - Size of the domestic (and EU) market (e.g. solar panels; telecommunications);
  - Acquisition of market knowledge in a very demanding and sophisticated market (e.g. home appliances). Italy is considered strategic in terms of learning about tastes of consumers and feedbacks on products;
  - Improving brand reputation (e.g. Haier, Benelli).

Strategic asset seeking Chinese FDI in Italy:

- Brands in “made in Italy” sectors (e.g. Sergio Tacchini; Elios; Omas; Benelli);
- Technology in the mechanical sector (e.g. Benelli) and in the white goods industry (e.g. Haier);
- Design skills in the automotive industry (e.g. Anhui; Chang An; Nanjing);
- Agglomeration economies (specialised labour, knowledge, specialised suppliers) in clusters (e.g. Haier in Varese and JAC and Changan in Turin);
- International managerial experience (e.g. Hengdian Group).

Conclusions

- Italy holds some factors of attraction:
  - Size and sophistication of the domestic market;
  - Skills in design, product development, technology, marketing and management, brands in sectors where China is investing to upgrade in the value chain (the reverse “Marco Polo” effect);
  - Agglomeration economies in clusters: is the cultural gap too large for taking advantage of them?
  - Small size of companies: easy target for acquisitions? Or too small for Chinese companies?
- ..but also some distinctive disadvantages in attracting FDI: high bureaucracy and policy on visa concession.

THANK YOU

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