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The ‘Marco Polo’ Effect: Chinese FDI in Italy

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KEY POINTS

- The study investigates the motivations driving Chinese outward direct investment in Italy. The analysis is based on secondary sources and in-depth interviews with key informants and senior managers of Chinese affiliates in Italy.

- The empirical analysis shows that the evolution of the Chinese pattern of entry to Italy is in line with the model followed by Chinese firms for direct investment in other European countries: starting with small-scale operations in trade-related activities, and evolving towards the acquisition of tangible and intangible resources deemed necessary to increase the Chinese presence in international markets and, more generally, to upgrade its technological and production capacities.

- Chinese investments in Italy are increasingly targeting the acquisition of design and brands in key Italian sectors of specialization, and technological capabilities in sectors such as metalworking.

- Chinese multinational enterprises also are investing in Italy to get access to local competitive advantages in sectors such as automotive and home appliances. This location choice is clearly linked to the intention to tap local competences available at the cluster level.
**Introduction**

China is clearly a latecomer as a global investor: the stock of its outward foreign direct investments (FDI) accounts for less than 1 per cent of world FDI stock, and lags behind the world average in terms of ratio to gross domestic product (GDP) (UNCTAD, 2009). Nevertheless, the very rapid increase in Chinese investments abroad, which rose from US$ 5.5 billion in 2004 to nearly US$ 42 billion in 2008\(^1\) (MOFCOM, 2009), is attracting much interest from international business scholars and economists as well as the media.

Despite the presence of Chinese companies in the developed world being negligible in absolute quantitative terms, with Europe and North America receiving respectively 2.8 and 2 per cent of total Chinese FDI\(^2\), the focus on China’s overseas expansion in research conducted in these countries is strong. The reasons for this are several, and reflect the mix of fears and hopes from such expansion. Given that the Chinese state is often behind FDI, there are fears of unfair competition based on the political and financial support received by the Chinese companies involved, and possible takeovers, and there is uncertainty about the future survival of companies acquired by Chinese investors, the impact on employment, and the risk of loss of key technological capabilities. On the positive side, the input of fresh capital is very attractive and, in the case of acquisitions, often rescues enterprises facing financial difficulties.

The mixed expectations related to China’s overseas expansion calls for a better understanding and knowledge of the strategies of Chinese companies entering overseas markets to inform what is becoming an increasingly relevant debate. Although this topic is becoming fashionable in international business studies\(^3\), the empirical evidence on Chinese FDI in European countries is quite limited and relates mainly to the UK (Burghart and Rossi, 2009; Cross and Voss, 2008; Liu and Tian, 2008) and Germany (Schüler and Turner, 2005; Schüler-Zhou and Schüler, 2009). This paper contributes by analysing the case of Italy.

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1 The official data are from MOFCOM’s *Statistical Bulletin of China’s Outward Foreign Direct Investment*, first published in 2003. These statistics underestimate the real value of investments because they do not include the financial sector and are based on the value arising from approval procedures rather than the effective value of bids (thus excluding non-approved investments and private transactions not formally recorded). In addition, these data do not account for most M&A activity since this is often financed through foreign banks and thus not recorded in Chinese balance-of-payments information. Notwithstanding these limitations, MOFCOM data represent the most up-to-date source of information on Chinese FDI, disaggregated by destination country and sector.

2 The largest part of Chinese FDI goes to Asia, mainly Hong Kong, which absorbs more than half of the country’s total stock.

3 See, e.g., the books by Alon and McIntyre (2008), Alon et al. (2009) and Larçon (2009) and a Special Issue of *Industrial and Corporate Change* on ‘The Internationalization of Chinese and Indian Firms’ (Athreye and Kapur, 2009).
Based on new and original empirical evidence collected via in-depth interviews with key informants and senior managers of Chinese affiliates located in Italy, we present a picture of Chinese investment in Italy, exploring its characteristics in terms of size, choice of location, sector of specialization and activities undertaken. We address the following research questions: What motivates Chinese companies to invest in Italy? What are the chosen types of entry modes?

In our analysis, we discover that what is happening today mirrors what happened centuries ago, but in the opposite direction. Marco Polo, the famous Venetian traveller, visited China in the thirteenth century and lived there for over a decade. He was astonished by the level of civilization achieved and brought back important scientific and technological discoveries such as the use of the compass, money and coal. In recent years, Chinese enterprises appear to be interested in discovering and assimilating the original knowledge being developed in the Italian economy, frequently related to design-intensive, high-quality productions.

In terms of stock, Italy is ranked seventh among the countries of Europe (excluding Russia). It is an especially interesting case for analysis because of the peculiarity of its economic system, which shares some features of the Chinese economy: strong presence of small and medium-sized enterprises (SMEs) specialized in ‘traditional’ industries (Amighini and Chiarlone, 2005).

The paper is organized as follows. Section 2 provides a review of the literature on the motivations behind Chinese FDI, Section 3 gives some background information on Italy as a location for FDI, Section 4 focuses on Chinese FDI in Italy and explores motivations and entry strategies, and Section 5 concludes.

2 Motivations for Chinese FDI

Much of the work that investigates the motivations for FDI refer to the four categories identified out by Dunning (1993): natural resource-seeking; defensive (to secure a position into a market) and offensive (to invest into new markets) market-seeking; strategic asset-seeking (to acquire technologies, managerial capabilities, brands, distribution channels and other tacit assets); and efficiency-seeking (to exploit economies of scale and scope and/or to secure access to cheaper input factors, especially labour).

In the 2006 World Investment Report, UNCTAD identifies market-, efficiency- and natural resource-seeking as the most relevant motives for FDI from
emerging countries to less developed destinations, and market- and strategic asset-seeking as the main attractors in developed countries (UNCTAD, 2006).

Natural resource-seeking has been the main motivation for Chinese FDI since the country started to invest abroad and its importance has risen with the country’s exceptional economic growth. Chinese MNEs have targeted resource-rich developing countries in Africa and Latin America, to satisfy the country’s ‘hunger’ for natural resources (Trinh et al., 2006). Most Chinese FDI in Africa is by state-owned enterprises (SOEs) searching for unexplored reserves, often tying investments to government aid programmes (Cai, 1999; Kaplinsky and Morris, 2009), especially in politically risky domestic environments (e.g. Sudan, Angola and Zimbabwe). In some cases SOEs, enjoying access to cheaper capital and relying on longer-term strategies than their rivals, identify risky investments with the opportunity to achieve high rates of return, rather than seeing the volatile political conditions of some African countries as a constraint (Alden and Davies, 2006).

Chinese market seeking investments are common in both developing and developed countries. One of the main reasons for market seeking investments is excessive competition in the domestic market, based on the large number of foreign MNEs entering and investing in China. This has caused profit margins to fall and resulted in overcapacity in some mature industries, such as textiles and clothing, pushing Chinese firms to find new markets overseas by establishing local sales and distribution centres, but also overseas production bases (Chen and Lin, 2006; OECD, 2008). In some cases, market-seeking investments also reflect a strategy of taking advantage of preferential access to the developed-country market (e.g. investments in Turkey aimed at the EU market, and investments in Sub-Saharan African countries to enjoy preferential treatment from developed markets in textiles) (OECD, 2008; Kaplinsky and Morris, 2009).

In developed countries, access to markets remains one of the main motivations for investment. Liu and Tian’s (2008) survey of Chinese investments in the UK confirms that Chinese companies see seeking market share in EU markets as one of the main criteria for internationalization; and Cross and Voss (2008) highlight an interesting time pattern related to Chinese FDI. They show that in the earlier stages, Chinese investments were mainly defensive market-seeking (i.e. FDI following trade) as firms set up foreign affiliates in order to serve their customers better and to increase customer loyalty, while for later entrants (after 2000) they were aimed at raising
company profiles in a large market where growth potential for their companies had been identified (i.e. trade following FDI).

The other main attractor of Chinese firms to developed countries is access to technology, know-how, managerial and marketing skills, established brands and reputation. Evidence from the UK confirms that the need to acquire new and advanced management skills and the need to tap into pools of knowledge are key reasons for Chinese internationalization (Cross and Voss, 2008). Further empirical evidence of these motivations is provided by case-studies on the white goods sector (Bonaglia et al., 2007) and on well known Chinese MNEs such as Haier, Lenovo, BOE and TCL (Li, 2007; Liu and Buck, 2009).

The intensification of cross-border merger and acquisition (M&A) activities by Chinese companies is confirmation of the importance of the strategic asset seeking motivation. As new international players, Chinese firms generally carry out cross-border M&A primarily to speed up acquisition and control of strategic assets. Based on case studies on companies such as Lenovo, Huawei, Haier and TCL, Deng (2009) and Rui and Yip (2008) analyse the rationale for foreign acquisition activity, emphasizing that it provides a tool to compensate for competitive disadvantage and is a low-cost way of leveraging advantages in production capabilities (e.g. in the case of Lenovo) and the institutional support received for these operations. Rui and Yip (2008) quite rightly stress the difficulties involved in these operations and the importance of the culture and management capabilities in their success. Referring to the well known cases of Lenovo and Huawei, they emphasize that the capacity to integrate and combine Chinese culture with world class Western management systems is key to the success of these acquisitions.

Analysing the entry choices of Chinese firms investing abroad, Cui and Jiang (2009) use survey data on a sample of 138 companies and show econometrically that wholly-owned subsidiaries are preferred when asset-seeking motivations prevail and the host industry market is highly competitive, while joint ventures are chosen to establish first- or early-mover advantages in high growth foreign markets. Size is also shown to influence entry mode with large companies more likely to choose wholly-owned subsidiaries, while joint ventures are preferred as a means to penetrate cultural barriers and offset regulatory institutional barriers. Using Chery as a case study, Zhang and Filippov (2009) show that young, dynamic, private companies, lacking easy access to government support, find it profitable to start their internationalization through strategic alliances followed by direct investments.
Still on the choice of the entry mode, Liu and Tian (2008) note that the choice of a wholly-owned subsidiary contrasts somewhat with mainstream theory that firms should choose minority equity entry modes in more culturally distant countries (Kogut and Singh, 1988). Liu and Tian's survey of Chinese FDI into the UK shows that sectors matter in determining entry modes: Chinese subsidiaries in banking and trading sectors are wholly-owned companies, while affiliates in other sectors choose more diversified entry modes, such as joint ventures and acquisitions.

The next section addresses Chinese investments in Italy and provides original evidence on a country that so far has not been researched in detail.

3 Italy as a location for Chinese FDI

Italy traditionally has not been attractive as a destination for foreign investment: according to UNCTAD (2008), in 2007 Italy was ranked 31st in the inward FDI potential index, and 107th for inward FDI performance. The reasons for this poor performance are many: structural factors such as the fragmentation of the private sector dominated by small and medium sized enterprises, specialization in traditional sectors characterized by low R&D expenditure, and the large size of the public sector have been suggested as discouraging foreign investors (OECD, 1994; Committi, 2004; Bronzini, 2007; Mariotti and Mutinelli, 2009). Other disadvantages include poor infrastructures, high levels of criminal activity in some areas of the country, high levels of bureaucracy and rigid labour market regulation (Committeri, 2004; Daniele and Marani, 2008). The ‘Ease of Doing Business’ ranking produced by the World Bank confirms the persistence of these constraints, and shows that Italy dropped from 59th position in 2008 to 65th in 2009 owing to a worsening in workers’ employment regulation, more lengthy property registration and procedures, and the greater time and costs involved in obtaining construction permits (World Bank, 2009).

In terms of attractions, the results of a survey conducted by the Bank of Italy on foreign investors stress the importance of the size of the domestic market and the lower labour costs relative to other EU countries (Committeri, 2004). Also, a recent empirical analysis shows that strong location advantages linked to local specialization among agglomerations of firms are attractive to FDI in

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4 To the best of our knowledge, there is only one study, by Spigarelli (2009), which is based on secondary sources and provides on a very general picture of the phenomenon. There are no analyses of motivations and entry strategies.
the same sectors (Bronzini, 2007). Italy is specialized in such sectors as automotive, textiles and clothing, machinery and home appliances, and we would argue that this specialization may indeed be an attractor for multinationals from emerging countries, such as China, which are currently trying to upgrade their production and technological capabilities and build their own global champions in these industries. This is confirmed by the increasing presence in Italy of investors from emerging economies in these sectors highlighted by Mariotti and Mutinelli (2008), based on firm level data from the ICE-Reprint database.

Focusing on Chinese FDI in Italy within a European perspective, Italy ranks 7th with a share of 4.05%, while Germany and the UK account for more than 50 per cent of the total stock of Chinese FDI in Europe in 2008 (Table 1). Section 4, based on original empirical evidence, explores the main internationalization characteristics and strategies of Chinese companies operating in Italy.

### Table 1: Top recipients of Chinese FDI in Europe (excluding Russia) (US$m)

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</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>25.06</td>
<td>27.50</td>
<td>128.74</td>
<td>76.72</td>
<td>238.66</td>
<td>183.41</td>
<td>845.41</td>
<td>25.65</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>2.11</td>
<td>29.39</td>
<td>24.78</td>
<td>35.12</td>
<td>566.54</td>
<td>16.71</td>
<td>837.66</td>
<td>25.42</td>
</tr>
<tr>
<td>Netherlands</td>
<td>4.47</td>
<td>1.91</td>
<td>3.84</td>
<td>5.31</td>
<td>106.75</td>
<td>91.97</td>
<td>234.42</td>
<td>7.11</td>
</tr>
<tr>
<td>France</td>
<td>0.45</td>
<td>10.31</td>
<td>6.09</td>
<td>5.60</td>
<td>9.62</td>
<td>31.05</td>
<td>167.13</td>
<td>5.07</td>
</tr>
<tr>
<td>Sweden</td>
<td>0.17</td>
<td>2.64</td>
<td>1.00</td>
<td>5.30</td>
<td>68.06</td>
<td>10.66</td>
<td>157.59</td>
<td>4.78</td>
</tr>
<tr>
<td>Spain</td>
<td>n.a.</td>
<td>1.70</td>
<td>1.47</td>
<td>7.30</td>
<td>6.09</td>
<td>1.16</td>
<td>145.01</td>
<td>4.40</td>
</tr>
<tr>
<td>Italy</td>
<td>0.29</td>
<td>3.10</td>
<td>7.46</td>
<td>7.63</td>
<td>8.1</td>
<td>5</td>
<td>133.60</td>
<td>4.05</td>
</tr>
<tr>
<td>Europe (excl. Russia)</td>
<td>114.41</td>
<td>79.90</td>
<td>189.54</td>
<td>128.73</td>
<td>1062.82</td>
<td>480.56</td>
<td>3295.68</td>
<td>..</td>
</tr>
<tr>
<td>World</td>
<td>2854.65</td>
<td>5497.99</td>
<td>12261.17</td>
<td>17633.97</td>
<td>26506.1</td>
<td>55907.2</td>
<td>183970.71</td>
<td>..</td>
</tr>
</tbody>
</table>

Source: Authors’ elaboration on MOFCOM (2009)

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5 According to Committeri (2004), the small size of enterprises reduces the opportunities to attract M&A which are usually directed towards big companies. Indeed, data from UNCTAD show that, when considering M&A only, the relative position of Italy reduces further (UNCTAD, 2009).
4 Chinese FDI in Italy

Data collection

There is no comprehensive database of Chinese companies operating in Italy. Therefore, our first task was to compile an original database based on multiple statistical sources, to enable an in-depth study of Chinese FDI in Italy. The data sources used are FDI Markets, previously called Locomonitor, now produced by the Financial Times Group which is the leading source of intelligence on FDI and provides UNCTAD and the World Bank with data. This database includes information on mode and year of investment, employment, sector, activity and turnover. We also used the European Investment Monitor (EIM), or Euromonitor, produced by Ernst and Young on project investments across Europe, and data on M&A collected in the Zephir database compiled by Bureau van Dijk. In addition, from 2007 to 2009 we continuously monitored the specialist business press (including Il Sole 24 Ore, the main Italian economic newspaper, and the Financial Times) to check for information on new projects. The list of companies in our database was cross-checked with the assistance of MOFCOM representatives in Milan and the Association of Chinese Firms in Italy, led by the Bank of China.

We identified 68 Chinese investment projects in Italy, including five ceased investments and two cases of relocation. The database includes information on company name and address, parent company name, sector of specialization, main activity undertaken in Italy, number of employees, total sales, year of the investment, entry mode and ownership share. Whenever possible, this information is complemented by additional sources such as company documentation available on the Internet (including main company websites in Chinese), research papers and press articles.

Following construction of our database we conducted several interviews with key informants and senior managers of Chinese affiliates in Italy, based on a set of open-ended questions focusing on background information about the company, its strategies of internationalization, motivations for investment in Italy and opinions on the Italian business environment.

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6 Because of the diverse sources of information, the data were cross-checked to increase the reliability of our analysis.
Characteristics of Chinese FDI in Italy

The first Chinese ‘flagship’ investment in Italy was in 1986 when Air China opened a commercial office in Rome (AT Kearney, 2008). From the mid-1980s to the end of the 1990s investments were sporadic, and included an office in Turin of the Nanjing Motor Corporation, a commercial office for Cemat Machinery Technology and a branch of the Bank of China in Milan. The majority of Chinese FDI in Italy occurred after 2000, and represent recent but rapidly increasing interest. The available information shows that the majority of Chinese companies located in Italy also have investments in other European countries. According to some of our informants, Italy is not the first choice of most Chinese investors, and the decision to invest in Italy is usually part of a broader European strategy. Notable exceptions are Haier, whose location in Italy is strategic for the company, owing to its specialization in the white goods industry and HG Europe, which is located in Italy because of its Italian managing director, who has personal links with the Chinese family owning the Hengdian Group.

In terms of size of investments, data on employment are available for only 52 of the 68 companies. Table 2 shows that most of companies are small or very small, which is in line with the findings of the survey by Cross and Voss (2008) in the UK that the majority of Chinese operations have less than 25 employees. Note that, with two exceptions, the few companies that employ more than 50 people were all established since 1999.

Table 2: Employees in Chinese companies in Italy

<table>
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<tr>
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<tbody>
<tr>
<td>&lt;10</td>
<td>3</td>
<td>1</td>
<td>4</td>
<td>1</td>
<td>1</td>
<td>3</td>
<td>..</td>
<td>..</td>
<td>3</td>
<td>16</td>
</tr>
<tr>
<td>11-49</td>
<td>1</td>
<td>2</td>
<td>8</td>
<td>1</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>..</td>
<td>22</td>
</tr>
<tr>
<td>50-99</td>
<td>..</td>
<td>1</td>
<td>..</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>..</td>
<td>6</td>
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<tr>
<td>&gt;100</td>
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<td>1</td>
<td>4</td>
<td>1</td>
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<td>..</td>
<td>2</td>
<td>..</td>
<td>8</td>
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<tr>
<td>Total</td>
<td>4</td>
<td>5</td>
<td>16</td>
<td>4</td>
<td>5</td>
<td>7</td>
<td>3</td>
<td>5</td>
<td>3</td>
<td>52</td>
</tr>
</tbody>
</table>

Source: Authors’ database

With regard to sectoral specialization (Table 3), the main sectors are household appliances and automotive, both industries in which Italy traditionally has strong production capabilities and in which China is rapidly

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7 This representative office was established in order to manage the relationship with Iveco which later evolved into a joint venture.
8 We checked for the existence of subsidiaries in other countries in the databases and in the Chinese websites of the parent companies.
increasing its competitiveness (Amighini and Chiarlone, 2005). In terms of number of investments, Transport and Logistics is an important sector owing to the geographical position of Italy as a hub for Southern Europe. Also, Italy represents an important market for electronics and telecommunications, which are other attractive industries for Chinese investors.

Geographically, Chinese investments are strongly concentrated in the North of Italy (Table 3). The region of Lombardy hosts 34 investments, 15 in the metropolitan area of Milan. This is the favourite destination of Chinese firms, reflecting the general attractiveness of the region, which hosts half of total FDI projects in Italy (Mariotti and Mutinelli, 2009). Milan is particularly attractive to firms in the service sector. The only Bank of China branch in Italy, established in 1998, is in Milan, and a second branch is planned for the heart of Chinatown Milan. Consulting firms set up to assist Chinese companies wanting to invest in Italy are also present. Among them, since 2007, the China Milan Equity Exchange (CMEX) operates as sole partner of CBEX (China Beijing Equity Exchange) in Europe, providing comprehensive advice on legal, fiscal, financial and organizational issues.

Table 3: Sectoral and geographical distribution of Chinese FDI in Italy

<table>
<thead>
<tr>
<th>Sector</th>
<th>Lombardy</th>
<th>Piedmont</th>
<th>Veneto</th>
<th>Emilia</th>
<th>Lazio</th>
<th>Rest of Italy*</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>White goods</td>
<td>3</td>
<td>1</td>
<td>5</td>
<td>..</td>
<td>..</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>Automotive</td>
<td>1</td>
<td>6</td>
<td>..</td>
<td>..</td>
<td>1</td>
<td>1</td>
<td>9</td>
</tr>
<tr>
<td>Transport and Logistics</td>
<td>3</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>1</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>Trade services</td>
<td>4</td>
<td>..</td>
<td>..</td>
<td>1</td>
<td>..</td>
<td>..</td>
<td>5</td>
</tr>
<tr>
<td>Textiles</td>
<td>4</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>4</td>
</tr>
<tr>
<td>Electronics</td>
<td>5</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>1</td>
<td>..</td>
<td>6</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>1</td>
<td>2</td>
<td>..</td>
<td>..</td>
<td>2</td>
<td>..</td>
<td>5</td>
</tr>
<tr>
<td>Metal products</td>
<td>3</td>
<td>1</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Machinery</td>
<td>3</td>
<td>..</td>
<td>..</td>
<td>1</td>
<td>..</td>
<td>..</td>
<td>4</td>
</tr>
<tr>
<td>Chemical products</td>
<td>2</td>
<td>..</td>
<td>..</td>
<td>1</td>
<td>..</td>
<td>..</td>
<td>3</td>
</tr>
<tr>
<td>Financial services</td>
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<td>..</td>
<td>..</td>
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<td>2</td>
</tr>
<tr>
<td>Others**</td>
<td>3</td>
<td>..</td>
<td>2</td>
<td>1</td>
<td>1</td>
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<td>8</td>
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<tr>
<td>Total</td>
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<td>10</td>
<td>7</td>
<td>4</td>
<td>6</td>
<td>7</td>
<td>68</td>
</tr>
</tbody>
</table>

Source: Authors' database
* Campania, Liguria, Marche, Tuscany and Basilicata
** Bicycles, Jewellery, Toys, Plastics, Food and Tobacco, and a diversified group

The second most important region of Italy for attracting Chinese FDI is Piedmont. Owing to its traditional manufacturing specialization in the automotive sector, most Chinese investments are in this industry. Investments in other regions are based on different sectors of specialization.

For 22 companies, data on revenues and assets are available from the AIDA database and confirm the small size of Chinese companies in Italy.
such as household appliances, more precisely white goods in Veneto, machinery in Emilia Romagna and logistics in Campania and Liguria.

We can obtain some interesting insights from the disaggregation of investments by main activity (Table 4). Whereas in the past the prevailing activity was establishment of sales and marketing offices, there has been a recent increase in activities such as manufacturing and R&D. This is in line with what has happened in other European countries (Hay et al., 2009). And information from key informants shows that traditional trade-related investments are evolving towards more advanced services, such as the search for new markets and the acquisition of new brands.

Table 4: Chinese FDI in Italy, by activity*

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</tr>
</thead>
<tbody>
<tr>
<td>Sales and Marketing</td>
<td>5</td>
<td>4</td>
<td>11</td>
<td>2</td>
<td>2</td>
<td>4</td>
<td>2</td>
<td>3</td>
<td>5</td>
<td>38</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>..</td>
<td>..</td>
<td>8</td>
<td>2</td>
<td>1</td>
<td>3</td>
<td>1</td>
<td>2</td>
<td>..</td>
<td>17</td>
</tr>
<tr>
<td>Headquarters</td>
<td>..</td>
<td>1</td>
<td>1</td>
<td>..</td>
<td>1</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>3</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>1</td>
<td>3</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>4</td>
</tr>
<tr>
<td>Logistics and Distribution</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>..</td>
<td>1</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td>6</td>
<td>6</td>
<td>21</td>
<td>4</td>
<td>6</td>
<td>10</td>
<td>3</td>
<td>5</td>
<td>7</td>
<td>68</td>
</tr>
</tbody>
</table>

Source: Authors’ database
*Classification based on Sturgeon (2008)

Chinese investment in Italy has experienced a gradual evolution in entry mode. The first wave of investments in representative offices was characterized mainly by small-scale greenfield investments; this has developed to larger greenfield investments directed to activities such as R&D and marketing. Since 2000 there has been an increase in M&A activity including the acquisition of the motorcycle manufacturers Benelli by Quianjiang, acquisition of Meneghetti and Elba by Haier, and the takeover of Cifa (specialized in the production of machinery for the building sector) by Zoomlion, which so far is the largest acquisition in Italy and the second largest in Europe (Table 5).

On the basis of the empirical evidence collected, Chinese FDI in Italy present some interesting characteristics in terms of sector specialization, location and recent evolution with regard to activities undertaken and mode of entry. In the next section, we investigate the main motivations behind Chinese investments in Italy, exploiting original empirical evidence collected in in-depth interviews with selected companies.
**Table 5: Main M&A operations by Chinese firms in Italy**

<table>
<thead>
<tr>
<th>Year</th>
<th>Target</th>
<th>Acquirer</th>
<th>Sector</th>
<th>Size (employees)</th>
<th>Stake (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>Meneghetti</td>
<td>Haier</td>
<td>White goods</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>2004</td>
<td>Wilson</td>
<td>Wenzhou Hazan</td>
<td>Textiles</td>
<td>n.a.</td>
<td>90</td>
</tr>
<tr>
<td>2005</td>
<td>Benelli</td>
<td>Quianjiang</td>
<td>Automotive</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>2006</td>
<td>Elios</td>
<td>Feidiao Electrics</td>
<td>White goods</td>
<td>54</td>
<td>n.a.</td>
</tr>
<tr>
<td>2007</td>
<td>HPM Europe Spa</td>
<td>Hunan Sunward Intelligent Machinery</td>
<td>Machinery</td>
<td>6</td>
<td>51</td>
</tr>
<tr>
<td>2007</td>
<td>Omas srl</td>
<td>Xinyu Hengdelli Holdings</td>
<td>Luxury goods</td>
<td>48</td>
<td>90</td>
</tr>
<tr>
<td>2008</td>
<td>Cifa</td>
<td>Changsha Zoomlion</td>
<td>Machinery</td>
<td>70</td>
<td>60</td>
</tr>
<tr>
<td>2009</td>
<td>Elba</td>
<td>Haier</td>
<td>White goods</td>
<td>150</td>
<td>20</td>
</tr>
</tbody>
</table>

*Source: Authors' database*

**Why are Chinese companies investing in Italy?**

Chinese investments in Europe reflect a sustained effort to enter competitive European markets and get access to superior technologies, know-how and competence (Filippov and Saebi, 2008; Hay et al., 2009; Nicolas, 2009). Our research on Italy confirms that the main motivations for Chinese investments in the country are the search for new markets and other trade-related activities (market-seeking), and the search for strategic assets.

*Market-seeking investments*

With regard to market-seeking investments, since Italy is the seventh largest economy in the world, it represents an important market for foreign investors. For instance, in a sector such as telecommunications, Italy boasts one of the highest rates of mobile penetration in Europe. Huawei has established three subsidiaries in Italy: in Rome, Milan and Turin, where a centre for product design, development and testing has recently been established. The size and potential of the market has been highlighted as the most important factor affecting Huawei’s decision to invest in Italy.

Beyond the size of the market, Chinese companies consider Italian consumers to be demanding and particularly sophisticated. Therefore, in sectors such as home appliances the Italian market is seen as a test market for products adapted to European tastes. The location in Italy is strategic in terms of taste and feedback on products.

The predominance of market-seeking investments is confirmed by Table 4, which shows that 38 projects are in market-related activities, such as trade-supporting services or marketing offices. Some of these investments have been established to serve customers better and to strengthen loyalty, in other
words ‘following trade’. This is the case for the state owned trading company, Temax, which opened an import-export office in Milan in 1991.

The ‘trade-following’ category includes more recent investments such as the opening in 2008 of a sales office in Milan by Suntech Power Holdings, the world’s largest photovoltaic module manufacturer. One year after entering the European market by establishing a headquarters in the UK, Suntech invested in Italy. It was motivated by the large growth potential offered by the Italian market, sustained by the economic incentives provided by government. Similarly, Hisense, a large company producing home appliances, invested in Italy to strengthen the company’s position in Europe, improve product image and promote the brand.

Some important investments in the logistic sectors are also aimed at supporting trade. With the rise in Chinese exports, the main logistic companies have begun to invest in Europe, initially searching for joint ventures and strategic alliances with local enterprises, while establishing representative offices through greenfield investments. Having acquired new capabilities and market power, Chinese companies are keen to strengthen their positions by acquiring European companies and investing in new infrastructure projects (Hay et al., 2009). This pattern applies to Chinese investments in the Italian logistics sector: COSCO (China Ocean Shipping Group) and China Shipping Company, both of which are in the top ten world shipping companies, have invested heavily in Italy.

*Haier’s and China’s interest in Italian industrial districts*

The case of Haier in the white goods sector is of particular interest because of its multiple investments in Italy, driven by market-seeking and strategic asset-seeking motivations. Haier is the world’s second largest producer after Whirlpool, and first entered the Western market as an own equipment manufacture (OEM) exporter; in 2000 Haier Europe was established in Varese to coordinate the sales and marketing of Haier products across 13 European countries (Duysters et al., 2009). In 2003, Haier made its first acquisition in Europe buying Meneghetti, a refrigerator producer in Padua and in 2009 it acquired Elba, which produces cooking appliances in Veneto. These acquisitions were motivated on the one hand by the need to overcome EU tariff barriers and on the other by the requirement to improve the capacity to design, develop and manufacture products suitable for the European market, and for the high end of the Chinese import market (Liu and Li, 2002). The intention to acquire knowledge and managerial capacity was behind the decision to locate its headquarters in Varese, given the area’s strong tradition
in white goods manufacture. Varese is home to important companies such as Philips and Whirlpool, and many other firms specialized in components and intermediary phases. The agglomeration of many specialized firms generates positive externalities, arising from the presence of a pool of specialized workers and suppliers and by specialized knowledge on markets and technologies. These agglomeration advantages attracted Haier and influenced its decision to establish its European headquarters there. This is confirmed by Bonaglia et al. (2007), according to whom one of the lessons emerging from leading white goods manufacturers is that success depends as much on firms’ internal resources as it does on the collective efficiency of the clusters in which they operate and are embedded. In fact the choice of an off-shore location is driven both by demand and cost considerations, and by the presence of suppliers of specialized components.

Huawei followed a similar pattern to Haier, although Italy is less central in its European strategy. Having started out as a distributor for global MNEs in the Chinese market, Huawei based its globalization strategy first on neighbouring countries before entry into Russia and Africa. It extension to more sophisticated markets is designed to raise its international profile (Simmons, 2008). Since 2000, the company has set up several high value-added activities including R&D, training and design, in several European countries including Sweden, the Netherlands, France and Germany, and has established its regional headquarters in the UK. In Italy, Huawei has invested for market-seeking reasons, to raise its profile and strengthen its brand, and also with the aim of conducting research and product development activities in its recently established research centre in Turin.

**Chinese FDI in the automotive sector and the search for design and technological competences**

China is investing intensively in the automotive industry, in which Italy has a long tradition. Thanks to rapidly increasing internal demand and to technology transferred from the world’s leading manufacturers, producing in China and subcontracting parts and components to domestic suppliers, the Chinese automotive sector has grown very rapidly although it has still to achieve full technological maturity (Amighini, 2008). Chinese automobile manufacturers have begun to produce vehicles under their own brands, strengthening their capabilities through specialization in niche markets where they do not feel threatened by competitive pressure from large Western players (Altenburg et al., 2008). Some Chinese car makers have also started to invest overseas by acquiring control in established companies (Noble, 2006). An example is the acquisition of MG Rover by Nanjing, and there are other examples of...
acquisitions in the European market, especially in the UK (Burghart and Rossi, 2009).

Italy has been targeted by Chinese companies in their search for advanced technologies and other key competences. The area of Turin, where there is a specialized automotive cluster concentrating all different phases of the production process from design to production, has attracted the attention of two important Chinese companies: Jac Anhui Janghuai and Changan. In 2004 and 2005, the two companies established R&D and design centres in Turin, where Chinese researchers are working together with their Italian counterparts in close collaboration with other local specialized firms and local research institutions. In both cases, the aim is to improve technical know-how, with a particular emphasis on design skills. Both companies are ‘newcomers’ to the global automotive market and see investment in Italy as a rapid and efficient way to improve their capabilities in design and product development. Compared to other possible locations such as Germany or the UK, the Turin cluster offers the advantages of excellent design skills and a pool of specialized suppliers for outsourcing a wide range of activities including engineering, modelling, prototyping and mathematical analysis and calculation.

Among the motivations for investing in Italy, the companies interviewed stressed the need to escape the rising competitive pressure in the Chinese market, which has become overcrowded, given the presence of numerous global players. Chinese car makers share 25 per cent of their home market, and have started looking abroad – first exporting, then producing in developing countries (e.g. in Latin America and East Asia) and, more recently trying to acquire new strategic assets by investing in more sophisticated markets. This, however, does not mean that they plan to produce for the European market in the short run, but rather that they are looking for new competences to catch up with the global players or pursue specialization in niche markets.

*Brand-seeking FDI*

Other relevant strategic asset-seeking investments are those aimed at the acquisition of well-known brands. This is a strategy followed by many emerging country MNEs, given the unfamiliarity of their home brands in foreign countries (Makino et al., 2002). Because of their specialization in the lowest value-added activities in global value chains, ‘becoming original design manufacturers (ODMs) and further progressing into original brand manufacturers (OBMs), either through the firm’s own efforts or through brand
acquisitions from incumbents, is … the most difficult phase for any latecomer or newcomer MNE’ (Bonaglia et al., 2007: 8). The best known example of this strategy is the acquisition of the personal computer division of IBM by Lenovo in 2004. In Italy, some investments have been aimed at acquiring recognized brands. In 2005, the Quianjiang Group, China’s largest scooter manufacturer, acquired Benelli, an established motorcycle producer which, at the time of the acquisition, was in serious financial trouble. Besides the willingness to acquire a historic brand, the deal aimed at the acquisition of Benelli’s manufacturing and R&D facilities, and made Quianjiang’s European the R&D centre for the production of high-quality production.

Similar activities have occurred in other sectors such as the footwear industry. Wilson was acquired by Wenzhou Hazan, one of the main footwear producers in China, which has maintained design and production in Italy to produce shoes for export to the Chinese market. Other examples are Elios, an Italian company producing electrical items such as lamp holders, which was acquired in 2006 by Feidiao; and Omas, a producer of luxury pens since 1925 in Bologna, and acquired in 2007 by the Xinyu Hengdeli Group, a trading company linked to the international LVMH group and selling luxury goods in the Asian market.

The recent internationalization of medium-sized Chinese companies

Brand acquisitions are evidence of an increasing interest by Chinese companies in Italian SMEs. The average small size of Italian companies has been seen as a constraint on attracting the interest of large Chinese companies, which so far have been the leading actors in the international expansion of Chinese firms. According to some of our Chinese informants, this trend is changing because medium-sized Chinese companies that are more keen to invest in small enterprises are now entering the international market. These small acquisitions will be facilitated in the future by the recent changes to Chinese regulation of FDI, aimed at extending the facilitation of the ‘Go Global’ policy beyond large companies.

According to some of our key informants, one area of competence that Chinese medium-sized companies are seeking abroad is managerial experience. Most Chinese companies are run by managers with no international experience, who sometimes find it hard to deal with Western management models. An example here is the Hengdian Group (HG), a family-owned business established in 1975 in the Zhejiang region, which has opened its first European subsidiary in Milan. According to the managing director, although HG ranks third among private enterprises in China with a
very diversified business in industries such as electronics, pharmaceutical, film and entertainment, it is still a very local firm with little experience of even the Chinese market beyond its region, and no international experience. The reason for opening a European branch is to gradually learn the marketing skills required to export, and to identify potential new areas for investment, particularly related to post sales assistance and customer care. The Italian managing director, who has established a personal, long-term, relationship with the son of the founder of HG, is playing a key role in transferring Western management culture to the Chinese managers in the group, who lack international experience.

The analysis of Chinese investments in Italy confirms the relevance of market- and strategic asset-seeking motivations. What is attracting Chinese companies to Italy is a combination of factors: the size and the sophistication of the domestic market as well as the skills in design, product development, technology, marketing and management in sectors of Italy’s traditional specialization and in areas where China is investing to upgrade in the value chain.

5 Conclusions

Chinese FDI in Italy is a recent and limited phenomenon, but shows some interesting features. It is expected to increase in the immediate future. As the empirical evidence in this paper has shown, the evolution of the Chinese pattern of entry in Italy is generally in line with the model followed by Chinese firms in other European countries: starting from small-scale operations in trade-related activities, they are evolving towards the acquisition of tangible and intangible resources that are deemed necessary to improve China’s presence in international markets and to upgrade its technological and production capacities.

In addition, however, Chinese investments in Italy appear to reflect a reverse ‘Marco Polo’ effect. Chinese companies are increasingly targeting the acquisition of technological capabilities and of design skills and brands to tap local competences available in specialized manufacturing clusters in sectors such as automotive and home appliances. The main industries of specialization of Chinese FDI in Italy reflect this approach and appear to be related to China’s strategy of increasing the sophistication of its exports and moving away from standardized commodities and intermediate manufactures and components. Italy is considered a key market for investment because of its size and, especially, sophisticated demand. Gaining knowledge about how
to satisfy very demanding customers in terms of design, style, branding, marketing and post-sales assistance is what Chinese companies are keen to learn from their activities in Italy and, particularly, in Italian industrial districts known globally for their production and design excellence.

Notwithstanding some difficulties related to ‘doing business’ in Italy faced by Chinese FDI, there are some very successful examples, such as the cases of the specialized automotive cluster in Turin and the home appliances district in Varese, where Chinese companies have established R&D and design centres and headquarters to improve their technical know-how, especially in design skills, and to benefit from the pool of specialized suppliers to outsource a wide range of activities ranging from engineering to modelling and prototyping.

To conclude, it appears from our analysis that the peculiarities of the Italian model of specialization, in terms of both sectors and size of firms, may be important attractors for Chinese investments and represent a new true ‘Marco Polo’ effect. The most important question behind this rise in Chinese FDI is whether foreign acquisitions should be considered a threat to the domestic economy or an opportunity. This paper does not directly address this issue, but suggests that Chinese companies’ overseas operations may offer some advantages in so far as they induce domestic firms to focus on their competitive advantages, and complement rather than replace the latter’s activities. Moreover, FDI by Chinese companies are providing their Italian and European partners with fresh capital, solid and wide sale networks and direct access to the huge and rapidly expanding Asian market. These are all interesting potential advantages.
References


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