Chinese FDI in Italy[*]

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1. Introduction

Beginning with the Open-door policy in 1978, China started to invest abroad with a intensification from the 1990s, following the liberalization policies launched by Deng Xiaoping (Voss *et al.*, 2008). Nevertheless, the evident upsurge of Chinese investments has begun only very recently in 2001, spurred by the "*Go Global*" strategy. In a few years, China has come out as one of the leading sources of foreign direct investments (FDI) among emerging countries (UNCTAD, 2006) and, notwithstanding their total stock is only USD 75 billion in 2006, representing less than 1 per cent of the world total (MOFCOM, 2007)[1], due to their recent very rapid growth (Figure 1) Chinese outward FDIs (OFDI) have attracted a lot of attention in the media.

As regards their geographical distribution, Chinese OFDIs are concentrated in Asia (mainly in Honk Kong) where goes 65 % of total foreign investments and in Latin America (26 %), largely in fiscal paradises such as Cayman and Virgin Islands. Europe and North America are falling behind with respectively 3 and 2 % of total Chinese OFDIs.

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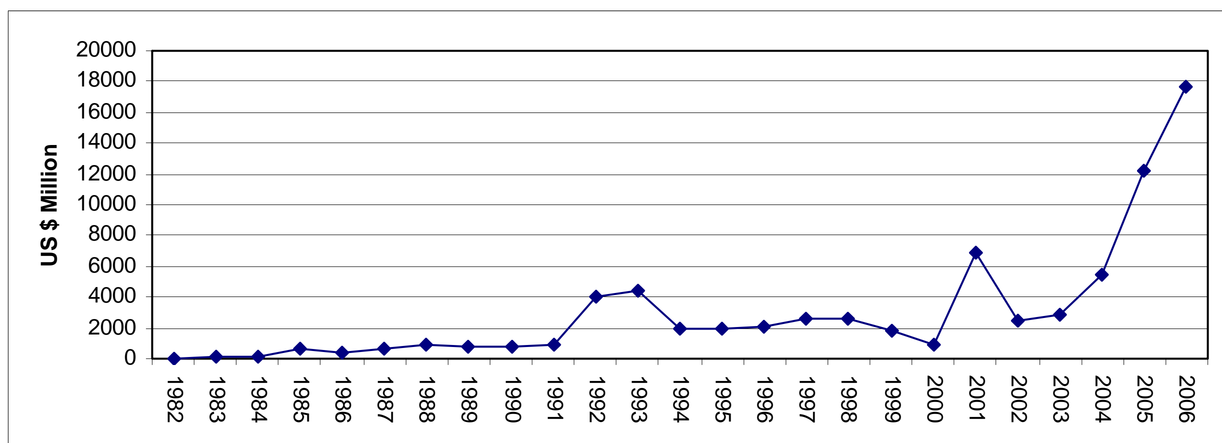
[1] Official data on Chinese OFDI published by MOFCOM underestimate the real value of investments because they do not include the financial sector and they are based on the value arising from the approval procedures rather than on the effective value of the bid (thus excluding not approved investments and private transactions not formally recorded). In addition, these data do not account for most of the M&A operations since these are often financed through foreign banks and, thus, they are not recorded in the Chinese balance of payments. Notwithstanding all these limitations, data from MOFCOM represent the most updated source on Chinese OFDIs, with a disaggregation per countries of destination and per sector.

But even though in quantitative terms the presence of Chinese companies in the industrialized world is still negligible, the phenomenon is magnetizing a lot of interest. In particular some noteworthy acquisitions (e.g. IBM by Lenovo, Rover by Nanjing) have generated mixed sentiments towards Chinese investments in industrialized countries: on the one hand they are considered important financial sources to attract but on the other hand there is a fear about their possible impact on employment, on wages, on working conditions as well as on the transfer of key technological capabilities.

Figure 1 Chinese (non-financial) OFDI: 1982-2006



Source: UNCTAD FDI Statistics and China Statistical Yearbook (2007)

To address these contrasting feelings, a better understanding and knowledge of the strategies of Chinese companies entering overseas markets is needed and to tell the truth this is indeed becoming a popular issue in international studies, with a focus on the determinants and on the motivations of the Chinese OFDIs. Nevertheless, the empirical evidence available on European countries is still quite limited and the aim of this paper is of contributing to fill this knowledge gap addressing these issues with a focus on Italy in comparison with other main destinations in Europe.

The paper is organized as follows. Section 2 introduces the discussion going on in the literature about multinationals from emerging countries and Section 3 presents a review of the literature on Chinese OFDIs. The following sections 4 and 5 focus on Chinese OFDIs in a few European countries and on the Italian evidence. Section 6 concludes.

2. The literature on multinationals from emerging countries

The recent increase in foreign direct investments from less developed countries has generated a lively theoretical debate on the opportunity of analyzing the internazionalization of emerging multinational enterprises (MNE) in terms of the

mainstream theory derived largely from western multinational corporations or on the necessity to develop a new framework (Goldstein, 2007; Aulakh, 2007).

The mainstream perspective in international business assumes that firms internationalize on the basis of competitive advantages allowing them to secure enough return to cover the additional costs and risks associated with operating abroad (Hymer, 1976). The eclectic paradigm developed by Dunning (1981a; 2001) draws together elements of previous theories to identify ownership, location and internalization (OLI) advantages that motivate internationalization. Ownership advantages are firm-specific factors such as superior proprietary resources or managerial capabilities that can be applied competitively in a foreign country. Location advantages account for decisions to invest in foreign countries that offer specific resources, such as natural resources, low cost labor, large dynamic market. Internalization advantages accrue to firms that can reduce transaction costs by investing abroad, instead of exploiting them through market transactions.

This perspective has derived primarily from research on large western multinationals, which can be presumed to enjoy considerable domestic strengths before they internationalize. The predominant assumption in the mainstream theory has been that internationalization is motivated by a firm’s wish to exploit its existing ownership advantages (Dunning, 1993).

Compared to the mainstream perspective, the possibility that some firms develop international links in order to seek assets because they are entering international business to address a relative disadvantage is the centre of attention of a new strand of literature especially focusing on emerging country MNEs. This asset-exploration perspective, already introduced at the beginning of the 1980s in his pioneering work on South multinationals by Lall (1983), is build on the view that latecomer firms from emerging countries may engage in FDIs in order to overcome their competitive disadvantages and, thus, to get access to more advanced assets rather than only exploiting the existing ones. In this way, internazionalization allows firms that are not initially competitive in the world market to close the gap that separates them from leading companies through acquiring appropriate assets and resources (Mathews, 2002).

It is also noteworthy that the mainstream perspective on the internationalization of the firm focuses strongly on the firm as an actor and less on the context in which firms are embedded. In a recent work Dunning *et al.* (2008), while acknowledging that emerging MNEs may lack of firm specific O-advantages, highlight the importance of context and country specific advantages in influencing their internationalization process. Developing and transition economies are typically characterized by an active governmental

involvement in business and this is certainly the case in China (Child and Rodrigues, 2005). Moreover, as stressed by Mathews (2006) the condition of latecomer in the international market may represent an advantage itself in terms of the opportunity to access innovation, leapfrogging technologies through imitation and rapidly catching up leading companies from the industrialized world.

All in all, the ongoing debate on MNEs from emerging countries has so far outlined three central issues to address: the first concerns the way in which the internalization process of emerging MNEs is taking place, the second the motivations behind it and the third one has to do with the existence and the nature of the O-advantages in these new multinationals.

In the group of the emerging countries, China represents one of the most attractive cases to empirically address these issues and in fact a bulk of empirical literature based either on case studies, surveys and econometric analyses is rapidly emerging. In the next section we survey some of these studies to provide a framework of analysis with respect to which afterwards we analyse the empirical evidence available on Chinese MNEs in Italy.

3. Explaining the rise of Chinese OFDIs

Beginning with the studies trying to explain the rise in Chinese OFDIs at the level of the country, there are a few empirical works adopting some revised versions of the Investment Development Path (IDP) hypothesis. The IDP is a theoretical extension of the OLI paradigm predicting that the net outward investment position of a country is related to the level of its economic development (measured as per capita GDP) (Dunning, 1981b and 1986). The basic idea is that L-advantages in host countries develop into O-advantages for them and therefore countries that were initially a host for inward FDI, can begin to increase OFDI, in turn seeking L-advantages elsewhere.

Liu *et al.* (2005) test a revised version of the IDP hypothesis to investigate whether Chinese OFDIs follow the universally standard pattern and sequence proposed by Dunning (1981b). Besides testing the hypothesis that OFDI is positively influenced by a country's stage of development, conventionally measured in terms of GDP per capita, they also include in their empirical exercise three additional hypotheses: 1) OFDIs are positively influenced by the value of local investment in human capital; 2) OFDIs are positively associated with exports and 3) OFDIs are positively associated with inward FDIs. They find that the growth of GDP per capita and human capital development are important factors affecting China's OFDI growth in the short run, therefore concluding that the evidence presented confirms that the growth of Chinese OFDI is largely consistent with the

IDP hypothesis and there is no apparent need to cite China's institutions and unique path to economic reform as having a direct influence on OFDI.

Different results are obtained by Gao (2008), who refines the model by adding two other explanatory variables: human capital mobility (as a proxy for overseas networks) and R&D spending, finding a positive and significant effect of inward FDI, human capital mobility and R&D spending on OFDI, while per capita GDP holds an insignificant sign, implying that Chinese MNEs are investing at an early stage of development. The author concludes that Chinese OFDI have been driven by different factors, such as the search for additional competitive advantages and by the establishment of informal networks abroad, than those predicted by the IDP hypothesis.

Given this contrasting findings at country level, it is useful to move to firm level analyses investigating motivations and competitive advantages of Chinese OFDIs by means of a few econometric studies and several case studies.

With regard to the motivations behind the decision to internationalize, Dunning (1993) has singled out four main categories of motivations which have been applied in several studies investigating Chinese MNEs:

- natural resource seeking: when a firm expands vertically to improve its access to local factor inputs such as gas, oil, etc.;
- market seeking: when a firm expands horizontally into markets to secure a position (defensive market seeking) or invests into new markets (offensive market seeking);
- strategic asset seeking: when a firm invests to acquire new technologies and managerial capabilities by cooperating with local companies or through spillover and imitation. Besides, this category can also include investments aimed at the acquisition of brands and improved access to distribution channels as well as other tacit assets;
- efficiency seeking: when investments are aimed at generating economies of scale and scope and/or to secure access to cheaper input factors, especially labour.

Unctad (2006) identifies market, efficiency and natural resource seeking motivations as the most relevant for OFDI from emerging countries towards less developed destinations and market and strategic-asset seeking as the main reasons attracting them to the developed countries.

Natural resource-seeking investments have been strongly promoted by the Chinese Government since the earlier stages of outward investments and have turned into a key

motivation as the economic growth of the country has become exceptional. Increasingly, resource-rich developing countries in Africa and Latin America have been targeted by Chinese MNEs, given the country’s “hunger” of natural resources (Trinh *et al.*, 2006). As a matter of fact, most of the Chinese OFDIs in Africa come from state owned enterprises (SOEs) searching for unexplored reserves, often tying FDIs with Government’s aid programs (Cai, 1999), especially in politically risky domestic environments (e.g. Sudan, Angola and Zimbabwe). In some cases SOEs, enjoying access to low cost capital and relying on longer term strategies compared to their rivals, identify risky investments in the volatile political conditions of some African countries as an opportunity to gain high rates of return rather than a constrain (Alden and Davies, 2006). Natural resource endowments of host countries, measured either by the ratio of ores and metals on merchandise exports and by oil and gas exports, are identified by Buckley *et al.* (2007 and 2008) among the most significant attractive factors for Chinese OFDI. Similarly analyzing the determinants of the recent Chinese move into Africa, Biggeri and Sanfilippo (2008) find that the possession of natural resources (measured by the oil production capacity) represents a significant pull factor for Chinese OFDIs.

The hypothesis that market seeking investments are common towards less developed countries is confirmed in a number of studies. In two different papers the same group of authors (Buckley *et al.*, 2008; Cross *et al.*, 2008) find that their proxy for market-seeking investments (per capita GDP) holds a negative sign on the full sample and a negative and significant sign on the sub-sample including non-OECD countries. This, according to the authors, reflects a prevalence of such kind of investments towards other developing countries, whereas Chinese MNEs have the opportunity to exploit their competitive advantages given the similar conditions between home and host markets. A similar result is found by Hobdari *et al.* (2007) in their study on 600-odd subsidiaries of Chinese multinationals in which an increase in the level of development reduces the probability of the host country of receiving market seeking FDI.

Nevertheless, the access to market remains one of the main motivations to invest also in the developed countries, as shown in two recent surveys on Chinese investments in the UK (Cross and Voss, 2008; Liu and Tian, 2008). In Liu and Tian’s (2008) survey access to EU markets comes in the first place indicating that Chinese companies tend to seek market share as a major criteria for internationalisation. Interestingly, Cross and Voss (2008) find that in the earlier stages Chinese investments were mainly defensive market-seeking (i.e. FDIs follow trade) as firms set up foreign affiliates in order to serve better their

customers and to strengthen their loyalties while for late entrants (after 2000) the main purpose is to raise their company profile in a large market for which they have identified growth potential for their company (i.e. trade follows FDI).

The other main reason attracting Chinese firms to the developed countries is the access to technology, know-how, managerial and marketing skills and to recognized brands. This is empirically confirmed in both surveys undertaken in the UK; particularly, Cross and Voss (2008) emphasise the need to acquire new and advanced management skills and to tap into existing pools of knowledge as key reasons for internationalisation. Several case studies also provide further empirical evidence on this point, in particular Bonaglia *et al.* (2007) on the white goods sector and Li (2007) on three well known Chinese MNEs: Haier, Lenovo and TCL.

Another recent study by Cui *et al.* (2008) adds some useful empirical evidence analysing the different entry modes of Chinese MNEs according to the different motivations of the investments: the most likely preferred modality is wholly owned subsidiary in strategic-asset seeking investments because it makes easier the relocation and the use of the acquired resources while joint-ventures are preferred to enter rapidly in fast-growing potential markets to establish first- or early-mover advantage. Liu and Tian (2008) suggest that the choice of wholly owned subsidiary is somehow in contrast to what suggested by the mainstream theory that firms should choose minority equity entry modes in more culturally distant countries (Kogut and Singh, 1988). Their survey on the UK shows that sectors matters in determining entry modes: Chinese subsidiaries in banking and trading sectors are wholly owned companies, while affiliates in other sectors have more diversified entry modes, such as joint ventures and acquisitions.

Moving on to analyse the competitive advantages of Chinese MNEs, there is a wide empirical evidence confirming that they differ from those traditionally stressed in the literature on MNCs from developed countries. Rugman and Li (2007) states that most of the Chinese MNEs lack firm specific advantages and instead, they are internationalizing based on China’s country-specific advantages in cheap, unskilled labor, mainly expanding their activities regionally more than globally.

The role of institutions has been advocated by many authors as one of the outstanding source of competitive advantage. This seems especially true in the case of Chinese MNEs, whose formal and informal ties with domestic institutions are definitely relevant in shaping their international ventures, providing different forms of incentives to invest abroad and making thus firms more advantaged relatively to their competitors (Child and

Rodrigues, 2005). The "*Go Global*" strategy has boosted Chinese OFDIs with the adoption of favourable policy measures such as the decentralization of the approval process of investments from the central level to the local level; the easing of the procedures to access foreign exchange and credit by the Central Bank and the removal of the restrictions on the reinvestment of profits gained abroad (Schuller and Turner, 2005; Voss *et al.*, 2008). The fundamental support provided by political and financial institutions, especially to state-owned and state-related enterprises, constitutes one of the main specificity and competitive advantage of Chinese OFDIs, compared to the competitors from the rest of the world. To some extent, Chinese enterprises abroad take advantage from domestic capital market imperfections, providing them with credit at below market rates and soft loans, many of which are now identified as non-performing loans (Buckley *et al.*, 2007). The consequence of this being that Chinese companies, especially SOEs can undertake high risk investments with low cost capital, often without even having to pay back their debts (Yeoung and Liu, 2008).

Results from a survey on 296 Chinese firms conducted in 2005 by the Asia-Pacific Foundation of Canada report that the *Go Global* policy and its related incentives represent the second most relevant driving force of OFDI (Zhang, 2005). Similarly, in an empirical analysis based on a survey on 274 Chinese MNEs, Yiu *et al.* (2007) find that linkages with domestic institutions (measured by the intensity of ties with seven different institutions) have significantly affected the decision to invest abroad. With a focus on the oil industry, Carvalho and Goldstein (2008) outline the crucial role of the Chinese Government in the recent internationalization strategies of the main Chinese oil companies (CNPC, CNOOC and Sinopec), comparing them with Brazilian Petrobas, whose internationalization has been mainly driven by the firm's own capabilities. Conversely, Chinese oil companies have been strongly encouraged by the central Government to internationalize, given the strong political role they play in order to secure energy and natural resources.

Rather different conclusions are reached in a very recent study by Buckely *et al.* (2008), who undertake an econometric test on the determinants of Chinese investments including a number of variables to measure the role played by institutions. Although the *Go Global* policy has a positive and significant effect on Chinese OFDI, most of the other variables included (e.g. number of bilateral investment treaties and of double taxation treaties) do not have a significant effect. The authors conclude that the OFDI regime of China has had only a modest detectable effect on patterns of Chinese OFDI at the aggregate level and

suggest that this somewhat paradoxical conclusion given the high levels of Government engagement calls for further careful empirical investigation on this issue.

A further competitive advantage stressed in the literature derives from the monopolistic or oligopolistic position that many Chinese MNEs hold in their large and fast growing domestic market. In a study based on the cases of Haier, Lenovo and TCL, Li (2007) shows that their position in the domestic market has worked as a springboard to their expansion abroad, initially mainly towards close countries with a similar level of development than China.

Cultural proximity is also estimated as a positive factor in attracting China's FDI to the host economies that speak the Chinese language by Cheng and Ma (2007). On the other hand, the presence of overseas Chinese networks is considered an important facilitating factor when going to culturally distant markets, as shown by Buckley *et al.* (2007 and 2008), who have found that the share of Chinese in the host country population is a significant determinant of Chinese OFDI.

An additional, very important competitive advantage is related with the participation of Chinese enterprises in the global production networks which have generated spillover effects and the rapid building up of the domestic capabilities needed to invest abroad (Poncet, 2007). The possession of production capabilities that allows Chinese MNEs to enter into established global production networks is a key factor to leveraging the resources available from strategic partners while still in the home market. Chinese firms derive their advantages from specialization in the production part of the value chain in sectors such as electronics, automobile components, garments and footwear. Most of them hare specialized in low cost, high quality manufacturing, mostly for sale to retailers or manufacturers (UNCTAD, 2006). This is often linked to previous inward FDI activities in the domestic market.

Strategic partnership in the Chinese market with some of the main MNEs in the white goods sector is identified as a key source of competitive advantage for the subsequent internationalization strategy undertaken by *Haier*. This view emphasizes that *Haier*, as other Chinese companies, thanks to its strategic capacities of entering into more advanced networks of firms and to the possession of an adequate level of absorptive capacity, has been able to "leapfrog" some stages of internationalization (Bonaglia *et al.,* 2007; Li, 2007).

However, Chinese MNEs seem to having a clear view that they may not be able to rely in the long term on the competitive advantage of their production capabilities (Li, 2007). In

consequence, this creates a key motivation for asset-seeking investments aimed at buying brands or acquiring distribution networks as well as building up managerial capabilities in marketing or acquiring technological knowledge (UNCTAD, 2006).

To conclude we should also mention factors pushing Chinese firms abroad. First of all institutional factors can also act as push factors and in the case of China, MNEs sometimes invest abroad to escape from the domestic business environment, burden by the strong state intervention and the inefficiencies of the financial sector pushing firms to reinvest abroad their corporate profits (Child and Rodrigues, 2005; Morck *et al.*, 2008; Yeung and Liu, 2008). Moreover, the competitive pressure from foreign MNEs and the existence of overcapacity in the domestic market generates a “competition effect”, which has pushed domestic firms to invest abroad (UNCTAD, 2003; Chen and Lin, 2006).

As it can be drawn from this section motivations and competitive advantages of Chinese firms investing abroad are issues addressed by a recent growing amount of studies. In the rest of this paper, we provide a preliminary analysis of Chinese OFDIs in Italy within a European perspective, based on a framework deriving from the existing literature available summarised in this section.

4. Chinese OFDIs in Europe

In order to analyse Chinese OFDIs in Italy we need to set them in a European perspective. Chinese OFDIs going to Europe represent only 3 percent of the total OFDI stock in 2006. According to MOFCOM (2007), the stock of Chinese FDIs accumulated by Europe (including Russia) at the end of 2006 amounted to US$ 2.270 billion, while excluding Russia the stock is US$ 1.274 billion. Nevertheless, the analysis of flows shows a rapid acceleration of Chinese OFDIs for all the main recipients over the most recent years. Taking into consideration the desegregation by countries, the first five recipient countries, excluding Russia, are: Germany, the United Kingdom, Spain, Poland and Italy, accounting for more than 70 percent of the total (Table 1).

To go beyond the preliminary picture that arises from aggregated data and in order to analyze in more depth the main characteristics of the Chinese inroad in Europe, it is useful to undertake an analysis on disaggregated data at the firm level. Thus, in the rest of this section we provide an overview of the main features of Chinese FDIs in Europe on the basis of data from different sources: secondary data available in country investment reports as well as in business press and two available datasets. The datasets are:

- Ernst & Young European Investment Monitor (EIM) providing information on inward FDI projects' announcements in Europe since 1997;[2]
- Zephyr (Bureau van Dijk) containing information on mergers and acquisitions (M&A), joint ventures and private equity deals.[3]

Table 1 - The top 10 recipient countries of Chinese OFDIs in Europe (excluding Russia) (mln US$)

	2003	2004	2005	2006	Stock 2006	% on Europe
Germany	25.06	27.50	128.74	76.72	472.03	35.22
U.K.	2.11	29.39	24.78	35.12	201.87	15.10
Spain	n.a.	1.70	1.47	7.30	136.72	10.20
Poland	1.55	0.10	0.13	n.a.	87.18	6.50
Italy	0.29	3.10	7.46	7.63	74.41	5.50
Romania	0.61	2.68	2.87	9.63	65.63	4.90
France	0.45	10.31	6.09	5.60	44.88	3.30
Europe	114.41	79.90	189.54	128.73	1340.06	--
World	2854.65	5497.99	12261.17	17633.97	75025.55	--

Source: MOFCOM, 2007

The EIM contains 257 records on Chinese FDI in European countries (including Russia) up to the end of 2007. Taken together, the United Kingdom, Germany, France and Italy represent 67 percent of the total (Figure 2). Among the other countries, there are Belgium and Sweden (15 investments each), followed by the Netherlands and Hungary (10), Russia (8), Spain and other ten countries.[4]

A sectoral decomposition of Chinese FDI projects in Europe shows that there is a prevalence of investments in the manufacturing industry (194), followed by finance and banking (24), wholesale and retail services and transports (Figure 3). In the manufacturing industry, the four main sectors account for about 54 percent of the total, being electronics, textiles, automotive (assembly and components), machinery and equipment (Table 2).

With regard to the activities undertaken by Chinese firms in Europe, there is a prevalence of sales and marketing, pointing to a dominance of a market-seeking motivation (Table 3). Among the other activities undertaken, manufacturing (i.e. establishing new factories,

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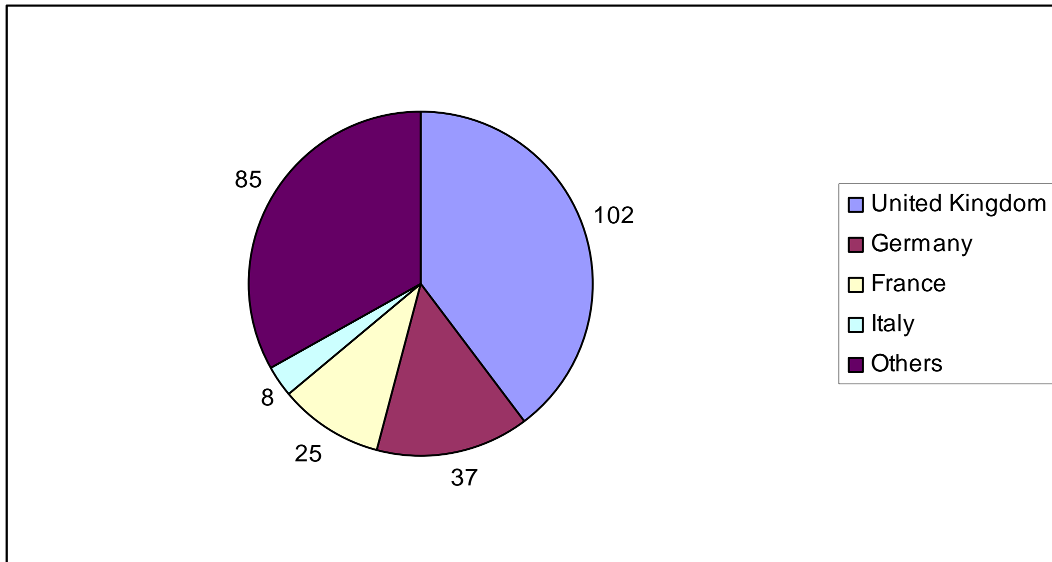
[2] For a the methodology of data collection see http://www.eyeim.com/methodology.htm

[3] The operations recorded in Zephyr underestimate the real number of deals since the collection is not systematic and it is still in progress. Moreover, the database also includes records which are based on announcements and are not necessarily finalised.

[4] These countries are: Denmark and Poland (4); Czech Republic and Romania (3); Bulgaria and Greece (2); Bosnia and Herzegovina, Slovakia, Switzerland, Ukraine with 1 investment each.

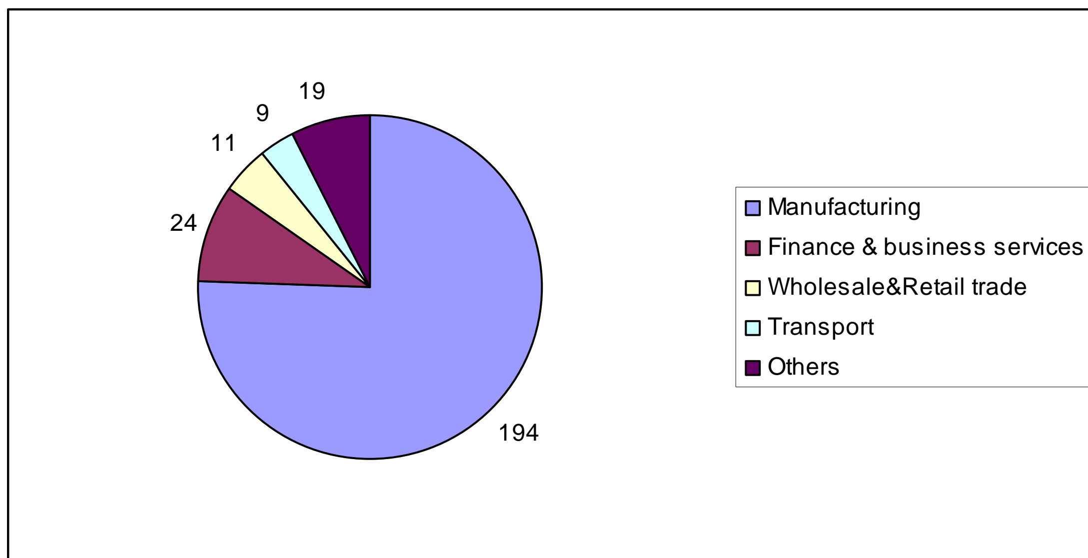
plants for producing or assembling products) holds a relevant role followed by the establishment of headquarters (mainly in the UK) and of R&D centres. Finally, taking into account the impact of Chinese FDIs on employment, Table 4 shows that in general their contribution is limited and there is a prevalence of small scale investments.

Figure 2 - Chinese FDIs in Europe: the main recipient countries (n° of projects)



Source: Ernst & Young European Investment Monitor

Figure 3 - Distribution of Chinese FDI in Europe by industry(n° of projects)



Source: Ernst & Young European Investment Monitor

Table 2 - Distribution of investments in the manufacturing industry (n° of projects)

Sectors	N.° of investments
Electronics	55
Textiles	17
Automotive	17
Machinery and Equipment	15
Food	9
Pharmaceutical	8
Others	55
Total	**194**

Source: Ernst & Young European Investment Monitor

Table 3 - Distribution of Chinese investments for activities in the host country

Activity	N° of Investments
Sales & Marketing	126
Manufacturing	51
Headquarters	34
Research & Development	23
Logistics	14
Testing & Servicing	5
Shared Services Centre	2
Education and Training	2

Source: Ernst & Young European Investment Monitor

Table 4 - Chinese FDI in Europe: number of employees

N° of employees	N° of investments	%
1 to 19	120	46.7
20 to 49	32	12.4
50 to 99	18	7.0
100 to 199	11	4.3
200 to 349	9	3.5
350 to 499	1	0.4
500 to 999	3	1.2
>1000	1	0.4
Not available	62	24.1
Total	257	100.0

Source: Ernst & Young European Investment Monitor

Taking a closer look at three major destinations of Chinese OFDIs, in the rest of this section we focus on Germany, the UK and France, which give an interesting comparative perspective useful to the following analysis on the Italian case.

According to data provided by Invest in Germany (2007), there are about 600 Chinese enterprises in Germany, most of which are concentrated in the city of Hamburg, which is one of the main gateway in Europe for Chinese companies. Based on the EIM dataset, sales and marketing are the main activities (28 investments), followed by the establishment of production sites (5), mainly concentrated in machinery, electronics and mineral products, with an average size of 50 employees per plant.

The UK is a major destination of Chinese investments, attracted by the efficient business regulation and trade openness as well as by the strategic potential as logistic platform for the rest of Europe (China Business Solution, 2008). London is the most attractive destination for Chinese investors in Europe, particularly in finance and business services (Glaeconomics, 2004). With regards to the UK, EIM reports 102 investments, 65 in the manufacturing industry, 13 in finance and business services, 11 in transports and communications and 6 in retail and wholesale services.[5] Within the manufacturing industry, electronics (17), textile (12) and automotive (6) are the most relevant sectors. The prevalent activity undertaken by Chinese companies in the UK is represented by sales and marketing offices (58 investments), followed by the establishment of headquarters (21) and of production plants (9), generally operating at a very small scale, with the exception of the recent re-allocation of the assembly line of MG Rover by Nanjing with 400 employees.

Although it does not appear as a primary destination in terms of the total stock of Chinese OFDIs, France is an interesting case since it has attracted investments in some strategic sectors such as chemicals, aerospace and telecommunications. According to Invest in France (2007), Chinese companies are leading sources of employment in the country, especially in the last two years (with, respectively, 1,572 and 1,479 jobs created in 2006 and 2007). Moreover, some of the most interesting operations of M&A by Chinese MNEs have interested French firms. In the case of Chinese FDI directed to France, according to the EIM data, manufacturing is the leading sector, counting for 19 investments, followed by transport & communications (3). In the manufacturing industry, electronics is the prevailing sector with 8 investments, among which *Hisense* that, in 2005, has opened a new plant with 200 employees for assembling television sets. With regards to the activities performed

[5] The remaining are in software (4) and one for each in energy, health and education services.

by Chinese firms in France, the establishment of production facilities (9) is slightly prevailing over sales & marketing (7) and the establishment of headquarters (5). Production investments are characterized by a larger scale compared to the other two countries under analysis, since the average size is 85 employees. More recently, investments in the banking sector have gone to France with the establishment of the headquarters of the *Exim Bank* in Paris.

With regard to the activities of M&A, a common feature for the three countries under examination is that the most of the Chinese overtakes have been directed towards firms in financial troubles. In the UK, between 2004 and 2005, two important operations have been concluded in the automotive sector. The financial troubles experienced by the auto-maker *MG Rover* has allowed two of the main Chinese firms in the sector to conclude two important operations: in 2004 the *Shangai Automobile Industry Corp*. (SAIC) has acquired two *MG Rover* blueprints for $ 67.5 million, while in 2005 *Nanjing Automobile* has acquired the *MG Rover*, winning the concurrence of the same SAIC and becoming the first Chinese automaker in Europe.

Also in the case of Germany, at least up to 2005, Chinese deals have focussed mainly on small scale acquisitions of financially troubled companies (Schuller and Turner, 2005). Conversely, during the most recent years, the strategy of Chinese firms has begun to acquire more profitable firms with growth potential. This, according to Invest in Germany (2007) is most likely to happen in the automotive and the machinery sector.
Taking a look at some specific operations, it is of some relevance the 2002 acquisition of the financially troubled *Schneider Corporation* by *TCL* – the main Chinese manufacturer of televisions and other electric products - which gave *TCL* the opportunity to overcome trade barriers and create a gateway to the European market before expanding its operation in France (Wu, 2005). This operation has been followed in 2004 by the acquisition of a majority stake in the French producer of TV-sets - *Thomson Electronics*, also experiencing financial troubles. Thanks to these acquisitions, *TCL* has become the main producer of televisions and DVD players worldwide. In the same year, *TCL* has also created a joint venture with Alcatel, one of the main producers in the telecommunication industry. Nonetheless, both these operations have been characterized by a low performance. According to Wu (2005) this has been due to problems related to both the strategic and the cultural approach of the Chinese MNE to a new market, explained by a general lack of international experience.

France has also been targeted by some other relevant M&A operations. The dataset Zephyr reports 15 records in the period 2002-2008. In 2006 *China National BlueStar Corporation*, a subsidiary of the state-owned *ChemChina*, has acquired the chemical firms *Rhodia* and *Adisseo*, the world second largest producer of nutritional additives and vitamins for animal feeds. The aim of these operations is acquiring new capabilities in the production process as well as having access to more advanced technologies. This has been realized keeping the production plants in France and building twin plants in China. The same *Blue Star*, in 2007, has acquired *Fibres Worldwide* (then renamed *BlueStar Fibres*), a British company specialized in the production of carbon fibres. The aim of this last operation, besides the acquisition of capabilities and technology, has also been to satisfy the increasing Chinese demand of carbon fibres, which now amounts to about one quarter of the world production (Hay *et al.*, 2008).

Finally, always in France, in the first months of 2008 the *Latour-Laguens International Wine Company*, a branch of one of the Chinese largest trading company (*Longhai International Trading Company* based in Quingdao) has acquired a wine-producing *chateau* in the Bordeaux region, with the aim to obtain knowledge and techniques of wine making in one of the most relevant wine-producing regions worldwide. This shows that Chinese investments are also directed towards sectors where China holds little or no tradition and competences, but where it expects a boom in the home market over the next few years.

5. The case of Italy

To date, there are several sources on Chinese firms active in Italy but none of them is complete and fully updated. To undertake an in-depth analysis on Chinese FDI in Italy, the first task is therefore to combine various statistical sources together with the available secondary information. The main source is the ICE-Reprint database, including FDIs to Italy and providing information on the type of investment, employment and turnover. In 2007, this dataset includes 29 Chinese investments; among these, 11 are M&A operations and the remaining ones are greenfield investments. Other useful information comes from the report "*Italia Multinazionale*", which contains data from the LOCO Monitor dataset on greenfield investments for the period 2002-2006 (Mariotti and Mutinelli, 2006); with regard to China, the report records 11 investments. Besides, we have combined the information available in previous studies on the topic (AT Kerney, 2008; Bellabona and Spigarelli, 2007; Spigarelli, 2008), news reported in the business press (such as *Il Sole 24 Ore*, the

main Italian economic newspaper and the *Financial Times*) and the list of Chinese companies provided by the agency of the Chinese Ministry of Commerce (MOFCOM) in Italy. From these sources, we have identified 56 Chinese firms operating in Italy, counting three ceased investments.

Analysing the temporal allocation of the investments, it is possible to notice that the majority of the Chinese FDIs have taken place from 2000 onwards, showing a recent but rapidly increasing interest on Italy (Table 5). From an historical point of view, a recent report by AT Kearney (2008) distinguishes three main phases of Chinese investments in Italy, showing an entry pattern similar to that experienced by other European countries:

- a first phase, starting from the 1960s of "flagship" investments such as the establishment of the commercial office of *Air China* in Rome in 1986;
- a second phase, from the mid 1980s to the 1990s, characterized by "episodic" investments, among which in 1986 the *Chinese Nanjing Automotive Corporation* opening a representative office in Turin[6] and in 1988 the *Cemate Group* which opened a commercial office to start selling Chinese machinery in Italy;
- a third phase, which started at the end of the 1990s and it is characterized by the entry in Italy of Chinese global players (such as *Haier*, *COSCO*, *Baosteel*) as well as by an increasing number of acquisition operations.

An evolution has also been recorded for what concerns the activities performed by Chinese firms in Italy. In line with what happened in other European countries, Table 5 shows that while in the past the prevailing activity was the establishment of sales and marketing offices, more recently there is a prevalence of activities such as production and R&D. In addition, also the traditional trade-related investments are evolving towards more advanced services, such as the search for new markets and the promotion of new brands.

Table 5 - Distribution of Chinese FDI in Italy per activity*

	1986-1999	2000-2004	2005	2006	2007
Sales and Marketing	8	6	5	1	4
Production	1	7	2	1	4
Headquarters	-	2	-	-	1
R&D	-	1	1	3	-
Total	9	16	8	5	9

[6] This representative office was established in order to manage directly the relationships with Iveco and it has evolved later in a joint venture.

** The table does not included 8 investments in sales and marketing for which the exact date of the investment is not available*

Source: Author's database

Geographically, Chinese investments are strongly concentrated in the northern part of the country. The region of Lombardy with 25 investments, 11 of which located in Milan, is the favourite destination of Chinese firms. Milan hosts the only two Chinese financial institutions in Italy: the *Bank of China*, established in 1998, and, since 2007, the *China Milan Equity Exchange*, a consulting company that works both as an intermediary for Italian firms interested in the privatization process of Chinese companies and as a main partner of Chinese firms in Italy. The second region in attracting Chinese companies is Piedmont, with a prevalence of investments in the automotive sector given the presence of FIAT and its suppliers in Turin. In the rest of the regions, Chinese investments have been attracted according to the different regional sectors of specialization: white goods in Veneto, machinery in Emilia Romagna and logistics in Campania and Liguria (Table 6).

Table 6 - Sectoral and geographical distribution of Chinese FDI in Italy

	Lombardy	Piedmont	Veneto	Emilia	Lazio	Rest of Italy*	N.A.	Total
White goods	5	1	3			1		9
Automotive		6			1	1		8
Logistics	1				1	2		6
Trade services	3	1		1				5
Textiles	3	1					1	5
Electronics	3				1			4
Telecommunications	1	1			1			3
Metal products	2					1		3
Machinery	2			1				2
Chemical products	1			1				2
Financial services	2							2
Others**	2		2	1				5
Total***	25	10	5	4	4	5	1	56

* Campania, Liguria, Marche and Tuscany

** Luxury goods, plastic products, bicycles

Source: Author's database

Over time, Chinese firms investing in Italy have experienced a gradual evolution in their entry mode. The first wave of investments in representative offices has been mainly characterized by small scale greenfield investments; more recently greenfield investments, characterized by higher amounts of capital, have also been directed to activities such as R&D and marketing. Then, from 2000 onwards it has been recorded a relevant surge in

M&As, with some noteworthy operations such as the acquisition of Benelli, Meneghetti, Sergio Tacchini and the recent takeover of *Cifa*, specialised in the production of machinery for the building sector, by *Zoomlion* which is so far the largest acquisition in Italy and the second in Europe, with an estimated disbursement between 300 and 500 $ million (Table 7).

Table 7 - Main M&A operations by Chinese firms in Italy

Year	Target	Acquirer	Sector	Ownerhip share (%)
2001	Meneghetti	Haier	White goods	100
2004	Wilson	Wenzhou Hazan	Textiles	90
2005	Benelli	Quianjiang	Automotive	100
2006	Elios	Feidiao Electrics	White goods	90
2007	Hpm Europe	Hunan Sunward Intellingent Machinery	Machinery	51
2007	Omas	Xinyu Hengdeli Holdingns	Luxory goods	90
2007	Gruppo Tacchini	Hembly	Textiles	100
2008	Cifa	Changsha Zoomlion	Machinery	60

Source: Author's database

5.1. Why Chinese companies are investing in Italy?

Consistently with the literature on OFDIs from emerging multinationals in developed countries (see Section 3 above), the motivations behind Chinese investments in Italy are mainly the search for new markets and other trade-related activities (market-seeking) and the search for strategic assets. On the basis of the available secondary information, in the rest of this section we analyse 'defensive' and 'offensive' market-seeking strategies, characterizing the entry pattern of the Chinese MNEs in the Italian logistic sector, the search for sophisticated assets and new markets in the home applaince sector and finally asset-seeking motivations by Chinese companies in sectors such as the automotive, sport garments and luxury goods.[7]

The logistic sector: from defensive to offensive market-seeking investments

Logistics – and especially maritime transports - holds a crucial role in the Chinese economy, since most part of the traded products is shipped by sea. The emergence of Chinese companies in maritime transports started by the end of the 1980s when Chinese authorities decided to modernize China's harbour infrastructures and the merchant marine (Hay *et al.*, 2008).

[7] In the future, this section of the paper will be enlarged and improved undertaking a direct survey on the main Chinese companies operating in Italy.

The trend has accelerated with the entry of China in the WTO in 2001 and the subsequent rise in foreign trade, with the main Chinese SOEs in the sector beginning to invest in Europe with the aim to gain more relevant positions into the global logistic chain. The entry strategy of Chinese firms in this sector has been quite similar in several European countries. As late entrants, at the end of the 1990s, initially Chinese firms have mainly searched for joint-ventures and strategic alliances with local enterprises at the same time setting up representative offices through greenfield investments. Then more recently, after having acquired new capabilities and market power, Chinese companies have tried to strengthen their positions by acquiring European companies and investing in new infrastructural projects (Hay *et al.*, 2008). Therefore, it is possible to identify a first phase characterised by “defensive” investments, aimed at reinforcing commercial relationships with the host countries, and a more recent phase dominated by “offensive” investments, aimed at the acquisition of new markets and at the search for more advanced capabilities (Cross and Voss, 2008).

This pattern is very well representing the entry of Chinese companies in the Italian logistic sector. Of course, Italy holds a strategic position as the main gateway to the Mediterranean area and has therefore attracted a lot of interest from Chinese firms. *COSCO* (*China Ocean Shipping Group*) and *China Shipping Company*, both among the top ten shipping companies in the world, have invested heavily in the country. *COSCO* has its European headquarters in Hamburg and subsidiaries and joint ventures all over Europe. Since 1995, it has established in Italy a terminal in the port of Naples in joint venture with a local operator. Nowadays, it operates in Italy through two companies: *Coscos*, a joint venture with an Italian company and *Coscon* based in the port of Genoa. *COSCO* has also heavily invested in the harbour of Naples, where it has recently obtained the approval for a project to build a new terminal for containers, after a long delay due to excessive red tape.[8]

China Shipping Company is a state-controlled company which has opened its first Italian agency in 1999 in Genoa[9], where in 2001 it has also established also its headquarter for the Mediterranean region. This office has the responsibility of coordinating the activities of all the maritime agencies and to develop the transport activities in both the Mediterranean and the Black seas.

From what it has been said so far, it can be envisaged a strategy of an increasing involvement of Chinese logistic companies in the Italian harbours, with some initial

[8] COSCO has recently invested in new terminals for containers also in the ports of Antwerp (Belgium) and in Pireo (Greece)

[9] China Shipping holds agencies in other five European countries: Spain, Malta, Turkey, Greece and Romania.

investments also in the building up of new infrastructures. Nevertheless, there also signals of bureaucratic hinder which may represent a deterrent to further investments.

The home appliances sector: market and asset-seeking investments

Another distinctive feature highlighted by the literature on emerging countries MNEs is that these firms, as latecomers in the international markets, have often been able to reduce the timing of their entry in the international markets thanks to the competitive advantages acquired through the participation to global production networks and, once grown, through the strategic acquisitions abroad of new capabilities (Mathews, 2002 and 2006).

Chinese investments in the home appliances sector seem to follow a similar logic. The home appliances sector is a mature industry, characterized by a producer-driven global value chain. In this sector, enterprises from emerging countries have built their production capabilities working initially as subcontractors for developed country MNEs, afterwards, being able to develop their own products and brands (Bonaglia *et al.*, 2007). In the 1980s, Chinese firms (mainly state-owned) entered into the sector producing for firms from developed countries, such as Italy and Germany and then since the mid-1990s, driven by the huge increase in the urban domestic demand, they have become dominant players in the domestic market (Yusuf *et al.,* 2007). This has allowed to the domestic firms to acquire some competitive advantages on the basis of whose they have begun their internationalization strategies.

In the mid 1990s, *Haier* was the first Chinese company in this sector to invest abroad. *Haier* had started in 1984 to produce refrigerators for a German company acquiring production capabilities as a subcontractor and also selling its own products to the same company as a way to enter into the German market (Liu and Li, 2002). As it became increasingly successful in China, Haier set its ultimate objective as joining Global 500 (Liu and Li, 2002). Many factors have led *Haier* to internationalise, including internal and external driving forces. Among the internal factors, there are the needs to acquire the strategic assets necessary to be competitive in the international market as well as the location advantages derived by setting up plants overseas to avoid tariffs and reduce transportation costs. Among the external driving forces, there are push factors such as the saturation and the increasing competition in the Chinese domestic market, where since China joined the WTO, almost all the international competitors have invested, as well as pull factors as the support provided by the Chinese government to an international player as *Haier* (Liu and Li, 2002).

Hailer’s internationalization via OFDI started in 1996 with a joint venture in Indonesia which was followed in short by other operations focussing on traditional products in other

developing countries. In 1999, *Haier* invested 30 million US$ to open an headquarter with design, marketing and manufacturing facilities in the US with the aim of mastering new technologies, utilizing high quality local human resources as well as getting access to the US market (Liu and Li, 2002) (Table 8).

Haier’success in the US market has supported its investments and operations in other countries thanks to the acquisition of technologies, reputation and image. In Italy, the first move by *Haier* has been to establish its European headquarters in Varese in 2000, then followed by the acquisition of a manufacturing plant producing refrigerators (*Meneghetti* in Veneto) to be sold within the European market with a design provided by French and Dutch engineers (Liu and Li, 2002). More recently, *Haier* has opened two local distributors in Veneto.

Table 8 – Haier’s main FDIs

Year	Country	Mode	Product	Activity
1996	Indonesia	JV	Refrigerators	plant
1997	Philippines	JV	A/C; Refrigerators/Freezers/Dish washers	plant
1997	Malaysia	JV	Dish washers	plant
1997	Jugoslavia	JV	A/C	plant
1999	Iran	JV	Refrigerators; Washing machines; Gas cookers	plant
1999	USA	GR/WOS	Refrigerators	plant/distribution/R&D
2000	Vietnam	JV	Refrigerators	plant
2000	Italy	GR/WOS	Home appliances	European HQ
2001	Nigeria	GR/WOS	A/C; Refrigerators: Freezers	plant
2001	Bangladesh	JV	A/C; Refrigerators; washers	plant/distribution
2001	Pakistan	GR/WOS	Dish washers; Refrigeretors	plant/distribution/R&D
2001	Italy	ACQ	Refrigerators	plant/distribution
2002	Tunisia	JV	A/C; Refrigerators; Dish washers	plant
2005	Jordan	GR/WOS	Home appliances	plant/distribution
2007	Japan	JV	Refrigerators	R&D
2007	India	ACQ	Refrigerators	plant
2007	Thailand	ACQ	Refrigerators	plant

*GR=Greenfield; WOS= Wholly Owned Subsidiary; ACQ= Acquisition; JVs= Joint Venture (with a majority stake of Haier, generally on a 60-40 basis)
Source: Liu and Li (2002); Du (2003) and Haier's webpage (http://www.haier.com/index.htm)

The decision to locate the headquarters in Varese is related with the local presence of a strong tradition in the white goods sector. In fact, Varese is a well known white goods industrial district where important companies such as *Philips* and *Whirpool* together with many other firms specialised in components and intermediary phases are located. The agglomeration of many specialised firms generates positive externalities arising from the presence of a pool of specialized workers and suppliers and by the specialised knowledge on markets and technologies. These agglomeration advantages have attracted *Haier* and influenced its decision to establish there its European headquarter.

It may be interesting to emphasise that *Haier* is known for employing mainly local human resources as a major step of its internationalization strategy. On this issue, Liu and Li (2002) make the point that *Haier* firmly believes that its corporate culture has been strong and successful in China but it is necessary to integrate its own corporate culture with local practices and develop a *Haier* corporate culture that is completely acceptable to local employees and customers.

This explains the choice to locate in Varese where there is the opportunity to acquire strategic assets such as technologies and capabilities as well as skilled human capital, needed to be competitive in the advanced markets of the European countries (Li, 2007). All these, together with what was once defined by Marshall as ‘industrial atmosphere’, are available in an area like the Varese one. Moreover, investments in Italy are also crucial from a market point of view since they allow to reduce transport costs and to get access to distribution networks in the European market.

Purely market-seeking are at the moment the two investments, one in Grosseto and the other in Turin, made by *Hisense*, another giant company producing DVD, air conditioner, and refrigerators. In particular, the Turin office is in charge of beginning the penetration into the European market, building a commercial image and promoting the Chinese brand. It is likely that the group will soon open a second European plant, after that located in Hungary, in Turin.

To conclude, the empirical evidence available strongly supports what is stressed by Bonaglia *et al.* (2007) regarding the global white goods sector: “A lesson emerging from leading white goods manufacturers is that success depends on firms’ internal resources as much as it does on the collective efficiency of the cluster in which they operate and are embedded. In fact the choice of off-shoring location is driven not only by demand and cost considerations, but also by the presence of suppliers of specialized components” (9).

The ‘pure’ strategic asset-seeking investments

In sectors whereas China has not yet reached a full maturity, OFDIs are often targeted towards the acquisition of new capabilities, especially in the highest value added activities. This is the case of Chinese investments in the automotive sector, a sector in which Italy holds a long tradition. China is already one of the main producers worldwide, thanks to the rapidly increasing internal demand and to the technology transfer from the main developed country MNEs producing in China and subcontracting parts and components to Chinese suppliers. Recently, Chinese automakers have tried to develop their own capabilities by producing vehicles with their own brands, through a specialization in niche markets where they do not feel threatened by the competitive pressure from the big western players

(Altenburg *et al.,* 2008). In addition, some Chinese automakers have started exporting their vehicles to other developing countries and to invest overseas by acquiring the control in established companies (Noble, 2006). This is the case, for instance, of the acquisition of *MG Rover* by *Nanjing*, but also of some other relevant acquisitions in the European market.

Italy has been targeted by Chinese companies in their search for advanced technologies and other key competences necessary to establish a competitive industry back to China. The area of Turin, where there is a specialised automotive cluster concentrating all the 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 MNEs have established R&D and design centres in Turin, in which Chinese researchers work together with their Italian counterparts in strict collaboration with other local specialized firms as well as with local research institutions. In both cases, the aim of the investments is to improve the technical know-how with a particular emphasis on the design skills.

Both companies were considering two alternative locations: Italy and the UK and at the end they have chosen Turin, thanks to the support provided by ITP (Invest in Torino), the investment agency of Turin, whose activism has also brought in Piedmont another research centre, born from the collaboration between *Huawei* and *Telecom Italia*, to develop the Hspa *(*High-Speed Packet Access) technology*.*

Other relevant strategic asset-seeking investments are those aimed at the acquisition of well renowned brands. This is a strategy followed by many emerging country MNEs, given the scarce knowledge of their home brands abroad (Makino *et al.*, 2002). As highlighted by Bonaglia *et al.* (2007), due to the 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 hence the most difficult phase for any latecomer or newcomer MNE" (8).

The most acknowledged example of such a strategy is the acquisition of the personal computer division of *IBM* by *Lenovo* in 2004. Also in Italy, on a more reduced scale, investments aimed at acquiring recognized brands have taken place. In 2005, the *Quianjiang Group*, China's third-largest scooter-maker, acquired *Benelli*, an established motorcycle producer that at the time of the acquisition was experiencing serious financial troubles. Besides the willingness to acquire a historical brand, the objective of the deal has also been the acquisition of both the production facilities and the R&D centre, which is now

the European R&D center of *Quianjiang*. China still lags well behind the Western motor industry in know-how and design, which means the Chinese saw the Italian firm as a vehicle for the improvement of *Quianjiang*’s own product back in China. Therefore, the aim of the investment is to boost the Italian brand while improving the performance of the smaller and simpler Chinese scooters.

Similar operations have also happened in the textile and clothing sector, characterised in the past only by the establishment of commercial representatives (such as in the case of *Erdos* and *China Silk*, both in Lombardy). More recently in 2007, *Wenzhou Hazan*, one of the main footwear producer in China, has acquired the Italian footwear producer *Wilson*, keeping the design and production centres in Italy, to produce shoes to export to the Chinese market. Also in 2007, *Hembly*, one of the main Chinese suppliers of apparel and accessories to international brands (to name a few Lotto, Moschino and Sisley), following a strategy of vertical upgrading into the textile value chain, has acquired from *Mariella* the brand *Bond Street*. Within the same strategy, *Hembly* – through the holding *H4T* - has also acquired *Sergio Tacchini*, a historical brand in sportswear clothing, also experiencing financial troubles, whose takeover has been successfully concluded in 2008. The aim of this acquisition is to use the brand acquired to produce and sell a wide variety of fashion, casual products targeting the market of youngsters attracted by the “made in Italy” style.

To make a final example, another operation aimed at acquiring an Italian brand is that of *OMAS*, a historical producer of luxurious fountain-pens bought by *Xinyu Hengdeli Group*, a trading company linked with LVMH, selling luxury goods in the Asian market. For this Italian company getting access to the Asian market through the sale network of the Chinese group is an opportunity to revive a product which has suffered from the competition of the personal computer.

6. Preliminary conclusions

Chinese FDIs in Italy are still a very recent and limited phenomenon, although they are expected to rise over the next few years. The evolution of the Chinese pattern of entry in Italy is in line with the model followed by Chinese firms in other European countries: starting with small scale operations in trade-related activities, they are evolving towards the acquisition of tangible and intangibles resources that are deemed necessary to improve the presence of China in the international markets and, more generally, to upgrade its technological and production capacities. Chinese investments in Italy, as in the case of the other main European countries, are increasingly targeting the acquisition of

technological capabilities, design and brands in some of the key sectors of specialisation of the Italian economic system.

In addition, for what concerns M&A operations, Chinese MNEs have been mainly directed to financially troubled enterprises. Italy's manufacturing model - built largely on small and medium sized enterprises - has proved particularly vulnerable to Chinese competition and this surge in Chinese investments may represent, in perspective, an important opportunity for the recovery of some mature firms and/or sectors.

Foreign acquisitions, particularly when the acquiring firms are from an emerging country like China, are generally considered more a threat than an opportunity for the domestic economic system. Nevertheless, the analysis of the empirical evidence available indicates that these operations have to be welcome when they allow domestic firms to focus on the resources and capabilities that provide them with increasing competitive advantages and to retreat them from those with declining competitive advantages. Moreover, the qualitative and sketchy empirical evidence available also shows that Chinese OFDIs are also providing to their Italian, and European, partners fresh capital, solid and wide sale networks and direct access to the huge and rapidly expanding Asian market.

Given that we can assume OFDIs from China as ever-increasing, policy-makers in advanced countries have to make a win-win situation out of these OFDIs. In order to succeed in that objective, more detailed and robust knowledge about Chinese companies and their internationalisation strategies is needed.

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