Chinese FDI strategy in Italy: the ‘Marco Polo’ effect

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Abstract: This study investigates the motivations driving Chinese outward direct investment to Italy. The analysis is based on secondary sources and in-depth interviews with key informants and senior managers of Chinese affiliates in Italy. The evolution of the Chinese firms’ pattern of entry in Italy confirms the model followed by Chinese firms in other European countries, but we obtain some additional interesting results. Chinese investments in Italy are increasingly targeting the acquisition of technological capabilities and of design skills and brands to tap local competences available in specialised manufacturing clusters in sectors such as automotives and home appliances. They try to link, leverage and learn from foreign acquisitions. The main
industries of specialisation of Chinese OFDI in Italy reflect this approach and appear to be related to China’s strategy to increase the sophistication of its exports and to move away from standardised commodities and intermediate manufactures and components.

**Keywords:** Chinese FDI strategy; linkage; leverage; learning; acquisitions; FDI motivations.


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1 **Introduction**

The presence of Chinese enterprises in Europe is increasing at a very fast pace. So, it is the literature aimed at understanding the motivations of these outward foreign direct investments (OFDI), which do not follow the traditional attempt of exploiting ownership advantages, such as proprietary access to a superior production technology or to a valuable brand, as envisaged by the so-called ownership-localisation-internalisation (OLI) model (Dunning, 1981). In fact, the internationalisation activity of firms from countries such as China in the developed world reflects attempts to acquire and augment strategic assets, such as new technologies and brands and to secure access to distribution networks, rather than exploiting existing assets. This view has inspired an alternative to the OLI model, the linkage-leverage-learning (LLL) framework proposed by Mathews (2002) to capture the idea that latecomer firms use foreign direct investment and global linkages to leverage their existing cost advantage and learn about new sources of competitive advantages.

In Europe, the expansion of Chinese investors is taking place in countries with economic systems as diverse as France, Germany, Italy, the Netherlands and the UK. The
diversity of sectoral specialisation of these economic systems calls for empirical research to investigate the motivations of Chinese investments. Nevertheless, with the exceptions of a few studies on the UK (Cross and Voss, 2008; Liu and Tian, 2008) and Germany (Schüler-Zhou and Schüller, 2009), the literature available has not yet undertaken detailed firm surveys at the country level.

In this paper, we study what motivates Chinese companies to invest in Italy, being the Italian context of particular interest because of the peculiarity of its economic system, which share with the Chinese economy features such as a strong presence of small and medium enterprises (SMEs) and a specialisation in ‘traditional’ industries (Amighini and Chiarloni, 2005). Traditionally, Italy has not been very attractive as a destination for foreign investments and the reasons for this poor performance 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). 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 compared to other EU countries (Committeri, 2004). Also, a recent empirical analysis shows that strong location advantages linked to local specialisation among agglomerations of firms are attractive to FDI in both high and low technology sectors (De Propris et al., 2005). It is therefore particularly interesting the study of the main factors of attraction of the increasing presence of Chinese companies in Italy.

In terms of stock, in 2009 Italy is ranked sixth among the countries of Europe (excluding Russia and the Luxembourg) with more than 190 million US$, corresponding to a share of 2.2%. Considering flows, these have consistently increased from 2003 to 2007, with just a small decline in 2008 and a considerable recovery in 2009. This trend is also confirmed by a recent survey undertaken by the China Council for the Promotion of International Trade (2010) in cooperation with the European Commission and UNCTAD on a sample of more 1,300 Chinese companies interviewed with a questionnaire in nearly 30 Chinese provinces. According to this survey, when Chinese companies invest in the EU, they mainly locate in Germany, the UK, France, and Italy, and they consider the same countries for future investment plans.

For the empirical analysis, we have compiled an original proprietary database from multiple sources, including the whole population of Chinese companies. Moreover, we have undertaken in-depth interviews with key informants and senior managers of some of these Chinese affiliates. This allows us to draw a detailed map of Chinese investments in Italy, exploring their characteristics in terms of size, choice of location, sector of specialisation and activities undertaken. With regard to their motivations, we discover that what is happening today mirrors, in the opposite direction, what happened centuries ago when Marco Polo visited China in the XIII Century and lived there for over a decade. The famous Venetian traveller was astonished by the level of civilisation achieved by the Asian country and brought back important scientific and technological discoveries, like the use of compass, money and coal. In these days, Chinese enterprises appear to be increasingly interested in acquiring and learning knowledge and technology being developed by companies in advanced countries through a rapid increase of their foreign investments. In Italy, Chinese companies are attracted by the high skills in design-intensive sectors, by the high sophistication of customers, whom global rising stars like Haier would like to learn how to satisfy, by well known brands and by the small size of
the enterprises, which makes acquisitions a relatively easy target for the new wave of Chinese companies in their international strategy.

The paper is organised as follows. Section 2 provides a review of the literature on the motivations behind Chinese OFDI, Section 3 presents the analysis of the empirical findings on Chinese OFDI in Italy and explores their motivations and Section 4 concludes.

2 The literature on the motivations for Chinese FDI

Much of the work that investigates the motivations for FDI refers to the four categories identified by Dunning (1993): resource seeking; efficiency seeking; market seeking and strategic asset seeking. Resource seeking FDI are mainly directed to resource-rich countries, especially in Africa and Latin America. Chinese enterprises have so far had little incentive to seek cheap input factors abroad, and particularly in Europe, given the large domestic supply of low-cost labour, land and capital (Buckley et al., 2008), and their motivation to seek efficiency by exploiting economies of scale and scope and/or securing access to cheaper input factors has been therefore rather weak. Thus, these two motivations are not very relevant in the case of Chinese FDI going to European countries and our focus is on the remaining two driving forces as the main attractors to Europe.

Starting with market seeking investments, the host market size appears as one of the significant determinants of Chinese market-seeking investments in an econometric exercise undertaken by Buckley et al. (2007). Therefore, we can expect this motivation to play a positive and significant role also for investments going to the European countries.

The literature is also stressing that in the early 1990s most of Chinese FDI were mainly defensive (i.e., FDI following trade) as firms set up foreign affiliates in order to serve their customers better and to increase customer loyalty (Buckley et al., 2008). Increasingly, market-seeking investments also reflect a strategy of taking advantage of preferential access to the developed country market (e.g., investments in Turkey targeting 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 the case of FDI towards developed countries, investments are used as a springboard to bypass trade barriers and may be motivated by the attempt to avoid quota restrictions and accusations of dumping (Luo and Tung, 2007). These are, for example, the cases of Haier, which built a manufacturing plant in the USA to avoid quota restrictions, and TCL, which acquired an insolvent German television maker, Schneider Electronics, to elude dumping accusations in the EU market.

A further reason for defensive market seeking investments is the attempt to escape from the excessive competition at home, given the large number of foreign MNEs in China and the obligation to open the Chinese domestic market under the WTO accession terms. 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 (OECD, 2008).
More recently, market seeking investments have also increasingly become offensive (i.e., trade following FDI), aimed at developing new markets, improving brand recognition, adapting products to market requirements and at raising company profiles in markets with growth potential (Buckley et al., 2008).

The other main attractor of Chinese firms to developed countries is access to strategic assets such as technology, know-how, managerial and marketing skills, recognised brand names, distribution networks and reputation. Chinese companies use these investments to rapidly overcome their disadvantages in terms of technology, knowledge and skills (Amighini et al., 2010; Hong and Sun, 2006; Luo et al., 2010). This is also an expressed goal of state-directed Chinese FDI (Deng, 2009). Evidence from the UK confirms that the need to acquire new and advanced management skills and to tap into pools of local knowledge is a key reason for Chinese internationalisation (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 a confirmation of the importance of the strategic asset seeking motivation (Cui and Jiang, 2009). As new international players, Chinese firms generally carry out cross-border M&A primarily to speed up acquisition and control of strategic assets. In many cases, the firms acquired are loss-making businesses, which are purchased to use their brand names. This, together with the little prior international experience of many Chinese companies, may raise some doubts about their ability to successfully manage the acquired companies (Buckley et al., 2008). More in general, there is not yet enough empirical evidence available to assess how the process of rapid acquisition of strategic assets and capabilities through OFDI is effectively leading to absorption and adaptation of these resources within Chinese companies.

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, emphasising that it provides a tool to compensate for competitive disadvantage and is a low cost way of leveraging advantages in production capabilities (e.g., 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 emphasise that the capacity to integrate and combine Chinese culture with world-class Western management systems is key to the success of these acquisitions.

In the rest of the article, the motivations of Chinese companies to invest in Italy are researched in detail. On the basis of the existing findings discussed above, we can expect Chinese companies be attracted by Italy for a mix of market seeking and strategic asset seeking motivations:

- with regard to market seeking: the size of the domestic market, being part of the EU market, the opportunity to learn about market requirements and to improve brand reputation are expected factors of attraction
- with regard to strategic asset seeking: brand names, design skills and technologies in mature industries are expected to be driving attractors.
3 Chinese FDI in Italy

3.1 Methodology

No comprehensive database of Chinese companies operating in Italy is so far available. Therefore, our first task is to compile an original database based on multiple sources, to enable an in-depth study of Chinese OFDI in Italy. The data sources used are FDI Markets.com, 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 use 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 2010 we continuously monitored the specialist business press (including Il Sole 24 Ore, the main Italian financial 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 with the President of the Association of Chinese Firms in Italy.

As a result, we have identified 78 Chinese investment projects in Italy, including five ceased investments and two cases of relocation. Our database includes information on company name and address, parent company name, sector of specialisation, main activity undertaken in Italy, number of employees, total sales, year of the investment, entry and ownership modes. 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.

After building our database, we have conducted face-to-face interviews with ten 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 internationalisation, motivations for investment in Italy and opinions on the Italian business environment. Besides, we have interviewed key informants such as MOFCOM representatives in Italy, senior managers of the Bank of China, managers of the main Italian law firm dealing with Chinese FDI.

3.2 Characteristics of Chinese OFDI in Italy

The first Chinese ‘flagship’ investment in Italy occurred 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 of Cemate Machinery Technology and a branch of the Bank of China in Milan. The majority of Chinese FDI in Italy occurred after 2000, and reveals a 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, confirming that the decision to invest in Italy is usually part of a broader European strategy.

In terms of investment size, data on employment is available only for 60 of the 78 companies. Table 1 shows that most companies are small or very small, which is in line with the results of the survey by Cross and Voss (2008) in the UK that the majority of
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Chinese operations have less than 25 employees. Note that, with two exceptions, the few companies that employ more than 50 people were all established during the 2000s.\(^3\)

**Table 1** | Employees in Chinese companies in Italy
---|---
|<10 | 3 | 2 | 9 | 8 | 3 | 25 |
|11–49 | 1 | 1 | 7 | 12 | - | 21 |
|50–99 | - | 1 | 1 | 3 | 1 | 6 |
|>100 | - | 1 | 2 | 4 | 1 | 8 |
|Total | 4 | 5 | 19 | 27 | 5 | 60 |

*Source:* Author’s database

With regard to sectoral specialisation (Table 2), the main sectors are household appliances and automotives, both industries in which Italy traditionally has strong production capabilities and in which China is rapidly increasing its competitiveness (Amighini and Chiarlone, 2005). A further important sector is Transport and Logistics, whose relevance is due to the geographical position of Italy as a hub for the Mediterranean. Italy also represents an important market for electronics and telecommunications, which are other attractive industries for Chinese investors.

**Table 2** | Sectoral and geographical distribution of Chinese FDI in Italy
---|---
| | Lombardy | Piedmont | Veneto | Lazio | Emilia | Rest of Italy* | Total |
|White goods | 5 | 1 | 5 | - | - | 2 | 13 |
|Automotive | - | 5 | - | 2 | - | 1 | 8 |
|Transport and logistics | 2 | - | 1 | 1 | - | 4 | 8 |
|Trade services | 3 | 1 | - | - | 1 | - | 5 |
|Textiles | 5 | 1 | - | - | - | - | 6 |
|Electronics | 5 | - | - | 1 | - | 1 | 7 |
|Telecommunications | 1 | 1 | - | 2 | - | - | 4 |
|Metal products | 4 | 1 | - | - | - | 1 | 6 |
|Machinery | 4 | 1 | - | - | 1 | - | 6 |
|Chemical products | 2 | - | 1 | - | 1 | - | 4 |
|Financial services | 3 | - | - | - | - | - | 3 |
|Others** | 2 | - | 2 | 1 | 2 | 1 | 8 |
|Total | 36 | 11 | 9 | 7 | 5 | 10 | 78 |

*Notes:* *Includes Campania, Liguria, Marche, Tuscany, Puglia, Basilicata and Calabria
**Includes other manufacturing (non-metallic minerals, bicycles, jewellery, toys, pens), food and tobacco and a diversified group.

*Source:* Author’s database

Geographically, Chinese investments are strongly concentrated in Northern Italy (Table 2). The region of Lombardy hosts 36 investments, 24 of which in the metropolitan area of Milan, the favourite destination of Chinese firms, reflecting the general attractiveness of this region which hosts half of total FDI projects in Italy (Mariotti and Mutinelli, 2009). Milan is particularly attractive to firms in the service sector. There are the two branches of the Bank of China, the first established in 1998 and a second opened
in the heart of the city’s Chinatown in 2010. Besides, also the Industrial and Commercial Bank of China (ICBC), the largest bank in the world in terms of stock market capitalisation, has opened a branch in Milan in 2011. 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 China Beijing Equity Exchange (CBEX) in Europe, providing comprehensive advice on legal, fiscal, financial and organisational issues.

The second Italian region attracting Chinese FDI is Piedmont. Due its traditional manufacturing specialisation in the automotive sector, most Chinese investments are in this industry. Investments in other regions occur in different sectors of specialisation, namely white goods in Veneto, machinery in Emilia Romagna and logistics in Campania and Liguria.

The disaggregation of investments by main activity offers some interesting insights (Table 3). In line with what has happened in other European countries (Hay et al., 2009), while in the past the prevailing activity was establishment of sales and marketing offices, investments in higher value added activities have recently increased, especially manufacturing and, to a lesser extent, R&D. Furthermore, key informants suggest that traditional trade-related investments are evolving towards more sophisticated services, such as the search for new markets and the acquisition of new brands.

<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></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 Hengdeli 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: Author’s database
The entry mode of Chinese investments in Italy has gradually evolved. The first wave of investments in representative offices was characterised 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 including the acquisition of the motorcycle manufacturers Benelli by Quianjiang, of Meneghetti and Elba by Haier, and the takeover of Cifa, specialised in the production of machinery for the construction sector by Zoomlion, which so far is the largest acquisition in Italy and one of the largest in Europe (Table 4).

The evidence presented on Chinese FDI in Italy confirms some of the findings of the existing studies on the UK (Cross and Voss, 2008; Liu and Tian, 2008), France (Nicolas, 2010) and Germany (Schüler-Zhou and Schüller, 2009) in terms of investment size, activities undertaken and mode of entry. The next section, based on first hand information from the interviews, will put the Italian case in perspective, exploring the main motivations that push Chinese companies to invest in the country.

3.3 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. In addition, given the peculiarity of the Italian economic system, we find that Chinese FDI in Italy look for access to advanced skills and technological capabilities in the many design-intensive manufacturing activities in the country.

With regard to market-seeking investments, Italy represents an important market for foreign investors as it is the seventh largest economy in the world and it is part of the European Union. 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. As confirmed by the managers interviewed, the size and potential of the market has been highlighted as the most important factor affecting Huawei’s decision to invest in Italy. Having started out as a distributor for global MNEs in the Chinese market, Huawei’s globalisation strategy started from neighbouring countries before entry into Russia and Africa. Its 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 such as Sweden, the Netherlands, France and Germany, and has established its regional headquarters in the UK. In Italy, Huawei has invested to seek a large market, raise its profile and strengthen its brand, but also to conduct research and product development activities in its recently established research centre in Turin.

Overall, the prevalence of market-seeking investments is confirmed by Table 3: 46 projects are in market related activities, such as trade supporting services or the establishment of marketing offices. Some of these investments have been established to better serve customers 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. Some important investments in the logistic sectors also aim at
supporting trade. With the rise in Chinese exports, the main logistics companies have begun to invest in Europe initially through 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: China Ocean Shipping Group (COSCO) and China Shipping Company, both of which are in the top ten world shipping companies, both invested heavily in Italy.

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. As confirmed by one of our key informers, Suntech has invested in Italy to target 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 profile in Europe, improve product image and promote its brand. Several key informers have underlined that Chinese companies consider Italian consumers to be highly demanding and particularly sophisticated. Therefore, in sectors such as home appliances the Italian market is regarded as a test market for products adapted to European tastes and it is considered strategic to obtain feedback on its products.

According to our key informants, the direct contact with the market jointly with the ambition to acquire strategic assets in design, manufacturing and management are the main reasons that have attracted Haier, the Chinese giant specialised in the white goods sector, to Italy. Haier is the second world producer after Whirlpool, which first entered the Western market as an original equipment manufacturer (OEM) exporter. In 2000 Haier Europe was established in Varese to coordinate sales and marketing across 13 European countries (Duysters et al., 2009). In 2003, Haier made its first acquisition in Italy buying Meneghetti, a refrigerator producer and in 2009 it acquired another Italian company, Elba, which produces cooking appliances. These acquisitions were motivated on the one hand by the need to overcome EU tariff barriers and on the other by the objective 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). Moreover, the intention to acquire knowledge and managerial capacity was behind the decision to locate the headquarters in Varese, given the area’s strong tradition in white goods manufacture. In fact, Varese is well known for its white goods production and is home to important companies such as Philips and Whirlpool, and many other firms specialised in components and intermediate products. The agglomeration of many specialised firms generates positive externalities, arising from the presence of a pool of specialised workers and suppliers and by specialised knowledge on markets and technologies. According to some of our key informers, these agglomeration advantages attracted Haier and influenced its decision to establish its European headquarters there, as confirmed by Bonaglia et al. (2007) in their study on the global white goods sector. According to Bonaglia et al. 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 offshore location is driven both by demand and cost considerations, as well as by the presence of suppliers of specialised components. Nevertheless, it should be stressed that the location is not a sufficient condition for local embeddedness and more
empirical evidence is needed to assess what is the capacity of Haier to take advantage of the existing agglomeration economies.

The existence of a specialised automotive cluster concentrating all different phases of the production process is also behind the decision of two Chinese automotive companies, Jac Anhui Janghuai and Changan, to invest in Turin. 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 strict collaborations with other local specialised firms and research organisations. In both cases, the target 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, availability of highly qualified and cheaper human resources and a pool of specialised 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 managers interviewed also 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 carmakers share 25% 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 imply that they plan to produce for the European market in the short run, but rather they are looking for new competences to catch up with the global players or pursue specialisation in niche markets (Amighini, 2008).

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). Due to their specialisation 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” [Bonaglia et al., (2007), p.8]. The best known example of this strategy is the acquisition of the personal computer division of IBM by Lenovo in 2004. In Italy, the acquisition of recognised brands is a common motivation for Chinese FDI. 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 troubles. Besides the willingness to acquire a historic and world famous brand, the deal aimed at getting access to and leveraging from Benelli’s manufacturing and R&D facilities, and made it Quianjiang’s European R&D centre for the production of high-quality production. Nevertheless, it should be added that in this case the existence of communication problems in the technical area has delayed the development of important new projects to be managed between the Chinese and the Italian facilities. Other deals have occurred in other sectors such as the footwear industry, with the acquisition of Wilson by Wenzhou Hazan, one of the main footwear producers in China, which has maintained design and production in Italy to produce shoes to export to the Chinese market. Another example is the case of Elios, an Italian company producing electrical items such as lamp holders, which was acquired in 2006 by Feidiao and the acquisition in
2007 of Omas, a producer of luxury pens established in 1925 in Bologna, by the Xinyu Hengdeli Group, a trading company linked to LVMH selling luxury goods in the Asian market.

According to some of the key informers interviewed, a further area of competence that Chinese companies, particularly medium-sized firms with little international experience, are seeking abroad is managerial experience. Managers with no international experience run most Chinese companies and they sometimes find it hard to deal with Western management models. In Italy, a case in point 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 its 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 outside its home region, and no international experience. The reason for opening a European branch is to gradually learn the marketing skills required for exporting, and to identify new potential areas for investment, particularly related to post sales assistance and customer care. Its management lacks international experience, and the Italian managing director, who has 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.

Several key informers noted that the case of HG is very promising in terms of the capability of Italy to attract a new wave of medium-sized Chinese companies that are latecomers in the international market. These companies may be particularly attracted by the small size of Italian companies. Moreover, we expect that in the future these acquisitions will also be facilitated by the recent changes in the Chinese FDI legislation, aimed at extending the facilitation of the ‘go global’ policy beyond large companies to include SMEs.

4 Conclusions

This paper provides new empirical evidence to understand the motivations of China’s presence in Europe. The evolution of the Chinese pattern of entry in Italy confirms the pattern followed by Chinese firms in other European countries, but we obtain some additional interesting results. Starting from small-scale operations in trade-related activities, Chinese FDI have evolved towards the acquisition of tangible and intangible resources that are deemed necessary to improve China’s presence in international markets and to upgrade their technological and production capacities.

Chinese investments in Italy appear to reflect a ‘Marco Polo’ effect, but in the opposite direction: the Venetian merchant discovered, learnt and brought back the scientific and technological discoveries of the XIII Century China. Today Chinese companies are seeking the original skills and knowledge available in Italian companies and localities, especially in design-intensive, high-quality productions. Thus, they are increasingly targeting the acquisition of technological capabilities and of design skills and brands to tap local competences available in specialised manufacturing clusters in sectors such as automotive and home appliances. The main industries of specialisation of Chinese OFDI in Italy reflect this approach and appear to be related to China’s strategy to
increase the sophistication of its exports and to move away from standardised commodities and intermediate manufactures and components. Italy is considered a key market for investment because of its size and, especially for its 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. This especially applies to the Italian industrial districts known globally for their production and design excellence, for the density of agglomeration economies and the competitiveness of the supplier networks. These are for instance the cases of the specialised automotive cluster in Turin and the home appliances district in Varese, where Chinese companies have established R&D, design centres and headquarters to absorb foreign technology and improve their technical know-how, especially in design skills, and to benefit from the pool of specialised suppliers to outsource a wide range of activities ranging from engineering to modelling and prototyping. The peculiarities of the Italian model of specialisation, in terms of both sectors and size of firms, appear to be important attractors for Chinese investments, following a novel ‘Marco Polo’ effect to acquire and leverage upon foreign knowledge and capabilities.

There are a number of open questions calling for further research. A key issue is the study of how successful Chinese multinationals are in their strategy: are they creating effective channels for accessing local knowledge? Are they absorbing and transferring it within the company? Furthermore, what are the implications of Chinese FDI on the receiving countries? How do companies acquired by Chinese investors survive? What is the impact on employment? Is there only a loss of key technological capabilities or do Chinese FDI also represent opportunities, due to the injection of fresh capital and the easier access to the rapidly expanding Asian markets?

The expansion of Chinese FDI is definitely a very complex and still understudied phenomenon. There is an urgent need for robust empirical research to better understand it, and to assess whether this internationalisation strategy may show promising avenues for China and for other developing countries, and whether and how the host countries are affected.

Acknowledgements

The paper has greatly benefited from comments by Lin Liu, Martin Chrisney, by two anonymous referees of the *IJTLID*, and by participants at conferences at the Copenhagen Business School, 2008, Hong Kong Science and Technology University Asialics, 2009, Harvard Kennedy School of Government, 2010, as well as Chatham House and CASCC research seminars in London, September 2008 and January 2009, and in Brussels, June 2009. The authors gratefully acknowledge the collaboration of Thomas Rosenthal of Fondazione Italia China who provided useful contacts with Chinese enterprises in Italy, as well as the support of the MOFCOM branch in Milan, the Bank of China and the Association of Chinese Firms in Italy during the fieldwork. The authors are particularly grateful to the people interviewed for their time and knowledge. Financial support from Compagnia di San Paolo, CASCC (Centro Alti Studi sulla Cina) and PRIN 2007 is gratefully acknowledged.
References


Notes

1 Data about stocks and flows are provided by the Chinese Ministry of Commerce (MOFCOM). These statistics underestimate the real value of investments because they did not include the financial sector up to 2006 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 take into account the investments channeled via offshore (such as Cayman and Virgin Islands) or financial centres (Hong Kong) and thus not officially recorded in Chinese balance-of-payments information. Notwithstanding these limitations, MOFCOM data represent today the most up-to-date source of information on Chinese FDI, disaggregated by destination country and sector.

2 We checked for the existence of subsidiaries in other countries in the databases and in the Chinese websites of the parent companies.

3 For 22 companies, data on revenues and assets are available from the AIDA database and confirm the small size of Chinese companies in Italy.