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Master’s Degree in Global Management and Politics

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Entering Asian Markets in Turbulent Times: How Italian MNCs Are Adapting Their Internationalization Strategies in Singapore to the Changing Global Landscape

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INTRODUCTION

Topic and Problem Statement

In the wake of recent global disruptions, businesses worldwide have experienced unprecedented impacts on their supply chains, consumer behaviors, and international trade flows. Globalization, once a key driver of economic integration, is now encountering new obstacles as protectionist policies, geopolitical tensions, and trade barriers emerged. The growing interconnectedness of economies, alongside pressures for sustainability, accelerated digitization, and regionalization of value chains are just some of the factors shaping how Italian companies expand globally. Italian multinational corporations (MNCs), known for their international presence in sectors such as luxury goods, machinery, and industrial exports, were particularly impacted. The COVID-19 pandemic exacerbated existing trends in international trade, such as the shortening of global value chains (GVCs) and the shift toward regionalized supply networks, prompting these firms to rethink their internationalization strategies and adapt to a rapidly changing environment.

In this context, Southeast Asia stands out as a region undergoing significant transformation. Its spectacular economic dynamism and its growing role in global power balance have made it rise in recent years as an area of primary importance for the strategic interests of major global and regional powers. Notably, the United States and China are engaged in a sort of tug-of-war for economic dominance in the region. Recognizing the strategic importance of Southeast Asia, Italy has also turned its attention eastward, seeking to internationalize its production system and increase investment in one of the world's most dynamic regions. As one of the most stable and developed economies in the region, Singapore serves as a gateway for Italian firms to expand into the ASEAN region. However, the geographical distance, strict regulations, unique local consumer demand, and the complex geopolitical landscape constitute significant challenges to their internationalization efforts. This presents a managerial problem: how can Italian MNCs effectively adjust their internationalization strategies in the Singaporean market to navigate turbulent times?

Literature Review and Research Gap

The theoretical foundation for this research is rooted in the study of internationalization strategies. Traditional models, such as the *Uppsala model*, which advocates for a gradual approach to internationalization based on learning and experience, have long dominated the literature. However, in a rapidly changing global environment, these models have been criticized for their inability to account for the speed and complexity of modern internationalization processes (Santangelo & Meyer, 2017).

Recent studies have highlighted the need to consider new paradigms in internationalization, such as the role of digital platforms and geopolitical shifts (Loonam & O'Regan, 2022). *The OLI (Ownership, Location, Internalization) Paradigm* by John H. Dunning (2001), which focuses on the firm's competitive advantages and the strategic importance of specific locations, continues to offer valuable insights, but it needs to be adapted to reflect the modern challenges of international business. Furthermore, scholars have called for more research into how firms are adapting to global disruptions, such as the COVID-19 pandemic, and the implications for global value chains (Pla-Barber et al., 2021; Marvasi, 2023). While much of the existing literature focuses on the impact of global value chains and technological advancements on internationalization strategies, there is a lack of empirical studies that examine how Italian firms are specifically responding to these shifts in the Singaporean market. This study aims to fill this gap by providing a focused analysis of Italian MNCs and their strategic adaptations in response to contemporary global challenges.

Research Objectives and Methodology

This thesis investigates the evolution of internationalization strategies among Italian MNCs operating in Singapore, revolving around the following central research question: ***How and why have the internationalization strategies of big Italian companies in the Made in Italy sector evolved over the past decade in response to global megatrends and recent geopolitical shifts in the Singaporean market?***

In order to address the research question, specific research objectives were developed:

- to identify what are the key global megatrends and geopolitical changes influencing the Southeast Asian region, and assess how these dynamics have

impacted the internationalization strategies of Italian companies operating in Singapore,
- to examine the specific opportunities and challenges faced by Italian MNCs in the Singaporean market, and analyze how these companies have adapted accordingly over time,
- to explore future prospects and potential for Italian companies and products to strengthen their foothold in Singapore.

The research employs an explanatory qualitative methodology, designed to offer deeper insights into the internationalization reshaping of Italian MNCs in Singapore by exploring the underlying reasons, motivations, and decisions. By combining the principles of the *Grounded Theory* with the *Gioia methodology*, this approach aims to develop a theory that is closely grounded in the empirical data collected. Semi-structured interviews with industry experts were conducted and subsequently analyzed following Saldaña's iterative coding process (2013). Data collected were further interpreted using thematic analysis, which organized and structured the findings into main research themes, namely (i) Opportunities for Italian Companies in The Singaporean Market, (ii) Challenges For MNCs Internationalization Process, (iii) Strategies For Sustainable Market Success, and (iv) Strategic Adaptation to Global Megatrends.

The research process follows a rigorous investigation protocol, developed to ensure a well-aligned and standardized procedure throughout all stages of the study. It also provided consistency and replicability, enhancing the validity of the results.

This approach provided rich insights into the complex dynamics of internationalization in the Southeast Asian market and allowed for the development of practical recommendations for Italian firms looking to expand and succeed in this market.

Thesis Contribution

This thesis contributes to the academic debate in several ways. First, it provides a nuanced understanding of how Italian MNCs navigate the complex global landscape, specifically focusing on Singapore. By examining the strategic decisions of these firms, the thesis adds to the literature on internationalization in the context of global disruptions, such as pandemics and geopolitical tensions.

Second, the research highlights the role of digitalization and technology in shaping international strategies. As firms increasingly rely on digital tools to maintain their global operations, this study provides practical insights into how digital platforms are being utilized by Italian MNCs to enhance their competitiveness in the Singaporean market. By doing so, it addresses a critical gap in the literature on the intersection between digitalization and international business strategies.

Finally, the study offers valuable managerial insights for Italian companies seeking to expand into or strengthen their presence in Singapore. By identifying best practices and highlighting key challenges, this thesis provides actionable recommendations for firms looking to adapt their internationalization strategies in the face of global disruptions and shifting geopolitical landscapes.

Thesis Structure

This thesis can be considered a descriptive-analytical funnel, starting with a broad general description and progressively narrowing down to a detailed and specific analysis. Chapter 1 provides an overview of the theoretical foundations of internationalization, focusing on traditional and contemporary models. Chapter 2 analyzes global megatrends and geopolitical shifts, emphasizing their impact on Asian markets and Italian firms' strategies. Chapter 3 moves through a specific analysis of the Singaporean market, outlining Italian MNCs' internationalization processes and challenges. Finally, chapter 4 discusses the research findings, highlighting how Italian MNCs are adapting their strategies in response to the changing global landscape and provides recommendations for both academics and practitioners.

This approach provides a comprehensive and in-depth view of the topic, moving from the general to the particular.

1 THE INTERNATIONALIZATION PROCESS AND STRATEGIC CHOICES OF COMPANIES

1.1 Internationalization: Meaning and Theoretical Approaches

Internationalization is a strategy that a company adopts to expand its presence in international markets. The internationalization process involves the expansion of a company's operations beyond the domestic borders and requires the permanent management of economic activities (commercial and/or productive) in two or more countries (Fontana & Caroli, 2017). Engaging in activities that involve the presence of multiple countries allows the company to tap into significant opportunities for development and prosperity. The outcomes can range from short-term business gains to the long-term development of the company, including increased competitiveness and the potential to establish barriers against competition (Cianca, 2023). Internationalization is therefore related to the real dimension of the enterprise rather than the financial one (Fontana et. al., 2017).

The strategic decision to enter and operate in foreign markets is mainly driven by a company's desire to achieve business growth by accessing new customers and resources, leveraging competitive advantages, and diversifying risk. Market expansion is related to the *product/market expansion* – the attempt to extract more value for the current scale of operations by seeking a greater market share in other countries as production and the portfolio grow – and to the *horizontal scope expansion* – the enlargement of the product market domain by pushing the boundaries beyond the original market or region.
Setting an internationalization strategy means identifying the spatial positioning that allows the company to optimize its results (Fontana & Caroli, 2017). It must be the outcome of a specific strategic orientation. Firstly, understanding growth drivers and potential limitations is crucial before expansion. Despite growth being crucial for firms operating in the current dynamic business environment, simply growing portfolios might not necessitate immediate international expansion. Therefore, it is important to first assess some important elements. Particularly, when choosing to expand into an additional market, companies must define three fundamental elements:

1. the type of activities to be carried out abroad (e.g., marketing, production, R&D, etc.),
2. the foreign entities or stakeholders to be involved, and
3. the geographic area where activities will be located.

These choices are not mutually exclusive; highlighting the intricate and systemic elaboration demanded by the strategic approach (Fontana & Caroli, 2017). Other factors underlying internationalization that influence the strategic direction of the company involve the management of cultural issues, the implementation of adequate technologies to improve operations and offerings, and the decision on standardization or customization (local responsiveness vs. global integration).

Whenever companies decide to invest in internationalization are deciding to internationalize the original products that must be aligned with new markets. The decision to open subsidiaries, or more generally to expand over the original boundaries, often coincides with the portfolio growth and the vertical scope. For this reason, internationalization can be identified whenever an organization combines horizontal scope, portfolio growth, and vertical scope.

Internationalization is not a new phenomenon. Companies have been expanding their operations across national borders for centuries. However, the pace and scope of internationalization have accelerated in recent decades, driven by factors such as globalization, advances in technology, and the rise of emerging markets.

The study of internationalization boasts a rich history of over sixty years, encompassing various disciplinary perspectives, including management, economics, and entrepreneurship. The number of scientific publications and study contributions continues to rise (Šūmakaris, Ščeulovs, & Korsakienė, 2020), including recent exploration of the phenomenon in the context of *Small and Midsize Enterprises (SMEs)*. Early economic studies focused on the macroeconomic aspect of the phenomenon, emphasizing relations between the countries and the factors of international trade. However, they completely neglected the strategic leverage and therefore the objectives that lead a firm to internationalize one activity rather than another.

Traditional approaches to internationalization, such as the *Uppsala model*, view it as a gradual process of acquiring knowledge and competence in international operations.

Recent research challenges this perspective, suggesting that internationalization can be a more complex and dynamic process, exhibiting a curvilinear relationship with firm performance. Santangelo and Meyer (2017) argue that the *Uppsala model*, which has been the dominant model in international business research for decades, is incomplete and does not adequately explain the non-linear and discontinuous dynamics of internationalization processes. More recent studies, on the other hand, give much weight to the strategic capacity of firms, and there are several theories aimed at interpreting the process of international expansion and determinants, all of which can be summarized in the *Eclectic (OLI) Paradigm of International Production* developed by John H. Dunning (2001). According to the *OLI Paradigm* firms invest abroad when they possess Ownership (O), Location (L), and Internalization (I) advantages:

- *Ownership advantage* is represented by the firm's unique assets or resources (i.e., technological capabilities, proprietary knowledge, brand reputation, etc.) which confer a competitive edge over its rivals.
- *Location advantage* is the attractiveness of a foreign market relative to the firm's home market in terms of market size, labor costs, or access to resources.
- *Internalization advantage* refers to the ability of a firm to implement its unique advantages within the organization rather than relying on external markets. This could involve owning and operating facilities abroad or engaging in strategic alliances or joint ventures with overseas partners.

While the *OLI Paradigm* remains a valuable tool for understanding international business today, it has limitations. Most notably, it simplifies the expansion process by exclusively attributing it to the possession of resources leading to competitive advantages. It is essential to recognize these limitations when using the paradigm for predictions or assessing international business decisions, as real-world scenarios often involve a combination of additional factors (e.g., political risk and regulatory environment) influencing firms' international investment decisions. Therefore, it can be stated that the previous theoretical paradigms are still valid but must be integrated with new paradigms[1]

[1] For more information on new paradigms identified by authors in the internationalization process of companies, see Nanut, V., & Tracogna, A. (2011). Processi di internazionalizzazione delle imprese: vecchi e nuovi paradigmi. In Sinergie, 2(87), 17-32.

that reflect the evolution of the global context (Nanut & Tracogna, 2011), emphasizing the impact of global megatrends on contemporary economic scenarios.

Globalization emerges as the primary driver prompting companies to explore opportunities for internationalization. This is evident as individual countries become increasingly integrated into a global system. Market expansion and economic integration create new opportunities for businesses, providing easier access to geographically distant supply markets. However, this scenario introduces complex competition challenges and shorter product life cycles (Cillo, Ricci, & Landi, 2010). Companies confined to the domestic market face limited development prospects and become vulnerable to the incursions of foreign competitors, making internationalization a necessary way to defend their position and increase competitiveness.

In the contemporary business landscape, internationalization is not merely an “opportunity” to replicate distinctive skills abroad; it is a "necessity" to find vital resources, skills, and knowledge crucial for survival in foreign markets. This implies the redefinition of the strategic choices along the entire production chain. As a result, contemporary companies, regardless of their size, naturally oriented themselves towards internationalization, looking beyond national borders to position themselves in a broader and structured context.

1.2 The Driving Forces of Internationalization

Internationalization represents one of the most intricate decisions that a company can undertake. Various factors encourage companies to approach foreign markets. The choice to go international along with the most suitable entry mode into international markets is conditioned by the intrinsic characteristics of the company (*internal* or *firm-specific factors*) and the conditions of the external environment (*external* or *country-specific factors*).

1.2.1 Internal Factors

Several studies (Yaprak, Yilmaz, & Kara, 2018; Jarnecio, Madhok, & Contractor, 2001; Benito, Petersen, & Welch, 2002) link internal factors to the company’s resources and capabilities, which can pertain to the organization itself (*firm- related factors*) or the intrinsic aspects of the company's leadership (*management-related factors*).

Firm-related factors encompass *tangible resources* (i.e., company size, technology, production capabilities, infrastructure, and financial resources), as well as *intangible resources* (i.e., reputation, human resources, skills, intellectual property, brand, organizational structure, and corporate culture). When managed appropriately, these resources can translate into a competitive advantage for the company, in terms of cost leadership and/or product differentiation, which can be leveraged in new geographical areas. According to the *resource-based view theory*, a sustained competitive advantage is driven by the company's unique and valuable resources, both tangible and intangible, that are difficult for competitors to replicate. This model has been widely used in strategic management to analyze and guide firms in identifying and leveraging their unique resources for success in foreign markets. Beyond gaining competitive advantages from the appropriate management of international presence, internationalization can be motivated by the exploration of foreign areas for conditions that can translate into a competitive advantage for the company (Fontana & Caroli, 2017). Specifically, the company can access production inputs on favorable conditions, notably in terms of raw materials or labor costs. In addition, the company can acquire innovative knowledge and skills, valuable for fostering relationships with stakeholders in the foreign network, and consolidating its position in the home market and beyond.

However, setting a strategy for market penetration abroad is far more complex and necessitates the consideration of additional factors that determine its feasibility. These factors include the existence of synergetic relationships, product characteristics, availability of personnel for relocation, past international experiences, and the level of knowledge regarding foreign markets. Most importantly, the strategy revolves around the strategic growth objectives of top management or the entrepreneur's will. Therefore, **management-related factors** become crucial, referring to the strategic international orientation and managerial skills of ownership/management. These include orientation towards foreign markets, type and level of training, management experience and ability to manage international operations, perception of risks and opportunities in foreign markets, and finally, ability to manage and leverage cultural diversity.

McDougall & Oviatt (2000) define *international entrepreneurship* as a "combination of innovative, proactive, and risk-seeking behavior that crosses national borders and is intended to create value in organizations." Indeed, the entrepreneur's or decision-maker's ability can also be a source of competitive advantage, as it is tacit and inimitable.

In the article by Ruzzier, Antoncic, Hisrich, & Konečnik (2007), it is highlighted that human capital dimensions, including international business skills, international orientation, environmental perception, and managerial know-how, significantly influence companies' internationalization path. Particularly, the entrepreneur plays a strategically relevant role in identifying opportunities and transforming them into stimuli to initiate the internationalization process (Caroli & Lipparini, 2002).

1.2.2 External Factors

The external environment significantly affects how and why firms go international. The internationalization of markets, competitors, and in general the business-relevant environment, has initiated the expansion of firms into foreign areas. Beyond companies' reaction to the phenomenon of globalization, and thus market openness, a set of external factors (or environmental factors) is identified as responsible for companies' decision to internationalize. These factors can be grouped into three main categories: *economic*, *political*, and *social factors*.

Economic factors constitute the first key element in the decision to internationalize. The size of the target market, demand, and the level of economic development are crucial aspects to consider when choosing the geographical area for expansion. Countries with a high level of economic development tend to attract foreign investments, offering opportunities for growth and profit. The possibility of accessing reduced costs related to communication and transportation, along with the existence of trade barriers, also influences companies' decisions to expand abroad. Additionally, local market saturation or high competitive pressure can drive companies to seek new opportunities in foreign markets, ensuring access to low-cost resources and technological expertise. Finally, market events such as economic crises or pandemics like the recent Covid-19, can impact

companies' approaches to internationalization. Global supply chains and infrastructure elements play a crucial role in risk assessment and the effectiveness of international operations.
In this context, Benito et al. (2002) argue that industries characterized by higher knowledge intensity, market uncertainty, and technology turbulence tend to exhibit higher levels of internationalization. Specifically, industries with high levels of market uncertainty, characterized by rapid change and unpredictable demand, encourage firms to seek international markets for growth and stability. Diversification through internationalization helps mitigate risks associated with fluctuations in the home market. Industries undergoing rapid technological change and innovation (e.g., internet and biotechnologies industries) incentivize firms to go international to stay ahead of the curve. Access to global R&D resources and early entry into new markets are key motivators for internationalization in such industries.

Political factors represent another crucial category influencing companies' decisions to expand internationally. Political stability, legislation, and regulation can significantly shape the decision-making process. Bureaucracy and regulatory rigidity may pose substantial obstacles, while support from foreign governments can incentivize companies to enter new markets. A stable political and legal environment often proves decisive in attracting foreign investments.

Social factors encompass elements such as culture, values, and consumer preferences. Companies must adapt their products and marketing strategies to the cultural specificities of foreign markets to be successful. A deep understanding of these social aspects is crucial for meeting consumer needs and building positive relationships with the local audience.

Countries with favorable economic, political, and social conditions are more likely to attract foreign investments due to growth and profit opportunities (Buckley & Casson, 2000). However, the interplay of firm- and environmental-specific factors intricately influences internationalization. A company with robust resources may internationalize even in adverse conditions but faces greater challenges. Conversely, a resource-limited company is more inclined to internationalize in favorable conditions countries. Successful internationalization requires a strategic combination of distinctive internal resources and advantageous external forces. Projecting competitive advantage in the new market becomes crucial to understanding potential gains. Striking the right balance between organizational success factors in the original market and leveraging those resources for value creation in a foreign market is essential for international success.

Another crucial element to consider is that businesses often make choices in response to decisions made by their competitors, illustrating the "*bandwagon effect*." This psychological phenomenon explains why individuals tend to follow trends merely because others do, regardless of their personal beliefs, reflecting a herd mentality where behaviors align with the group. Originating in politics, the bandwagon effect extends to consumer behavior and investments. The human brain utilizes heuristics, such as observing others, to simplify decision-making. When a trend accumulates enough followers, individuals assume it as the correct decision, economizing on information gathering (Investopedia, 2023).

In the context of internationalization, this phenomenon is evident when a competitor makes a foreign direct investment, gaining a first-mover advantage. In response, other companies, feeling threatened, become followers, attempting to regain presumed lost ground. Similarly, if a foreign competitor expands into a local market, the threatened company may react by expanding into the competitor's market, initiating a defensive strategy called "*exchange of threats*." However, blindly following trends, as observed in the lead-up to the 2007 housing crisis, can lead to severe consequences (Investopedia, 2023).

1.3 The Internationalization Models

As companies embark on the internationalization journey, they must choose the most appropriate entry strategy tailored to their specific needs and objectives. For this purpose, the definition of the internationalization model serves as a crucial step in the internationalization process, especially for Multinational Corporations (MNCs). Particularly, companies may strive to achieve two distinct goals:

- *Local Responsiveness (LR)* represents the degree of adjustment of the value proposition and operations to the specific needs and preferences of the local market. This involves product modifications, pricing strategies based on local market conditions, tailoring marketing messages, and even adjusting the organizational structure (i.e., decentralizing the decision-making process) to allow local subsidiaries more autonomy. The intuition is that the local environment affects the business, even for commodities.
- *Global Integration (GI)* refers to the degree to which the company standardizes its activity globally. This could involve using global suppliers, developing shared platforms and processes across different markets, centralizing decision-making processes, employing a strong brand identity, and facilitating the sharing of best practices and expertise between different subsidiaries and departments. Standardization implies creating a global coordination mechanism to synchronize all divisions.

Through the combination of these two crucial dimensions, four conceptual internationalization models can be identified. Each model represents a distinct organizing mode of MNCs' international activities.

The **Multinational model** (high LR and low GI) involves strong local adaptation, with products and services tailored to each foreign market. MNCs opting for this model are characterized by a decentralized organizational structure with *Strategic Business Units (SBUs)* operating autonomously under the parent company's overall guidance and financial coordination. This is a typical strategy applied by companies operating in the food and beverages industry as tastes are very local, and they emphasize the need for local producers. Although this strategy allows leveraging local knowledge and expertise, it may be inefficient due to the replicated efforts among different SBUs.

The **International model** (low LR and low GI) is based on a global logic emphasizing efficiency and economies of scale (Bartlett & Ghoshal, 1989). It involves an international division structure where the corporate assumes a strategic role by formulating a centrally developed strategy, which is then replicated locally with some adjustments by subsidiaries.

The **Global model** (low LR and high GI) focuses on the overall integration of activities, with a standardized product or service offering across all markets. It employs a centralized functional structure providing detailed coordination among foreign subsidiaries. With this model the company adopts a product structure and exports it globally (e.g., electronic products with equalized prices worldwide). Subsidiaries are integrated and communicate each other to achieve group efficiency, leveraging cost synergies, reducing costs, and benefiting from economies of scale and experience. However, lower subsidiary autonomy may stifle innovation and lead to insensitivity to local needs, risking a disconnect with diverse customer demands at the local level.

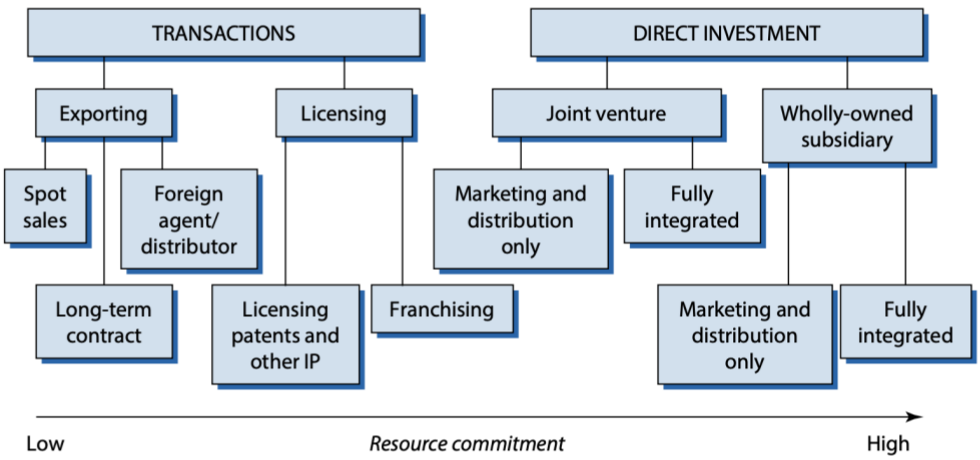
The **Transnational model** (high LR and high GI) is characterized by a balanced global integration with local responsiveness, striving for economies of scale and local adaptation. This approach is suitable for MNCs aiming to benefit from both multinational and international strategies. Here, the *transnational paradox* emerges, creating a “global network” with strong central coordination for resources and knowledge sharing, while granting local subsidiaries sufficient autonomy to adapt to specific market needs (Bartlett & Ghoshal, 1989). The organizational structure is a matrix of geographies with functions or product divisions, requiring high coordination effort. The strategic rationale lies in achieving simultaneous responsiveness and global integration by optimizing costs with a focus on standardized production but high local adaptation. In this context, MNC operates in a reticular form where the leadership is decentralized and distributed among the different nodes that make up the network, thus rooted in local territories to develop competitive advantage.
In today's interconnected and competitive global economy, the transnational strategy offers a compelling alternative to traditional international business models, presenting high competitiveness and adaptability benefits. However, managing such a structure is complex and demands strong coordination across the organization. Successful implementation requires meticulous planning, robust leadership, and effective communication channels to address inherent challenges.

The choice of the adopted model is influenced by the specific geographical area and characteristics of the related target market. The attractiveness and accessibility of the area determine the type and degree of standardization and local adaptation of products and services based on unmet or unexpressed needs, as well as the relationships to be established to penetrate it. This depends on the business's specificity and the market characteristics identified through accurate research and market analysis. An assessment of the company's internal resources and capabilities follows to identify potential sources of competitive advantage in the selected foreign markets.

1.4 Strategies and Channels for Entering Foreign Markets

Once the geographical target area, the internationalization activity, and the organizational structure are defined, the focus shifts to identifying the most suitable mode for entering the foreign market. This entails a comprehensive assessment, starting from the depth level of involvement in the new geographic area (i.e., degree of managerial involvement, investment severity, production control, riskiness, operational and entry costs amount), to the type of relationships to establish for penetration. According to Grant (2019), there are several market entry types involving progressively higher degrees of resource commitment (**Figure 1.**)

Figure 1. Alternative modes of overseas market entry



Source: Grant (2019), p. 279

Internationalization methods range from the simplest form, involving *export*, to the one requiring the highest degree of involvement and control, represented by *Foreign Direct Investment (FDI)* (Benevolo, 2003). Between these extremes lies a wide range of intermediate internationalization forms commonly referred to as *alliances* (depicted in gray in **Figure 2.**). Contractor and Lorange (2002) define an alliance as "any interfirm cooperation that falls between the extremes of discrete, short-term contracts and the complete merger of two or more organizations". Given the variety and complexity of cooperative forms between companies proposed in the literature (Gulati & Singh, 1998; Das & Teng, 1998), a classification oriented by equity involvement (ownership sharing criterion) is proposed, which distinguishes them into *equity vs. non-equity agreements.*

Figure 2. Classification of Business Collaboration Forms

Internationalization strategy	EXPORT	STRATEGIC ALLIANCES				FDI	
Entry Mode	Market contracts	Licensing	Franchising	Production / Management Contracts	Joint Venture	M&A	Greenfield / Brownfield Investmnets
Ownership Sharing criterion	Non-equity agreement				Equity agreement		

Source: personal elaboration

1.4.1 Indirect and Direct Exports

Exports involve the sale of goods or services produced in one country to customers in another country. It is a very simple way to enlarge the product or market scope, where both the organizational effort and the presence in the foreign market, are relatively low. They represent the lower level of the internationalization process, preceding more complex methods (Demattè, Perretti, & Marafioti, 2008). Due to intrinsic characteristics such as lower risk, reduced financial expenditure, faster returns on investment, and greater strategic ease, exporting is considered a highly flexible mode (Caroli & Lipparini, 2002). Hence, exports are among the most prevalent choices for small and medium-sized enterprises (SMEs) approaching internationalization.

Indirect exports involve using intermediaries, such as distributors or agents – i.e., third parties located or operating in the foreign country that facilitate the sale of products in foreign markets. The company has no direct contact with the foreign target market. The presence of independent entities in the new market, managing operations on behalf of the manufacturer, allows him to minimize financial commitment and effort in altering production and organizational structures. In addition to possessing excellent knowledge of the target market, these intermediaries have also built strong relationships over time, especially with local distributors. Moreover, they bear all operational costs and act as guarantors of potential commercial risks.

The main types of intermediaries are:

- *Buyer*: independent entity residing in a specific country that selects suppliers and manages relationships with them on behalf of several foreign companies operating in its geographical area. This includes conducting market analysis – providing insights into local trends and any necessary product modifications – purchase planning, supply contract conditions negotiation, and operational issues support. They typically earn commissions based on the value of merchandise exported.
- *Broker*: entity that facilitates transactions between the producer (seller) and potential foreign buyers. They provide consultancy and assistance in defining commercial agreements during transactions. Brokers primarily deal with commodities and play a key role in identifying potential buyers. They operate primarily on a commission basis, earning a fee for their role.
- *Export Management Company (EMC)*: commercial entity operating in international markets as an overseas sales unit for multiple producers at different levels of the same supply chain. It concentrates on limited product categories and/or specific markets with homogeneous characteristics, directly purchasing products from the manufacturing firm and assuming the commercial risk associated. This includes finding counterparts and managing all activities related to product transfer and distribution.

- *Trading companies*: typically large trade organizations (MNCs) handling the export activity of various firms and product categories. They purchase products – mostly from manufacturing firms – managing logistics and effectively positioning themselves in the value chain.
- *Export consortium*: "a voluntary alliance of firms with the objective of promoting the export of goods and services of its members through joint actions. It is a formal organization designed to promote medium- to long-term strategic cooperation among firms, organizing joint activities to facilitate access to foreign markets" (UNIDO's Department of Trade Promotion and Investment Services, 2008). Businesses join consortia primarily for easier access to both operational and market-related information, as well as the implementation of joint projects or the reduction of costs associated with internationalization efforts. This is particularly applicable to SMEs, which often encounter challenges in exporting to foreign markets due to potential issues such as a lack of necessary knowledge and financing, non-compliance with foreign regulatory requirements, or the production of quantities or quality not suitable for foreign buyers, among other obstacles.
- *Piggyback contracts*: an agreement between a small-sized company, the 'rider', and a large-sized company, the 'carrier', which already operates in specific foreign markets. Piggybacking allows the rider, often an export-inexperienced SME, to leverage the carrier's established distribution network and market presence. At the same time, the carrier fully utilizes its established export facilities (sales subsidiaries) and foreign distribution. However, challenges arise in maintaining product similarity, addressing technical queries, and negotiating branding strategies.

Direct exports occur when a company manages exportation with its own commercial structure, thus without intermediaries, by establishing direct contact with the importer, *agents* or *distributors*, located in the foreign market area. Direct exporters prefer a higher level of involvement in the target market. Being closer to consumers and having greater control over the product along the distribution chain, allows the company to better understand the market needs and brand perception, and increase profit margins. However, direct exports come with increased business risk, albeit relatively low, requiring specific international skills and competencies.

Distributors stock and take ownership of the manufacturer's product, managing inventories, financing, and operational risk. As independent merchants, they have substantial freedom to choose their own customers and to set the conditions of sale. Distributors often own and operate various establishments, focusing on their own suboperations and dealers once negotiations with exporters are completed. Usually, distributors seek exclusive rights for specific sales territory and generally represent the manufacturer in all aspects of sales and servicing in that area, including after-sales service when required. They profit from the difference between their selling price and buying price.

On the other hand, *agents* sell products on behalf of the manufacturer (exporter), without stocking them. In fact, the exporter ships merchandise directly to customers, and all financial arrangements are negotiated between the exporter and buyers. Exclusive agents are often involved in entering international markets, which cover specific geographic areas with subagents, earning commissions based on pre-agreed terms. This typically ranges from 5-10%, reflecting services provided, market size, and competition.

Both distributors and agents offer unique advantages, influencing the choice between them in international markets, where strategic decisions depend on factors such as market dynamics, product nature, and after-sales service requirements.

The recent developments in the global economy have highlighted the growing importance of a recent direct export mode, that is *e-commerce*. This involves establishing an online store that breaks down geographical barriers – reducing operations and communication time and costs – with potential buyers in any target market. This allows for the establishment of a direct relationship with customers, responding promptly to their needs. The COVID-19 pandemic significantly boosted online sales, albeit with significant inequalities among various e-commerce sectors and geographic regions, with Asia emerging as the leading e-commerce market (UNCTAD, 2021). This event, coupled with the increasingly rapid pace of people's lives, underlined the need for countries to adapt their strategies by enhancing digital infrastructure and fostering an environment that facilitates e-commerce growth.

1.4.2 Strategic Alliances

The second channel for entering foreign markets is represented by *strategic alliances*, that is formal agreements between companies working together to achieve common goals over the medium to long term. The term "alliances" covers several governance modalities ranging from relational contracting to licensing, to logistic-supply chain relationships, to equity joint ventures (Gulati & Singh, 1998). Typically, focused on facilitating companies' entry into new geographical areas, strategic alliances enable partners to share efforts, mitigating risks tied to internationalization and bringing benefits in terms of resources and technologies sharing, reducing individual financial and organizational commitments. Strategic alliances facilitate efficient strategy implementation to quickly achieve the "critical mass" for success.

As mentioned before, strategic alliances can be categorized into **equity alliances** (i.e., joint *ventures*), involving an equal capital contribution from participating companies, and thus shared decision-making and risk, and **non-equity alliances** (i.e., *licensing, franchising, production contracts, management contracts*), encompassing various forms of strategic partnership without capital investment and shared risk based on agreement terms.

Licensing involves an agreement through which a company, the *licensor*, grants another foreign entity, the *licensee*, the right to utilize its legally protected piece of intellectual property – e.g., technology, industrial design, logo, trademark, knowledge, or patent – for use in conjunction with a product or service, in exchange for royalties or a lump-sum payment. Licensing allows the licensor to rapidly expand its product or asset, strengthening its position abroad without the need for substantial investments and reducing entry costs. The licensor's investments are limited to supporting the licensee, which oversees production control and marketing policies autonomously and independently. This enables the adaptation of the product to the specific needs of the foreign market, while also protecting the brand.

Some companies use licensing to scale their businesses in a particular way, especially to use locations that would be inaccessible. For instance, this applies in markets where governments prohibit the import of specific products or direct investment as well as participation in local enterprises in certain sectors. In dynamic sectors requiring significant R&D investments, *cross-licensing* is widely used, where two companies in different geographic markets mutually exchange licenses, expanding the range of products offered in each target market.

However, licensing agreements come with some risks. The first one is associated with how products are positioned in the reference context, potentially altering the licensor's image, and causing economic and strategic damage. Another relevant risk is the possibility of inadvertently creating potentially competing companies.

Franchising involves a distribution arrangement between the production company, the *franchisor*, and the foreign entity, the *franchisees* or *affiliates*. Under this contract, affiliates can use the franchisor's business formula, including know-how and distinctive signs (i.e., company name, trademark, and signage) along with other assistance services. Affiliates are required to pay an entry fee and additional periodic fees and to comply with specific behavioral standards on how to operate. Indeed, they commit themselves to adhering to the franchisor's system, branding, and operating procedures. From a strategic point of view, the products become standardized, and the image of the parent company remains consistent. To ensure uniformity, franchisors may control and supervise site approval, design or appearance standards, restrictions on goods and services sold, restrictions on methods of operation, and sales area limitations (Federal Trade Commission, 2020).

The main advantage is that the franchisor can expand rapidly into a specific foreign market, spreading its brand and logo while retaining control over certain critical activities and, at the same time, relying on the organizational expertise of local companies for distribution and sales activities. However, this collaboration strategy also presents challenges, especially concerning product flow management from the franchisor to the affiliate and the organization of the distribution network in the target country.

With the **Production contract**, a company entrusts the execution of its products, to a manufacturer based in the selected foreign market, while keeping control of marketing and distribution activities. Production contract typically involves outsourcing the production in a developing country, aiming to reduce production and transportation costs and overcome entry barriers like customs duties and export tariffs. In return, the client obtains processed products by sharing knowledge, representing the sole investment required. This approach is common in industries like manufacturing, agriculture, and entertainment, particularly when one party lacks the expertise, facilities, or resources to independently produce a specific product or service. By contrast, the **Management contract** involves an international company providing managerial expertise and services to another, utilizing its competitive advantages in the foreign market. This alliance is suitable when a company wants to enter a foreign market but lacks the necessary local management knowledge or resources. The management contractor assumes managerial responsibilities, such as operations and marketing, in exchange for compensation. This type of contract is prevalent in the hospitality and real estate sectors.

Moving to equity alliances, the **joint venture (JV)** is the most advanced form of strategic collaboration in the internationalization process, that is, the closest to *foreign direct investment (FDI)*. A JV is a "business arrangement in which two or more parties agree to pool their resources to accomplish a specific task, which can be a new project or any other business activity" (Hargrave, 2023). It involves a plurality of operators creating a new independent legal entity with shared ownership, management, and resources, pursuing common objectives, through close collaboration and strategic alignment. Unlike previous contractual alliances, JVs foster commitment and risk-sharing, with profits and losses distributed proportionately to ownership stakes.
Decisions within the JV are usually made jointly by representatives from each partner company through a board of directors or similar structure, reflecting the shared governance and control aspects of an equity alliance. This creates a strong incentive for both parties to contribute towards the JV's success. Particularly, parent companies contribute financial, material, and immaterial resources, seeking stable market positions in foreign territories. Therefore, JVs are typically established with a company already present in the market to facilitate market penetration, overcoming potential entry barriers and specific constraints imposed on foreign producers. Through such an agreement, one company provides the necessary expertise and assets, while the other contributes local market experience and distribution networks. The degree of financial and operational involvement is high, with partitioned investments. Beyond providing capital, agreements

cover technologies employed, research and development operations, and sales organization.
JVs allow the constituting companies to pool more resources and knowledge, thus increasing their level of competitiveness in the foreign target market compared to if the involved companies had operated individually. This collaborative approach facilitates easier and faster entry into new markets, reducing financial investment and organizational complexity by leveraging the local partner's presence. Additionally, parent companies can share distinctive capabilities and complementary expertise to foster business growth and innovation opportunities exploration, mitigating investment risks. It is generally an operation with a medium- to long-term time horizon. Once the objectives for which it was formed have been achieved or the conditions for achieving them have ceased to exist, the joint venture is dissolved, or full control is assumed by one of the partners.

Despite these benefits, challenges may arise due to their unique features as identified by Jin & Zhou (2021): *parental control competition* – where foreign and local parents often compete for control rights because of their divergent objectives – and *cultural differences* – involving distinct expectations for JV development, as host country's institutions and cultures often differ significantly from those of a foreign parent's home country – potentially hindering effective innovation within JVs. Moreover, "uncertainty about the other party's conduct and the risk based on dependence" (Ertug et al., 2013), underscores the importance of trust in sustaining a successful joint venture.

1.4.3 Foreign Direct Investments (FDI)

Foreign Direct Investments (FDIs) represent the last category of internationalization strategies and involve the highest evolution of international presence. According to the Organization for Economic Cooperation and Development (OECD) (2024), FDI is a form of cross-border investment in which an investor residing in one economy establishes a lasting interest in and a significant degree of influence – holding at least 10% of the ordinary shares and corresponding voting power – over an enterprise based in another economy. Compared to the previous methods of market penetration, FDI requires a greater commitment in terms of managerial focus and financial effort since it requires direct investment in some other countries or regions. By transferring financial resources or equity capital flows, this entry mode allows the investor to directly occupy the foreign market, benefiting from economies of location and learning. FDI investors often take ownership and controlling positions in domestic firms, actively participating in management (Hayes, 2023).

The main motivations for companies, mostly MNCs, to choose FDI are diverse. It serves as a means to expand their international presence into new markets, acquire necessary resources, achieve competitive advantages, or diversify the international production structure. Additionally, FDIs enable the financing and construction of new infrastructure, fostering economic growth, especially in developing countries. However, a profound establishment in the foreign market requires substantial investments and entails high risks and entry costs.

According to Egger et al. (2023), FIDs are valuable under three conditions:

(i) create unique access to resources (e.g., factors, knowledge, materials, etc.) or a market (e.g., existing customer base, sales knowledge, distribution networks, etc.),

(ii) have a crucial location, providing accessibility to customer- or input-market or to transport-network.

(iii) foster integration, for instance by providing reduced communication frictions, goals alignment, information asymmetries, etc.

Depending on the investor's objectives nature, FDI can occur through two primary modalities: *Merger and Acquisition (M&A)* or *Greenfield/Brownfield Investments*. In the case of **Merger and Acquisition (M&A)**, the investment is conducted towards the complete acquisition of a foreign company or a merger with it. M&A requires substantial initial financial investments but allows companies to acquire entities already established in the new territory, possessing a well-defined and suitable organizational structure. While providing immediate access to the local market, existing customers, and distribution networks, M&A presents challenges related to cultural integration, human resource management, and resolving issues inherited from the acquired company.

Greenfield Investments involve establishing a new company, production facility, or subsidiary in a foreign country. This includes constructing new structures, acquiring land,

installing equipment, and training local staff. The main advantage is having complete control over operations and the ability to design structures according to specific needs. However, compared to acquisitions, it is a longer and more costly process in terms of initial investment and risks associated with construction from scratch.
On the other hand, **Brownfield Investments** involve the redevelopment, expansion, or improvement of existing facilities or activities in the host country. While saving time and costs to start operations, brownfield Investments may encounter issues related to the previous management, necessitating adjustments.

Depending on the characteristics of the investment and the connection between the activities of the investing company and the newly acquired foreign entity, FDIs can be additionally classified as *vertical* or *horizontal*. Vertical FDI involves a company investing in a foreign entity connected to different stages of its production process, including backward (earlier stages) and forward (later stages) investments. The purpose is often to gain control over the entire supply chain, reduce costs, and improve efficiency. On the other hand, horizontal FDI occurs when the foreign entity engages in replicating the existing production activities of the investing company. The creation of a horizontally integrated structure is driven by increased market share and risk mitigation by diversifying operations.
Both vertical and horizontal FDI are crucial for companies navigating the global market, and their choice depends on strategic objectives and market conditions.

2 GLOBAL MEGATRENDS AND GEOPOLITICAL SHIFTS THAT HAVE SHAPED ASIAN MARKETS OVER RECENT DECADES

Nowadays we are assisting to a perpetual and accelerating pace of change driven by powerful global forces. Significant global megatrends such as urbanization, technological advancements, demographic shifts, and the complexities of globalization are reshaping our world and will continue to shape our future throughout this century (Project Management Institute, 2022). Understanding the characteristics of these trends – and the potential emerging phenomena that can accelerate or alter their trajectories – is essential for individuals, businesses, and policymakers, as they will determine the opportunities and challenges of the future. Within the corporate strategy framework, operational responsiveness and flexibility are crucial for companies to align with these changes and to leverage the potential of emerging technologies (Bash et al., 2023).

The emergence of Asian power represents one of the most evident signs of today's evolving world order. Over the past few decades, Asia has experienced profound changes influenced by global megatrends and geopolitical shifts, emerging as an area of primary importance for the strategic interests of major global and regional powers. What is distinctive today is the spectacular economic dynamism of the region and its growing role in the global balance of power. The post-Cold War era, marked by the dissolution of the Soviet Union in 1991, set the stage for a multipolar international system and created the space for Asia to emerge. Several East Asian countries – Japan, South Korea, Taiwan, Hong Kong, and Singapore – experienced sustained economic growth, rising productivity, and significant improvements in living standards. This phenomenon, often referred to as the "Asian Miracle" (Biswas, 2016), was driven by export-oriented industrialization, foreign investments, stable governments, and an educated skilled workforce, and propelled the region into an era of unprecedented growth and prosperity. Here, the active role of governments in promoting economic growth proved crucial for the success of *High-Performing Asian Economies (HPAEs)* (Pack & Page, 1994). Furthermore, the proliferation of trade agreements and economic institutions like ASEAN has promoted regional economic integration, creating a single market with over 600 million inhabitants.

As the Asia-Pacific region continues to redefine its role on the world stage, analyzing the driving forces behind its ascent and the implications for global stability and prosperity become imperative, especially for MNCs competing within such a dynamic market. According to the World Bank and the World Trade Organization (2019), two major megatrends are shaping the patterns of global interconnectedness. The first one involves the growth of developing countries, the expansion of their middle classes, and the reorientation of global purchasing power towards these economies (World Bank & World Trade Organization, 2019). This shift is set to bring significant changes to the characteristics of GVCs, influencing corporate strategies, competition, and global consumption patterns, particularly in Southeast Asia. While the second megatrend is the increasing digitalization of production, and consequently, of GVCs and the global economy (World Bank & World Trade Organization, 2019). This phenomenon is promoting both automation and commercial integration, with high-tech sectors at the heart of GVCs (World Bank & World Trade Organization, 2019). However, the impact of new digital technologies on GVCs is uncertain: they may shorten supply chains by encouraging the reshoring of manufacturing production, thereby reducing opportunities for developing countries to participate in GVCs, or they may strengthen GVCs by lowering coordination and transaction costs between buyers and suppliers. A clear message is that economies are increasingly built on digital foundations, therefore, trade, GVCs, and digital technology cannot be separated and treated as independent forces (World Bank & World Trade Organization, 2019).

The recent COVID-19 pandemic has further accelerated digital disruption, fostering an increasing concentration of capital on major platforms and promoting the “dematerialization" of work (Andrews, Charlton, & Moore, 2021). This pushed individuals and organizations to quickly adapt to new technologies and completely switch to digital channels to carry on their ordinary activities. From an economic perspective, the pandemic triggered a significant global recession, emphasizing vulnerabilities in supply chains, particularly the overreliance on single-source vendors and suppliers (International Monetary Fund, 2020). This prompted a re-evaluation of globalization settings and the need for more coordinated global governance.

Another recent event shaping global economic dynamics is represented by the US-China trade war. Officially began in 2018 with US tariffs on steel and aluminum, this conflict significantly impacted global supply chains and investment flows, particularly in Asia (Amiti, Redding & Weinstein, 2019). Indeed, it exacerbated the slowdown in GVC growth already underway since the 2008 financial crisis and led to a decline in bilateral FDIs between the US and China, with uncertainty and higher operating costs discouraging significant new investments (DHL Global Connectedness Report, 2023). While tensions have undoubtedly strained US-China ties, the interconnectedness between these economic giants remains substantial and the overall level of global connectivity remained surprisingly resilient (DHL Global Connectedness Report, 2023). This suggests that the intertwined economies of the US and China may be diminished but not entirely decoupled.

2.1 Understanding Megatrends: Characteristics and Methodologies

Megatrends are defined as “major movements at a global scale likely to have significant impact on the global economy, society, and ecology” (Bash et al., 2023). According to Bash et al. (2023), criteria to identify megatrends include: (i) global significance with geopolitical implications, (ii) critical enough to require regulation, (iii) involvement of multiple technologies and technology trends, and (iv) long-term evolution. Megatrends are often associated with disruptive phenomena, that is sudden and unexpected events or radical discontinuities that have a significant impact on existing systems. While the effects of megatrends have a long-term horizon, disruptive events typically cease to exert their influence within a few years or decades such as technological breakthroughs, natural disasters, or social movements. Examples include the rise of social media which has disrupted traditional media models and the COVID-19 pandemic which has fundamentally altered how we work, live, and interact with each other (World Bank & World Trade Organization, 2019).

In his book, Paura (2020) identifies the significant characteristics of megatrends:

- *Long-term dynamics:* Megatrends are long-term forces that transcend event-driven history and require, to be isolated and analyzed, to reason on a very long-term perspective.
- *Combination of multiple drivers:* Megatrends are not linear extrapolations of a phenomenon but derive from the interaction, combination, and mutual influence of multiple drivers, known as "STEEP drivers": society, technology, economy, environment, and politics. We, therefore, distinguish between "trends" – short-term projections of a specific sector – and "megatrends" – characterized by the long-term horizon and the combination of multiple trends. Each megatrend is the result of the interaction, combination, and mutual influence of two or more drivers.
- *Large scale:* Megatrends unfold their effects on a large scale, typically globally or at least beyond a single region or nation; for example, on a continental scale (Africa, Europe) or geopolitical (the West, emerging countries).
- *Resilience to short-term disruptions:* Megatrends exhibit a certain inelasticity to cyclical discontinuities, demonstrating the ability to essentially resume their evolution more or less undisturbed even after sudden interruptions.
- *Already active dynamics:* Megatrends are currently active forces shaping our present, differing from emerging phenomena that take years to initiate significant change.
- *Exponentiality:* Megatrends can grow exponentially, both quantitatively (i.e., the population growth or the increase of processors' power) and qualitatively by completely changing our society. This was the case with digitalization, and it is currently the case with automation, AI, and the space economy. Understanding emerging trends in their early stages can be difficult because our minds are wired to linear thinking. However, in an increasingly dynamic environment, understanding exponential growth is essential in order to adapt to fast changes.

There is no specific methodology for studying megatrends. Future studies have developed various methodologies for scenario construction, and many others exist outside this discipline for forecasting linear trends, particularly in econometrics (Paura, 2020).

Generally, the study of megatrends involves the use of *content analysis* to identify weak signals within the vast amount of information and content produced daily at an international level by mass media and research institutions. While essential for identifying emerging phenomena, content analysis is less useful for understanding structural megatrends and their evolution, as these are already well-known and operating dynamics (Paura, 2020). Comparing different sources and datasets is crucial for understanding the most probable direction of a megatrend. In their study, Naisbitt & Plattel (1984) identified ten megatrends that actually fall into what we define as "emerging phenomena". Through cross-sectional and multidisciplinary trend reading, their research team tried to extrapolate some development directions. These are abstract concepts that were nevertheless able to capture ongoing changes, some of which were fully realized in subsequent decades, while others remain theoretical or aspirational to this day.

Megatrends analysis requires a broad time horizon and a multidisciplinary approach. In an era of hyper-specialization, where knowledge is often fragmented, synthesizing insights from various disciplines and presenting a holistic view of megatrends can be challenging, not to mention the perceptions of superficiality or incompleteness. However, understanding the intersection of diverse trends is crucial for anticipating the future. The exponential nature of megatrends, which can rapidly become significant and disruptive, underscores the importance of long-term and broad-based thinking. Ignoring the early stages of exponential phenomena, such as a pandemic's initial cases, can lead to being overwhelmed by their rapid escalation.

2.2 The Rise of Asia Pacific

Over the past few decades, Asia has experienced profound changes influenced by global megatrends and geopolitical shifts, emerging as an area of primary importance for the strategic interests of major global and regional powers. The Rise of Asia is a story of sustained economic growth, technological innovation, and evolving geopolitical significance and represents a significant shift in global power dynamics: the unipolar world order dominated by the United States in the 1990s is transitioning to a multipolar one, where new emerging power are consolidating their positions as leading global actors.

Particularly, Asian emerging economies are gaining more influence and creating a more complex transnational interconnection in production, finance, politics, society, and technology.

During the Cold War era, East Asian countries were economically and politically insignificant and played marginal roles in global affairs due to factors like a long period of colonial domination, the post-war reconstruction, and domestic upheavals (Brook & McGrew, 2013). The potential regional powers, namely China and Japan, were preoccupied with internal matters and retreated from international activism. Japan kept a low international political profile, focusing primarily on economic objectives to forge closer ties with the USA and the West, while China isolated itself during the Great Proletarian Cultural Revolution of 1960 (Brook & McGrew, 2013). Consequently, the region lacked a cohesive identity and was overshadowed by European integration efforts. However, the geopolitical landscape of the Asia-Pacific has witnessed a significant evolution since the Cold War. The collapse of the Soviet Union in 1991 marked a pivotal moment in the political global order: it dissolved the Cold War's bipolar structure with the United States and set the stage for a multipolar world order, creating space for Asia to emerge. Moreover, the region's rapid economic growth – the "East Asian Miracle" – further fueled the rise of Asia.

The economic rise of the Asia-Pacific has redefined the global landscape reshaping international relations, with the region assuming an increasingly central role in the global economy. The following sections will delve deeper into the specific factors that contributed to Asia's ascent, the roles played by key Asian countries, and the implications of this rise for the global geopolitical landscape.

2.2.1 The End of Bipolarity

The bipolar world order – marked by mutual hostility between the United States and its allies on the one hand and the Soviet Union and its allies on the other – collapsed with the dissolution of the Soviet Union in 1991. This crucial event allowed the US to emerge as the sole superpower, influencing the international system, while Russia focused on rebuilding its economy. US hegemony was further consolidated with the expansion of capitalism on a global scale. However, the unipolar moment did not guarantee a stable world order. Tensions in the Asia-Pacific heightened due to unresolved domestic conflicts, and North Korea's unpredictable behavior posed challenges to peace and security within the region. The end of bipolarity led to significant changes in the geopolitical landscape with a power vacuum, creating space for Asia's rise. In the post-Cold War environment, economic power gained significant importance, shifting the focus toward economic development and modernization. Regional powers such as China and Japan reassessed their positions and economic strategies. The end of the Soviet threat allowed China to prioritize its economic development and innovation strategy without the fear of direct military confrontation. The Chinese government worked to normalize relations with most East Asian nations and further integrate its economy into the global system. Additionally, the lack of a strong opposing force post-Cold War may have given China more confidence to assert its territorial claims, especially in sensitive regions like the South China Sea (Brook & McGrew, 2013). The same reason fostered Japan's repositioning in this new global context: in the absence of a strong Soviet counterpart, Japan leveraged its economic strength and reassessed its military posture and alliance with the US.

Japan was the only East Asian country with the potential to emerge as an influential international actor in the region, given its substantial GDP and economic credibility[2]. The post-Cold War era also provided greater opportunities for Japan to adopt a more independent foreign policy, diverging from the USA due to differing interests (Green, 2001). Despite lingering historical hostility from unresolved WWII issues, East Asian countries became less apprehensive of Japan. Moreover, Japan's economic success served as a model for economic development across East Asia. For instance, in the early 1980s, the Malaysian Prime Minister encouraged Malaysians to "look East" to replicate Japanese economic success (Haggard, 2018).

There was recognition that Japan's leadership was vital for the region to emerge as a significant global player. As noted by Dobbs-Higginson (1993), Japan was the only Asia-Pacific country with the economic strengths and credibility to negotiate on behalf of the region, and other countries should harness this power for collective good. Southeast Asian

[2] In 1991, Japan's total GDP (US$3,362 trillion) was more than twice the collective GDP of all other East Asian economies combined. (Brook & McGrew, 2013)

countries, needing Japanese investment to supplement scarce domestic capital, were also more receptive to Japanese influence. Foreign aid, particularly from Japan, played a crucial role in Asian regional development and fostering cooperation, although questions were raised about its motivations and effectiveness. Additionally, developments outside the region, such as the rise of regionalism, contributed to reduced hostility towards Japan. Despite unresolved political and territorial disputes that could potentially destabilize the region, economic issues remained a priority. Nevertheless, there was a tacit understanding among countries to focus on economic cooperation over political tensions.

2.2.2 Economic Boom

Asia's remarkable economic resurgence was the result of several interrelated factors that propelled the region into an era of unprecedented growth and prosperity. According to Brook and McGrew (2013), the rise of the Asia-Pacific region was primarily driven by the successful adoption of the *Japanese model of economic growth and development*. This model defined as 'neo-mercantilist' is characterized by strong state direction in the economy, active industrial policy, and export-oriented growth strategies. Following WWII, Japan was the first Asian country to realize rapid economic growth, serving as a blueprint for other Asian countries, such as Korea, Taiwan, and later, Southeast Asian nations like Malaysia, Indonesia, and Thailand (Brook & McGrew, 2013). The primary strength of the neo-mercantilist model lies in its outward orientation, prompting adaptability to the global market and pushing export promotion through improved institutions.

Unlike protectionist measures common in the past, Northeast Asian economies prioritize export promotion, devoting resources towards manufacturing goods for the global market. This export-push approach necessitated international competitiveness, prompting these nations to continually improve their production efficiency and product quality. State intervention also played a crucial role in maintaining economic fundamentals and ensuring high levels of domestic savings for investment purposes (Brook & McGrew, 2013). This approach created a stable environment for businesses and led to a significant increase in real income per capita of about more than four times in Northeast Asian economies between 1960 and 1985 (World Bank, 1993).

Southeast Asian economies, while adopting aspects of the Japanese model, diverged when it came to foreign investment openness and multinational corporations. Unlike Northeast Asian counterparts, they embraced a more open approach, actively attracting FDIs and MNCs from developed nations to fuel their industrialization drive. China serves as a prime example: after opening up its economy in the late 1970s – through liberalization and export promotion – the nation experienced a period of rapid economic progress. This strategy not only provided access to vital capital but also facilitated technology transfer and integration into the global production network (Zhang & Chen, 2020).

By the 1980s, Asia-Pacific had emerged as the most dynamic economic region globally, with a substantial proportion of global GNP (**Table 1.**). The USA was the main destination for regional countries' exports, especially manufactured goods (Brook and McGrew, 2013). Japan, although being a major consumer economy, allowed regional countries limited access to its domestic market. Despite differences in economic strategies, a common reliance on trade fostered a sense of unity and interdependence among East and Southeast Asian countries, paving the way for the creation of a powerful trading zone by 1985 (Roberts, 1992).

Table 1. Shifting Economic Power in Asia, Europe, and North America

	Asia	*Europe*	*North America*
GNP (US$ billion, constant 1987 prices)			
1972	1871	3591	3350
1992	4511	5583	5323
% change	141	55	59
Per capita GNP (US$)			
1972	922	8674	11627
1992	1539	12140	14481
% change	67	40	25
Population (millions)			
1972	2029	414	288
1992	2930	459	367
% change	44	11	27

Source: World Bank (1994)

However, currency adjustments in the mid-1980s prompted a significant economic shift, leading to growing trade imbalances between the USA and Japan and subsequently driving Japanese investment into other Asian countries (Brook and McGrew, 2013). Despite Japan's economic downturn in the 1990s after the burst of the late 1980s bubble economy, the Asia-Pacific's collective GNP, its share of world trade, and growing regional interdependence suggest its increasing significance in global affairs.

In addition to the successful adoption of the Japanese model of economic growth, other factors contributed significantly to the shift of the economic center of gravity toward the Asia-Pacific region:

- *Demographic advantages*: Asia has been home to a rapidly growing and youthful population, providing a vast pool of cheap labor for its industries. Additionally, a high emphasis on education contributed to the development of a workforce with the skills necessary to compete in the global economy.
- *Focus on Technological Advancement*: Many Asian nations recognized the importance of technological innovation and infrastructure development in driving economic growth. They embraced new technologies, fostered research and development (R&A), and actively invested in infrastructure projects, enhancing productivity and competitiveness. Countries like Japan, South Korea, and China emerged as leaders in various technological fields and together with the rise of the IT and software services industry, particularly in India, further fueled economic expansion and global integration.
- *Political Stability and Governance*: Relative political stability in many Asian countries provided a predictable environment for business activities and long-term investments. Strong government structures and effective economic policies, although varying in nature from democratic to authoritarian regimes, ensured consistent policy implementation and fostered a business-friendly environment that attracted FDIs and supported domestic industries.
- *Globalization and Trade*: Active participation in the global economy through international organizations such as the WTO and regional trade agreements played a crucial role in Asia’s ascent. Competitive labor costs, along with growing domestic markets and improving business environments, made Asia an attractive

destination for FDIs. Foreign capital influx facilitated innovative technology transfer, further accelerating the region's economic transformation.

2.2.3 State Driven Growth

The remarkable economic resurgence of East Asia has long been attributed to the adoption of neoliberal policies and export-oriented industrialization strategies. This narrative emphasizes the focus of *High-Performing Asian Economies (HPAEs)* on international trade and the lack of price controls, which were believed to minimize distortions and inflation. Moreover, state interventions in areas such as human capital, education, and healthcare within Asian development models were often perceived as aligned with neoliberal principles (World Bank, 1993). However, these simplistic interpretation fails to capture the actual government's involvement in the development of these countries. Indeed, the Asian rise was based on state-assisted and state-promoted capitalism, with financial and economic interventions that do not align with neoclassical paradigms (World Bank, 1993). It was rather a hybrid system of neoliberal prescriptions and structural policies characterized by strong regulatory state intervention (Murray & Overton, 2014).

The World Development Report of the World Bank (1991) identified potential risks associated with excessive state intervention, such as market distortions, inefficiencies, and corruption. Therefore, governments should play a complementary role to the market in driving development and promoting growth, which is limited to four key functions: investing in education, creating a business-friendly environment, engaging with the global economy, and ensuring a stable macroeconomic environment (World Bank, 1991). While in centrally planned economies (e.g., Soviet Union) and mixed economies (e.g., United States, Japan, and South Korea) a significant portion of investments is managed by the government through tax revenues, in modern capitalist societies, savings and investments are managed separately: households save and businesses invest (Ray, 1998). Neoliberal paradigms emphasized governments' failure in managing resource allocation to achieve economic results. Therefore, a more active role of governments in promoting development was advised.

However, the success of Asian industrial policies during the 1980s challenged this assumption. Despite prevailing views against state interventionism, the active role of governments in promoting economic growth proved crucial for the success of the HPAEs (Cherif, Engher, & Hasanov, 2020). Even Japan's economic success could not be solely justified by market forces without considering the role of industrial policies in promoting growth (Haggard, 2018). The Japanese economic development model, guided by "developmental state policies" (Johnson, 1982), involved a bureaucratic and political élite supporting economic growth, cooperation between the private and public sectors, investments in education and human capital; policies to reduce inequalities and distribute profits from rapid growth; and state control over the pricing mechanism (Johnson, 1987). In contrast, in advanced countries such as the USA, state intervention was not about directly managing economic activity. Instead, it prescribed a mere regulatory role, aiming to maintain a competitive environment and a stable market (Johnson, 1982).

The common experience of the developmental state in Asia also provided a common background for the principle of regional integration, leading to the founding of ASEAN. Notably, among the five founding members of ASEAN, only the Philippines was not considered a developmental state, while Malaysia, Singapore, Thailand, and Indonesia exhibited a common development approach that enabled the association to pursue shared goals (Stubbs, 2012). The expansion of ASEAN to include Brunei, Vietnam, Cambodia, Laos, and Myanmar made the common element of the developmental state less relevant, culminating in the establishment of ASEAN Plus Three with historically developmental states like South Korea, Japan, and China (Stubbs, 2012).

2.2.4 Intra-Asian Trade and Regional Cooperation

Apart from economic achievements that have boosted regional confidence, the end of the Cold War has created more room for political maneuvering, pushing for an East Asian identity and collective voice on a global stage. The decline of the bipolar world order, allowed Asian states to distance themselves from external influences, creating a favorable environment for new alliances and partnerships both within Asia (i.e., regional cooperation and regionalism) and with external powers like the US, the European Union, and Russia. Some forms of regional integration were fermenting in East Asia, influenced by regionalism in other parts of the world. The *European Union (UE)* and the *North American Free Trade Agreement (NAFTA)* served as influential models for the development of regionalism in Asia. However, Asia regionalism has developed a unique trajectory due to factors such as its complex historical background, the diverse political systems, and the membership characteristics (Asia Development Bank Institute, 2008). Asia's distinctive approach to cooperation lies in the contrast between high levels of regionalism and limited formal institutions, marking a departure from conventional models of integration such as the EU. Although the international order established by the USA at the end of WWII promoted multilateral cooperation, the first regional institutions in East Asia and the Pacific began to emerge only with the decline of US hegemony (Acharya, 1997). The low levels of regionalism and institutionalization in Asia are explained by the realistic approach as a consequence of the lack of hegemonic power in the region (Jetschke & Katada, 2016). According to this perspective, strong institutions arise from the presence of hegemonic powers able to lead the regional movement, such as the United States in North America and Germany in Europe (Jetschke & Katada, 2016). The rivalry between the major powers of East Asia (China and Japan) would have slowed down institutional development. The intensification of interstate activities and the liberalization of trade borders that followed the Cold War prompted several Asian countries to consider regional cooperation to make the most of these global processes and, more importantly, to contain their negative effects (Higgott, 2012). In this context, FDIs that have delineated the economic borders of East Asia and Pacific Asia played a crucial role in Asian regional cooperation, improving relations between very different states from economic, political, and cultural points of view. Indeed, historical, cultural, and economic differences as well as Chinese and Japanese hegemonic ambitions have strongly constrained regional cooperation in East Asia (Acharya, 1997). It is not surprising, therefore, that the first multilateral institution in the region during the 1960s was an inward-looking subregional organization like the *Association of Southeast Asian Nations (ASEAN)* (Acharya, 1997).

ASEAN stands as one of the few successful examples of regional cooperation in Asia. Founded in 1967 by Indonesia, Malaysia, Thailand, Singapore, and the Philippines in response to the threat of the Cold War and the rise of communism, the organization aimed to protect the political stability and independence of Southeast Asian nations (Jetschke, 2012). ASEAN's institutional design, inspired by Europe but based on open regionalism without sovereignty transfers, proved well-suitable for export-oriented members seeking to maintain their political and economic autonomy (Jetschke, 2012). Indeed, member countries agreed on maintaining political autonomy and defending national sovereignty (Davies, 2018). Over time, ASEAN expanded to ten members and extended its objectives beyond regional stability, including economic, social, and cultural development, as well as economic and security integration (Jetschke, 2012). In the 1990s, ASEAN countries developed the first regional free trade agreement in East Asia, the *ASEAN Free Trade Area (AFTA*). However, the economic diversity among members and their strong export orientation limited the benefits of this preferential agreement. External trade relations continued to dominate over intra-ASEAN trade (Baldwin, 1997).

Dieter (2012) defined ASEAN's regional integration as "developmental regionalism" as it was primarily driven by FDIs rather than internal initiatives (Beeson, 2003). AFTA and bilateral agreements with China and Japan aimed to integrate Southeast Asia into the Asia-Pacific commercial networks, attracting investment through trade and capital liberalization, while investment allocation remained at the discretion of the state (Dieter, 2012). Until the late 1990s, the most significant regional integration focused on Asia-Pacific inter-regionalism, strengthening trade relations between the United States, Japan, and emerging economies (Jetschke, 2012).

ASEAN played a crucial role in Asian regionalism, leading cooperation and Asian institutions. Exploiting competition between China, Japan, and the United States, ASEAN institutionalized inter-regional forums and multilateral institutions such as the *ASEAN Regional Forum (ARF)*, *ASEM*, *APEC*, and *ASEAN Plus Three* (Jetschke, 2012). The decline of US-Soviet bipolarity and the new ambitions of Japan and China pushed ASEAN to promote cooperation for regional security and stability (Yuzawa, 2012). Multilateral cooperation in the Asia-Pacific benefited not only US commercial interests but also ASEAN's; US presence proved crucial for maintaining regional political balance (Yuzawa, 2012). In this sense, the creation of APEC was instrumental in securing the US position in the Asia-Pacific (Bisley, 2012).

After eight years of negotiations, in 2020, fifteen countries from East Asia and Oceania signed the Regional Comprehensive Economic Partnership (RCEP), the world's largest free trade and economic cooperation agreement. The RCEP involves the ten ASEAN countries, China, South Korea, Japan, Australia, and New Zealand. This agreement represents a significant step towards economic integration in the region, despite being less ambitious compared to other agreements like the CPTPP. **Table 2.** summarizes key agreements in the Asia-Pacific region, their main members, and economic objectives, highlighting the evolution of free trade policies and economic cooperation among the nations in the region.

Table 2. Multilateral Cooperation Agreements in the Asia-Pacific Region

Agreement	Year of Institution	Members	Key Objective
ASEAN (Association of Southeast Asian Nations)	1967	Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam	Regional economic integration, political cooperation, and security
APEC (Asia-Pacific Economic Cooperation)	1989	Australia, Canada, China, Japan, United States, and others	Promote sustainable economic growth, free trade, and technical cooperation
CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership)	2018	Australia, Canada, Japan, Mexico, Singapore, Vietnam, and others	Promotion of free trade, investment protection, and sustainable growth
RCEP (Regional Comprehensive Economic Partnership)	2020	China, Japan, South Korea, ASEAN members, Australia, New Zealand	Reduction of tariff and non-tariff barriers, regional economic integration
FTAAP (Free Trade Area of the Asia-Pacific)	Under Discussion	APEC members	Create a free trade zone involving all APEC members

Source: Personal Elaboration

2.3 Asia-Pacific in the New World Order: GVCs' Implications

In today's rapidly changing world, we are witnessing an ever-accelerating pace of transformation driven by powerful global forces. Global megatrends such as urbanization, technological advancements, demographic shifts, and the complexities of globalization are significantly reshaping our world and will continue to shape our future throughout this century. Megatrends' disruptive nature and their exponential scale effects underscore the importance of long-term and broad-based thinking as well as operational flexibility and responsiveness for business competitiveness. Understanding the characteristics and implications of these trends is essential for individuals, companies, and policymakers to anticipate future challenges and leverage opportunities. Moreover, recognizing emerging phenomena (e.g., the recent COVID-19 pandemic) in their early stage is vital, as they also play a crucial role in shaping future dynamics, potentially accelerating or redirecting the trajectory of global megatrends.

In this context, the international system is undergoing a significant structural rearrangement. It is transitioning from a post-Cold War unipolar world order led by the US to a multipolar system where Asian emerging powers are solidifying their positions as major international actors (Cimini & Cozzolino, 2020). This transition involves changes in global power dynamics, with increasing influence from emerging economies and a more complex transnational interconnectedness in production, finance, political institutions, society, and technology. Currently, two-thirds of global trade flows through *global value chains (GVCs)*, highlighting their critical role in globalization (Cimini & Cozzolino, 2020). The term GVC refers to international production sharing, a phenomenon where production stages are allocated across different countries depending on labor costs and specific contributions of knowledge and technology (Kano, Tsang, & Yeung, 2020). Within GVCs, the full range of operations (i.e., design, production, marketing, distribution, and support to the final consumer) are divided and carried out among multiple firms and workers across geographic locations to create complex products from their conception to their end-use and beyond (Seric & Tong, 2019).

The phenomenal growth in GVC-related trade has translated into significant economic growth in many countries worldwide over the past two decades, fueled by reductions in transportation, communication costs, and trade barriers. However, it has also contributed to distributional effects, leading to uneven distribution of trade benefits, which has, at least in part, triggered the backlash against globalization and the rise of protectionism and threats to global and regional trade agreements (World Bank & World Trade Organization, 2019). By analyzing GVCs and the dynamics of the international system multipolarity, the implications of transnational interconnections on the Asia-Pacific and Southeast Asian economies will be explored. Starting with a global perspective on the phenomena, the focus will shift to global megatrends and geopolitical shifts that have affected the Asian market in recent decades, emphasizing how globalization and digitalization have transformed its consumption patterns, competition, and corporate strategies.

According to the World Bank and the World Trade Organization (2019), two megatrends are shaping the patterns of global interconnectedness. The first one involves the growth of developing countries, the expansion of their middle classes, and the shifting of global purchasing power towards these economies (World Bank & World Trade Organization, 2019). This shift is set to bring significant changes to the characteristics of GVCs. Regional trade is increasing in percentage, especially in Asia. More production is now geared towards the rapidly growing domestic markets of developing countries rather than being exported outside the region. Trade is moving away from a rigid version of comparative advantage based on labor costs and labor arbitrage towards a model resembling intra-industry trade among developed economies, which is based on product and technology differentiation (World Bank & World Trade Organization, 2019). The labor market has also significantly transformed, with differing effects between advanced and developing economies. In developed regions, there has been a concentration of high-value-added activities (e.g., advanced technologies, financial and insurance services, R&D), while simultaneously, there has been stagnation in average wages and job losses in the manufacturing sector (Acharya, 2017). This has exacerbated wage inequalities and fueled social and political tensions. Meanwhile, developing economies still tend to engage in labor-intensive production processes with low technological value addition (Gita, 2020). However, the flow of technologies, the rise of a middle class in Asia, and the growing regional dimension of trade could, in the coming years, steer globalization towards greater regional integration and reduced reliance on low-cost production (Tooze, 2020).

The second megatrend is the increasing digitalization of production, and consequently, of GVCs and the global economy. This phenomenon is promoting both automation and commercial integration, with high-tech sectors at the heart of GVCs (Tooze, 2020). Digital platforms are playing a critical role in reshaping GVCs by enabling firms to improve coordination, collaboration, and transaction efficiency across different geographies. Loonam and O'Regan (2022) highlight how digital platforms are becoming fundamental to GVC strategies, fostering innovation and enabling firms to navigate complex global markets more effectively by lowering transaction costs and enhancing flexibility. However, the impact of new digital technologies on GVCs is uncertain: they may shorten supply chains by encouraging the reshoring of manufacturing production, thereby reducing opportunities for developing countries to participate in GVCs, or they may strengthen GVCs by lowering coordination and transaction costs between buyers and suppliers. A clear message is that economies are increasingly built on digital foundations, therefore, trade, GVCs, and digital technology cannot be separated and treated as independent trends and forces (Görlich, 2021).

The COVID-19 pandemic has further accelerated shifts in GVCs. The crisis disrupted global supply chains, causing firms to reconsider their dependence on long, international production networks. Pla-Barber, Villar, and Narula (2021) argue that the pandemic has catalyzed a new wave of regionalization in GVCs, as companies seek to mitigate risks associated with global disruptions by bringing production closer to home. This move toward regionalized supply chains could reshape the structure of GVCs in the post-pandemic era, reinforcing the trend toward intra-regional trade, particularly in Asia. The pandemic's impact on GVC governance has also led to a reconsideration of how resilience and flexibility can be built into global production systems to manage future shocks (Pla-Barber, Villar & Narula, 2021).

Regarding the state of the international order, analysts are currently highlighting a phase of crisis and transformation within the liberal international order. Based on institutions such as free trade, multilateral bodies, liberal values, and democratic regimes, the liberal international order now faces several challenges. Protectionist and nationalist policies in some countries, like the United States, and Brexit threaten the internal dimension of the liberal international order, as well as processes such as financialization, globalization, and U.S. interventionism in various global scenarios, particularly the Middle East. This is compounded by the rise of new powers, such as China, which advocate alternative models of governance and development and have the ability to project their interests (and build alliances) beyond national borders (Hazbun, 2018).

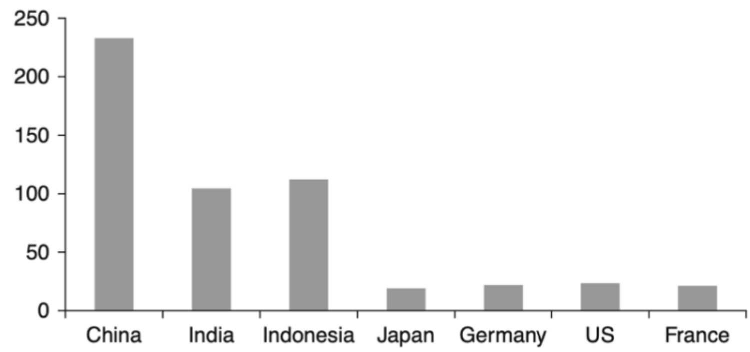
2.3.1 The Changing Landscape of Asian Consumers

The Asia-Pacific region is experiencing a confluence of global forces that are transforming it into the world's economic powerhouse. The most evident sign of this shift is the sharp increase in the number of middle-class households in Asian emerging markets. Rapid economic growth in Asian economies, particularly China and India, has led to a significant expansion of the middle class, which has greater purchasing power and is increasingly demanding higher-quality goods and services. The rise of the Asian middle class and China's economic ascendancy, together with shifting demographics constitute the primary megatrend in determining the prospects for the Asia-Pacific region over the next decades (Biswas, 2016).

Since the 1960s global consumer spending growth has been driven by the affluent societies in the US, Europe, and Japan. However, the gradual liberalization of the Chinese economy in the 1970s and the attraction of FDIs created a long phase of very rapid growth in the Chinese economy, with average real GDP growth rates averaging 10 percent per year, a pace that was sustained for three decades (Biswas, 2016). The prominent effect was the creation of a large new middle-class consumer society in China that is becoming an important new market for other Asian economies (Biswas, 2016).

While OECD countries, particularly Japan, face a significant slowdown in household spending growth due to demographic decline, China has experienced a remarkable expansion in domestic consumption (**Figure 3.)**. In Europe, the global financial crisis resulted in weak consumption growth for nearly a decade, with retail spending stagnating or declining from 2008 to 2013, and only a slight positive growth in 2014 (Biswas, 2016). In contrast, retail sales in China grew by more than 10% annually in real terms between 2005 and 2013. The rapid projected expansion of consumer markets in China, India, and ASEAN reflects the high GDP growth rate, leading to a substantial increase in per capita GDP and significant growth in the number of middle-class households in Asian emerging markets (Biswas, 2016).

Figure 3. Percentage change in household consumption growth between 2006 and 2013



Source: World Bank data

The robust and sustained growth of consumer demand in Asian emerging markets is prompting a significant shift in the business strategies of MNCs. To fully grasp this potential, companies are repositioning their operations to these fast-growing regions.

A clear indicator of this repositioning is the surge in FDIs by MNCs in emerging Asian markets. These capital inflows allow companies to strengthen their local presence, enhance regional production capabilities, and better meet the needs of the Asian market. Moreover, this growing demand not only attracts foreign MNCs but also stimulates the emergence and rise of local corporate giants. Favored by China's huge domestic consumer base, several Asian giants have already emerged in a variety of industries, including Huawei in telecommunications and Alibaba in e-commerce (Biswas, 2016). Rapidly rising household incomes across Asia will also support strong growth in demand for financial services, including banking, insurance, and asset management, due to higher discretionary savings among the spending Asian middle class. Education services are also set to grow significantly, with increased wealth in emerging Asia boosting demand for international education services. For instance, Singapore has already established its credentials as an international education hub, through the development of education exports from its major universities and has also attracted leading international universities to established campuses in Singapore (Biswas, 2016). The growth in consumer demand implies also the rise of the private healthcare sector as affluent households in Asian emerging markets seek high-quality medical services due to weak public health infrastructure (Biswas, 2016).

Although Asia currently holds the title of the most populous continent, hosting 60% of the world's population, growth rates are strongly decreasing. According to demographers, as the per capita income of a nation increases, the birth rate tends to decrease. This phenomenon can be explained by the fact that higher income enables women to access higher levels of education and the labor market (Paura, 2020). The declining birth rate and, in turn, the aging population will have significant implications for both Asian economies and the global economy. Some of the advanced economies in East Asia, including the second and third largest economies globally, China and Japan, are facing significant demographic aging. This phenomenon will heavily influence their future growth rates, as a higher average age will result in decreased consumer spending, especially in sectors related to health and social services, due to the increasing proportion of elderly individuals in the overall population.

Demographic projections for South Asia contrast sharply with those for Northeast Asia, showing a much younger population structure. The *old age dependency ratio*[3] in South Asia remains low, increasing from 8% in 2015 to 11.6% by 2030, and reaching only 19% by 2050 (Biswas, 2016). This is significantly lower compared to the projected 39% for China and 66% for South Korea by 2050. This demographic advantage is financially beneficial and attractive to global multinationals seeking labor-rich production hubs (Biswas, 2016). Additionally, the growing population creates a rapidly expanding consumer market. Despite the relatively young demographics of much of Southeast Asia and South Asia – with a large number of young people entering the workforce over the next two decades, creating a rapidly growing market for consumer goods, tourism, and communications – the overall trend of population aging is creating a different growth dynamic. This means that Asian economies will need to adapt their economic and social policies to manage the consequences of population aging. Globally, demographic changes

[3] The *old age dependency ratio* or *old-age to working-age demographic ratio* is defined as “the number of individuals aged 65 and over per 100 people of working age defined as those at ages 20 to 64. The evolution of old-age to working-age ratios depends on mortality rates, fertility rates and migration” (OECD, n.d.).

in Asia will impact the world economy, influencing global demand, investment strategies, and resource distribution.

Despite significant economic progress in many Asian economies since the 1950s, the Asia-Pacific region is facing several risks and challenges, including political risk due to unresolved territorial disputes, the Asia-Pacific region is expected to remain the fastest-growing part of the world economy over the next decade, driven by expanding consumer demand in emerging markets. The region is projected to account for around 40% of world GDP by 2025 (World Bank, & World Trade Organization, 2019). Rapid growth in middle-class households in China, India, and ASEAN will likely make Asian markets crucial for global multinational revenues. Maintaining peace and stability in the region could lift hundreds of millions out of poverty over the next three decades.

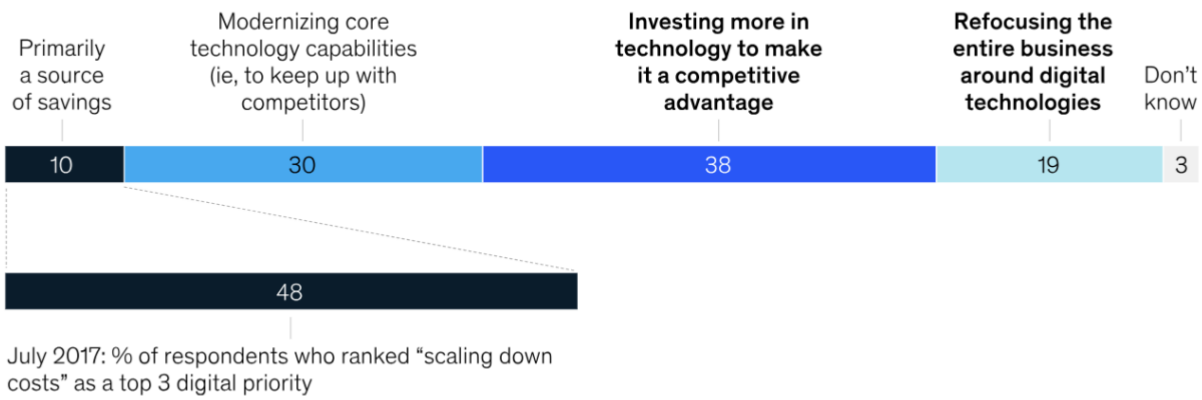
2.3.2 Technological Disruption and Digital Transformation

The world is undergoing a rapid technological transformation, driven by progressive digitalization – that is, the increasing integration of digital technologies into various sectors, replacing analog components. Known as "Industry 4.0" or the “fourth industrial revolution”, this process is not only rapid but also radically disruptive, fundamentally altering society and global production patterns (Cimini & Cozzolino, 2020). The increasing adoption of advanced robotics, industrial automation, the Internet of Things (IoT), and 3D printing is altering our world of work (Hallward-Driemeier & Nayyar, 2017). First, the use of automation technologies is transforming manufacturing processes, reducing labor costs, and improving efficiency. Digital technologies are also facilitating the integration of GVCs across different stages of production, enabling real-time data sharing and coordination among suppliers, manufacturers, and distributors. Moreover, the rise of e-commerce and online platforms is creating new channels for businesses to reach consumers, disrupting traditional brick-and-mortar retail models. The advent of Web 2.0 has further accelerated these processes, transforming consumers into "prosumers" (“producer” + “consumer”), and amplifying the impact of digitalization (Cimini et al., 2020).

Technological innovations have become pervasive across industries, revolutionizing business models, enhancing customer experiences, and driving operational efficiency. Consequently, digital transformation is now fundamental for business operations, with organizations adapting to an ever-evolving marketplace characterized by continuous innovation and change (Project Management Institute, 2022). According to the Project Management Institute (Project Management Institute, 2018), most high-performing organizations with mature digital transformation strategies report that adopting disruptive technologies has significantly enhanced their ability to meet or exceed business objectives.

The COVID-19 pandemic has accelerated the digital transformation of businesses globally. Companies were forced to rethink their operations and accelerate their digital transformation efforts due to the rapid shift of consumers toward online channels. Any barriers or hesitation about adopting a remote model were swiftly eliminated as working from home became necessary to carry on normal business (Project Management Institute, 2022). Consequently, companies rapidly digitized various aspects of their business, including customer interactions, internal operations, and supply chains. This emphasizes a radical change in executives' mindsets on technology's importance during the crisis. A survey conducted by McKinsey & Company (2020) found that the main reasons companies were able to make these changes quickly include a shift in priorities away from cost-saving measures and an increased focus on remote work (**Figure 4.**). This led to several companies making permanent changes to their work policies, such as allowing employees to work remotely full-time.

Figure 4. Organizational decisions toward technology during the COVID-19 pandemic (% of respondents)



Source: McKinsey & Company (2020)

The introduction of these new technologies in production within developing countries often takes place through GVCs, where lead firms disseminate technology to their suppliers (Rodrik, 2018). These technological advancements are not only shaping GVCs but also affecting the domestic implications of GVC participation for these countries. Innovation, inherently disruptive, brings with it the potential for Industry 4.0 to create new opportunities for developing nations, allowing them to engage more effectively in GVCs and reap associated benefits. Particularly, many Asian nations recognized the importance of technological innovation and infrastructure development in driving economic growth. One significant advantage of digital technologies is their ability to reduce entry costs into manufacturing by minimizing the impact of geographical distance (World Bank, & World Trade Organization, 2019). Indeed, they embraced new technologies, fostered research and development (R&A), and actively invested in infrastructure projects, enhancing productivity and competitiveness. Countries like Japan, South Korea, and China emerged as leaders in various technological fields and together with the rise of the IT and software services industry, particularly in India, further fueled economic expansion and global integration.

However, the restructuring of labor markets due to automation presents significant challenges to traditional manufacturing-led development strategies, which have historically driven productivity and job creation in developing countries. New technologies favor locations with higher skills and better infrastructure, making it challenging for developing countries to compete based solely on low labor costs. This shift could lead to job displacement in certain sectors and raise the possibility of "re-shoring" routine activities from labor-abundant developing economies back to developed nations.

A study by Bertulfo, Gentile & de Vries (2019) analyzed the impact of technological progress within GVCs on employment in 12 developing Asian economies from 2005 to 2015. It found that technological changes within GVCs were associated with decreased employment across all sectors in developing Asia. However, this decline was offset by increased consumer demand, particularly from a growing Asian middle class. The findings also suggest that domestic consumption in large emerging economies like China and India is expected to generate new labor demand globally.

Using a similar methodology and country coverage but for the period 2000-2011, De Vries, Chen, Hasan, & Li (2016) examined changes in GVC jobs by business activities due to technological change. The results suggested that technological advancements within GVCs significantly increased the demand for higher value-added and more skill-intensive activities, such as R&D and headquarters jobs. While automation is likely to reduce the number of traditional manufacturing jobs, new service jobs requiring basic computer skills will also emerge within the chain (Frederick, 2018). Developing countries can still join and upgrade in GVCs by adapting their strategies and policies to the evolving technology environment.

In conclusion, despite the challenges posed by technological disruption in production, Industry 4.0 presents new opportunities for developing countries to engage in and benefit from global value chain (GVC) participation. By lowering entry costs and facilitating technological diffusion, digital technologies enable developing countries to overcome traditional barriers and enhance their global competitiveness. However, it is important to consider the opposite effect as well: the digitalization of production processes, such as through 3D printing and automation, may lead to the shortening of value chains. As highlighted by Petersen (2023), advancements in technologies like 3D printing can enable firms to localize production, reducing the need for long, complex global supply chains. This shift could potentially limit the involvement of developing countries in GVCs, as production becomes more geographically concentrated in regions with advanced technological capabilities (Petersen, 2023). Therefore, while digitalization offers new pathways for integration, it also presents challenges that may alter the traditional structure of GVCs. And policymakers must adopt comprehensive strategies to maximize the benefits of digitalization while addressing potential disruptions and disparities.

2.4 The COVID-19 Pandemic: A Global Disruption

Historical becoming is characterized by events – emerging phenomena – that may accelerate existing socio-structural trends or imprint unexpected directions to the historical path. The COVID-19 pandemic is one such rare event. This unprecedented crisis in modern history have led to supply chain disorder, raising crucial questions about the existing globalization model and the future global economic resilience (Hendershot, 2020). Fragmented national responses have hampered the effectiveness of countermeasures, highlighting the interconnectedness between nations and the urgent need for more coordinated global governance (Cimini et al., 2021).

Supply Chains Vulnerabilities

The pandemic has exposed the fragilities of global supply chains, demonstrating how the overreliance on single-source vendors and suppliers can be devastating during a crisis. Weather events, labor shortages, and demand peaks have drastically reduced port and shipping capacity, increasing transportation costs and causing shortages of goods and components. This led to higher consumer prices and rising global inflation (McKinsey & Company, 2020).

Before the pandemic, globalization had recovered from severe setbacks and remains at historically high levels, with companies eager to expand their international presence. However, the health crisis has shown that international economic ties need to be more resilient. The *DHL Global Connectedness Index*[4] showed that although companies continue to seek opportunities for international expansion, the pandemic has also risked widening the digital divide, disadvantaging less connected countries (Altman & Bastian, 2021). The issue is complex: rebuilding domestic supply chains is a long-term undertaking, and permanent pullbacks are not certain (Project Management Institute, 2022). However, some strategies can be applied to mitigate global supply chain risks and facilitate cross-border collaboration (Project Management Institute, 2022).

Strategies for Resilience

To mitigate risks in global supply chains, diversification and regionalization strategies are needed. The Regional Comprehensive Economic Partnership (RCEP), signed by members of the Association of Southeast Asian Nations (ASEAN) and six regional partners, including Australia and China, is a significant step toward greater regional economic resilience (RCEP, 2021). Regionalization of supply chains can improve resilience to global shocks by leveraging regional economic changes. As Marvasi (2023) highlights, the reshoring of production and the shift toward more localized supply chains are becoming key strategies in enhancing the resilience of global value chains (GVCs) during crises such as the Covid-19 pandemic. The pandemic exposed vulnerabilities in long, complex GVCs, prompting firms to explore regional solutions to reduce dependency on distant suppliers and mitigate risks.

Furthermore, Pla-Barber, Villar, and Narula (2021) suggest that the Covid-19 pandemic has accelerated a new wave of regionalization in GVCs, where firms increasingly prioritize proximity to key markets and suppliers. This shift reflects a growing need for more flexible, resilient supply chains capable of adapting to future global disruptions. In addition, remote collaboration and knowledge sharing can facilitate cross-border projects and address global environmental, social, and governance challenges (Hendershot, 2020). Indeed, the pandemic has shown how crucial international cooperation is to overcome global crises. Project managers can play a key role in facilitating this cooperation through

[4] The *DHL Global Connectedness Index* measures globalization through four main categories: trade, capital, information, and people. It evaluates both the depth of globalization – by comparing international flows with respective national activities – and the breadth – by analyzing international flows' geographic distribution (Altman & Bastian, 2021). This provides a comprehensive overview of global connectivity, going beyond mere numerical analysis of international trade.

the adoption of advanced technologies and the implementation of more efficient project management strategies (Project Management Institute, 2021).

The Role of Technology

Emerging technologies such as 3D printing and robotics offer promising ways to strengthen local manufacturing capabilities. However, the transition from a service-oriented economy to domestic manufacturing takes time and significant investment. For example, building semiconductor manufacturing plants or producing batteries for electric vehicles takes years and billions of dollars of investment (Project Management Institute, 2021). Training and improving workforce skills are critical aspects of this transition process, requiring well-structured educational policies and training programs (International Labour Organization, 2021).

The Socio-Economic Impact of the Pandemic

From an economic perspective, the COVID-19 pandemic undoubtedly triggered a significant recession that affected economies worldwide, albeit unevenly. The impact has been disruptive on several economic sectors, including tourism, travel, hospitality, agriculture and manufacturing (Gita, 2020). In addition, the economic crisis will exacerbate mass unemployment, with significant political implications for the stability of Western political regimes (McKinsey & Company, 2020). If states are unable to manage the ongoing systemic transformations, a crisis of authority and legitimacy could occur, especially in the European Union (OECD, 2021).

Market Economy Crisis

The pandemic has intensified a notable trend already present in the era of globalization: the further concentration of capital on platforms such as Google, Facebook, and Amazon, which has strengthened their political and economic influence (Zuboff, 2019). However, it has also challenged the market economy paradigm, highlighting the limitations of the neoliberal model in ensuring stable and socially sustainable development. The crisis has accelerated processes of automation and "dematerialization" of work, encouraging forms of smart working and teleworking, with significant consequences on relations and production processes (Microsoft, 2021).

China’s International Projection

Despite being the initial epicenter of the virus, China has shown unprecedented global responsiveness and intervention, consolidating its international role through the supply of medical supplies and health personnel (Khoury, 2013). This has prompted many policymakers and international public opinion to reconsider China's mixed public-private economic model. China's economic resilience during the pandemic strengthened its position as a global power, and its crisis management model could influence other countries' economic policies (Kissinger et al., 2021).

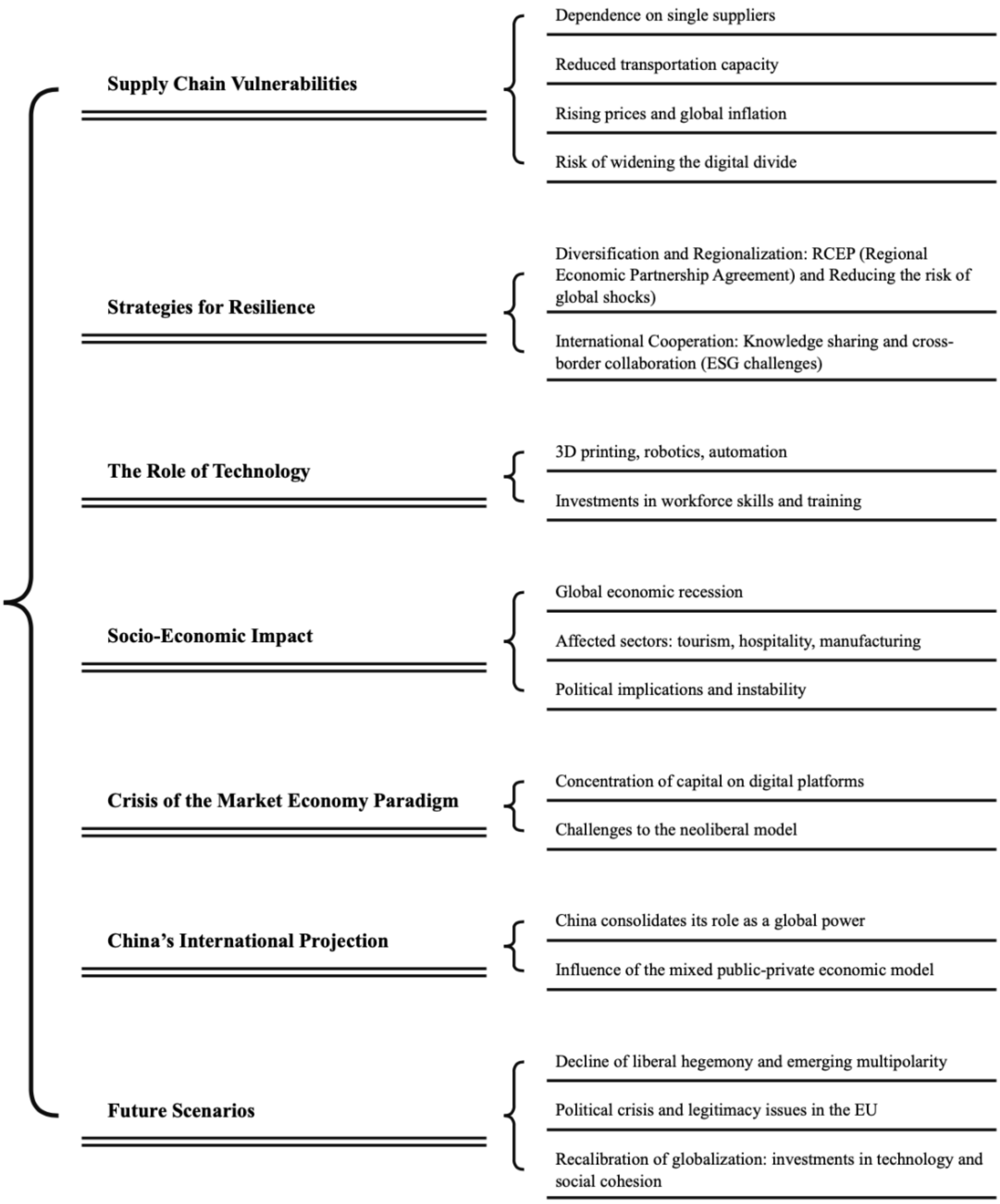
Future Scenarios

The pandemic crisis paves the way for unprecedented scenarios for global relations. Several trends seem to be clearly emerging, including the political and socioeconomic crisis of the European Union, the crisis of international liberal hegemony, and the international projection of China as a leading force in the fight against the pandemic (Acharya, 2017). The crisis of the international liberal order, the decline of U.S. hegemony, and the emergence of a multipolar world are elements widely theorized by international relations analysts (Tooze, 2020). In Europe, public intervention to bolster the banking-credit system, combined with structural reforms and austerity, could have significant negative social and political consequences, potentially leading the European Union to an irreversible crisis of legitimacy (Gita, 2020). Conversely, interventions based on supporting the most affected social groups and productive activities could foster democratic resilience in Europe (Catalyst, 2021).

The COVID-19 pandemic thus represented a turning point in modern history, accelerating socio-structural trends and imposing new global challenges. To address vulnerabilities, overhauling global supply chains and adopting resilience strategies will be crucial. In an increasingly interconnected world, international collaboration and strategic resource management will be essential to navigate the complexities of the post-pandemic future (Project Management Institute, 2021). Globalization must recalibrate, focusing on a kinder, more socially conscious version. This requires balancing domestic and global trade, investing in technology and education, and strengthening social cohesion and economic stability (OECD, 2021). Thus, a coordinated, inclusive approach is necessary for a sustainable future.

Figure 5. provides a concise and systematic overview of the key factors resulting from the COVID-19 pandemic. This representation helps to better understand how the global crisis has affected various aspects of international supply chains and the market economy, highlighting the strategic responses adopted by businesses and governments to address these challenges.

Figure 5. COVID-19: Global Disruption and Its Impact on Supply Chains, Technology, and Future Scenarios



Source: Personal Elaboration

2.5 Shifting Trade Relations and Geopolitical Tensions: US-China Trade War

The economic relationship between the United States and China has historically been marked by competition and tension. However, the situation escalated dramatically in 2017 when the Trump administration initiated a series of challenges to China's business practices, sparking a chain reaction of tariffs and retaliatory measures between the two economic giants. The trade war officially began in March 2018, when the US imposed tariffs on steel and aluminum, entailing significant repercussions on global supply chains and investment flows (Zhou, 2023).

The imposition of tariffs and trade barriers by both nations not only disrupted bilateral trade but also had broader implications for global economic dynamics. The US has accused China of unfair trade practices, including intellectual property theft and currency manipulation, prompting retaliatory tariffs from China. Despite attempts at negotiation and concessions from both sides, the conflict persists, with significant impacts felt across various industries, including agriculture and technology (Kapustina et al., 2020). This situation prompted reflections on the vulnerabilities of the current system of global economic integration. It has led to a reevaluation of production strategies, increased localization efforts, and a reorientation of trade relationships. Despite these tensions, globalization continues to thrive, as highlighted by recent reports. However, the long-term consequences of this conflict remain uncertain, as both nations navigate the complexities of economic rivalry and geopolitical tensions on an unprecedented scale. As the trade war persists, stakeholders must closely monitor its developments and consider its broader implications for the future of global economic cooperation.

2.5.1 Disruption of Global Supply Chains

The US-China trade war has accelerated the slowdown in the growth of global supply chains, a trend already influenced by the 2008 financial crisis. Companies from developed economies have increasingly invested in the US and members of the *Trans-Pacific Partnership (TPP)* to produce goods domestically, circumventing the costs imposed by tariffs. For instance, foreign investors are focusing on producing goods within the US to avoid tariff barriers, promoting a shift towards localized manufacturing (Amiti, Redding, & Weinstein, 2019).

In response to US tariffs, China has undertaken measures such as Renminbi (RMB) depreciation and reorienting the intermediate exports of subsidiary firms from the US to other global markets. Additionally, China has increased import substitution efforts, aiming to reduce dependency on US goods (Bown, 2020). This strategic reorientation is evident in the transition of labor-intensive industries with low technological levels and high environmental costs to Southeast Asian countries and other developing regions. This shift has benefited countries like Vietnam, India, Mexico, and Brazil, which have seen increased US investment as companies seek alternative manufacturing bases (Chettri, 2019).

The trade war has intensified the fragmentation and diversification of global value chains. Companies have been pressured to modify their production and ownership patterns, resulting in a more dispersed investment landscape. This shift is particularly significant in the electronics and automotive industries, where production has moved to countries like Taiwan, Vietnam, Mexico, and the Republic of Korea, rather than relocating to the US (Oregon Campbell, 2019). Simulation studies suggest that if the US and China impose a 25% tariff on all bilateral trade, US investment in China could decrease by $13.5 billion to $17.5 billion, while increasing significantly in other countries like Vietnam, India, Mexico, and Brazil (Petri & Plummer, 2020).

2.5.2 Impact on Investment Flows

The trade war has led to a decline in bilateral FDI between the US and China. Uncertainty and higher operating costs have discouraged significant new investments in each other's economies. For example, Chinese FDI in the US has decreased sharply, reflecting a cautious investment climate (Handley & Limão, 2017). Conversely, US investment in China has also seen a decline, particularly in sensitive equipment industries. As a result of the trade tensions, there has been a notable diversion of investment to other regions. Countries like Southeast Asia and Europe have benefited from an influx of investments as companies seek to establish operations outside the US and China to avoid tariff penalties. This shift is evident in sectors such as electronics and automotive manufacturing, which have seen increased investment in Vietnam, Mexico, and other developing economies (Chettri, 2019).

The trade war has highlighted the importance of market access and investment protection. The US has not focused on the non-operationality of the WTO *Sanitary and Phytosanitary (SPS)* and *Technical Barriers to Trade (TBT)* agreements, which undermine product country-of-origin requirements. This oversight has implications for market access protections and the attractiveness of foreign investment (Kennedy, 2020). For instance, the six-year dispute over wind power technologies illustrates the potential divisiveness of investment protectionism in emerging sectors.

The trade war has changed FDI patterns, with investments shifting from Southeast Asia to South Asia. This shift reflects a preference for proximity to Chinese consumers over significant export platforms. Notably, there have been tectonic shifts from developed economies to China, complicating traditional investment frameworks (UN Trade and Development Report, 2019). These changes highlight a move from 'local ownership advantages' to a 'spatialization of advantages,' impacting global investment strategies.

Despite the disruptions caused by the US-China trade war, globalization remains resilient. According to the latest DHL Global Connectedness Report, globalization reached a record high in 2022 and remained near that level in 2023, defying expectations amidst rising geopolitical tensions and protectionist measures. The report investigates why globalization persists among these challenges and finds that, while geopolitical tensions have caused significant shifts in international flows for the US, China, and Russia, the rest of the world has not shown a general reorientation of economic activity along geopolitical lines (DHL Global Connectedness Report, 2023). The report highlights that, while tensions between the US and China have led to reduced ties, the overall level of connectivity between these two economic giants remains substantial. The analysis of various types of flows, including merchandise trade and scientific research, reveals significant impacts due to geopolitical tensions. However, sectors such as greenfield FDI and mergers and acquisitions (M&A) show less correlation with these tensions (DHL Global Connectedness Report, 2023).
Examining merchandise trade shifts by product category reveals significant changes in trade patterns between the US and China. Some categories have seen substantial declines

in the share of imports from China to the US, indicating a shift away from direct imports. However, the data also suggest that China has not been able to substitute alternative export markets as readily as the US has shifted to alternative import sources. This highlights a strategic reorientation rather than a complete decoupling of economic activities between the two nations (DHL Global Connectedness Report, 2023).

In terms of greenfield FDI, US investment in China has declined across various industries and business functions since 2014-2016, reflecting a more cautious approach amidst geopolitical uncertainties. Despite these shifts, most US-China economic flows continue, underscoring that the economies remain interconnected by significant ties. This resilience of globalization amidst geopolitical challenges indicates that "Chimerica" - the intertwined economies of the US and China - stands diminished but not decoupled (DHL Global Connectedness Report, 2023).

2.5.3 Policy Responses and Future Outlook

The trade war has accelerated regionalization processes and trade protectionism. Countries like Mexico, Russia, Taiwan, and Southeast Asian nations have gained market share as production shifts from China. However, the relocation of production lines to ASEAN countries has been fragmented due to regional agreements and varying levels of integration (Lund et al., 2020). This complexity underscores the challenges of regional supply chain efficiency in the face of protectionist policies.

Asian economies are expected to develop policies to diversify supply chains and reduce dependency on bilateral trade. Countries like Vietnam and the Philippines may benefit from accelerated investment shifts from China to other low-cost regions. However, in the long term, increased automation could deepen the loss of comparative advantage for economies reliant on single export categories with low labor productivity and weak human capital (McKinsey Global Institute, 2019). Southeast Asian countries must update the ASEAN Economic Community (AEC) 2025 Master Plan to capitalize on these shifts and mitigate potential negative impacts.

In conclusion, the US-China trade war has profoundly impacted global supply chains and investment flows, prompting companies to rethink their production and investment strategies. The increased localization of supply chains, diversification of production bases, and strategic reorientation of investments have reshaped global economic dynamics. Despite recent tensions leading to meaningful reductions in US-China connections, globalization remains resilient. The future of global trade will likely be characterized by a greater emphasis on regionalization, automation, and strategic diversification to navigate the complexities of international trade conflicts.

3 ENTERING ASIAN MARKETS IN TURBULENT TIMES: INTERNATIONALIZATION PROCESS OF ITALIAN MNCs

3.1 The Role of Internationalization in Italian Business Success

In today's dynamic and interconnected global landscape, internationalization represents a crucial driver for the growth, competitiveness, and innovation of Italian *Multinational Corporations (MNCs)*. By expanding their presence beyond national borders, Italian firms can seize new market opportunities, diversify risk, and gain access to new resources and external expertise, thus strengthening their competitive positioning. Italy's rich manufacturing tradition and export-oriented economy have enabled several businesses to become global players through internationalization strategies. The widespread presence of the Italian companies, along with their excellence in strategic sectors, significantly enhances the global value of the "Made in Italy" brand. Antonio Tajani, the Italian Minister of Foreign Affairs and International Cooperation, emphasizes that "with a highly diversified economy (leading in the export of about 1,000 products), Italy confirms its vocation for internationalization" and underscores the importance of the growth diplomacy[5] in supporting local business and facilitate their internationalization process (MAECI, 2024).

Assessing the effectiveness of the internationalization process of Italian companies is crucial to understanding their contribution to the national economy. The value of internationalization can be measured through a set of economic indicators and parameters that reflect the company's ability to operate and compete in international markets. According to the Bank of Italy's definition (2014), internationalization primarily refers to investments made abroad by Italian companies with the aim of establishing commercial or production activities beyond national borders. However, given the close

[5] Antonio Tajani strongly promotes the economic development and commercial growth of the country through the strategic use of diplomatic relations. The initiative involves the collaboration of various national institutions and the diplomatic network, undertaken to (i) assist Italian businesses in the penetration of foreign markets and in the mitigation associated with the internationalization process, providing them with technical and financial support and with market information; (ii) to attract foreign investment through targeted incentives; and (iii) to facilitate international economic cooperation through bilateral and multilateral agreements facilitating trade and investment (MAECI Economic Observatory, 2024).

interconnection between multinational activities and foreign trade, and the difficulty in clearly distinguishing the two phenomena in some contexts, it is necessary to broaden the analysis of productive internationalization to also include exports (Bank of Italy, 2014).

Export Volume, Global Market Share, and International Presence

Following the crisis caused by the COVID-19 pandemic, there has been a significant recovery in the global economy. In 2022, world trade in goods grew by 11.5% compared to 2021 (Istat, 2023). The same year, Italy experienced a strong increase in exports (+20.2%), although imports have grown more intensely (+37.4%), leading to a trade deficit of over 34 billion euros (see **Table 3.**) (Istat, 2023). This phenomenon is mainly linked to the rise in the average unit values of imported energy goods (particularly natural gas), aggravated by the conflict in Ukraine (Istat, 2023). The positive trend in export growth persists, although with a significant slowdown in the past year. In 2023, Italy exported goods worth a record 626.2 billion euros, highlighting the increasing market power of Italian companies, which are overcoming international market uncertainties and taking ground in emerging markets (MAECI, 2024).

The Italian market share of world goods exports, measured in dollars, slightly decreased from 2.79% in 2021 to 2.65% in 2022 (**Figure 6.**) (Istat, 2023). This decline reflects the contemporary competitive global environment where many countries are experiencing a significant economic resurgence and their exports are increasing. Nevertheless, last year the trend reversed, with the share reaching 2.9% of global exports, expressing the growing presence of Italian companies in foreign markets. In recent years, the number of active Italian exporting companies experienced a marked rise: from 111,989 in 2021 to 120,319 in 2021 (Istat & ICE, 2023).

According to the most recent data from Istat, dating back to 2020, there are 24,103 Italian-controlled companies residing abroad, which generate a turnover of 499 billion euros and employ 1.7 million people (Istat, 2023). These estimates make it possible to state that the Italian companies’ internationalization phenomenon is worth more than 1 trillion euros per year, combining exports (626.2 billion euros) with the revenue of the Italian subsidiaries abroad (499 billion euros) (La Posta, 2022).

Table 3. Value of Italy's Trade Exchange and Market Shares (millions of euros)

Years	Trade				Balances	Market Shares (a)
	Exports		Imports			
	Absolute Values	% variations	Absolute Values	% variations		
2014	398.870	2,2	356.939	-1,1	41.932	2,81
2015	412.291	3,4	370.484	3,8	41.807	2,78
2016	417.269	1,2	367.626	-0,8	49.643	2,91
2017	449.129	7,6	401.487	9,2	47.642	2,89
2018	465.325	3,6	426.046	6,1	47.642	2,84
2019	480.352	3,2	424.236	-0,4	56.116	2,87
2020	436.718	-9,1	373.428	-12,0	63.289	2,88
2021	520.771	19,2	480.437	28,7	63.289	2,79
2022	626.195	20,2	660.249	37,4	-34.054	2,65
2023	626.204	0,0	591.831	-10,4	34.373	2,9
Jan-Apr 2023	207.082		205.534		1.548	2,9
Jan-Apr 2024 (b)	207.798	0,3	190.2	-7,5	17.598	2,6

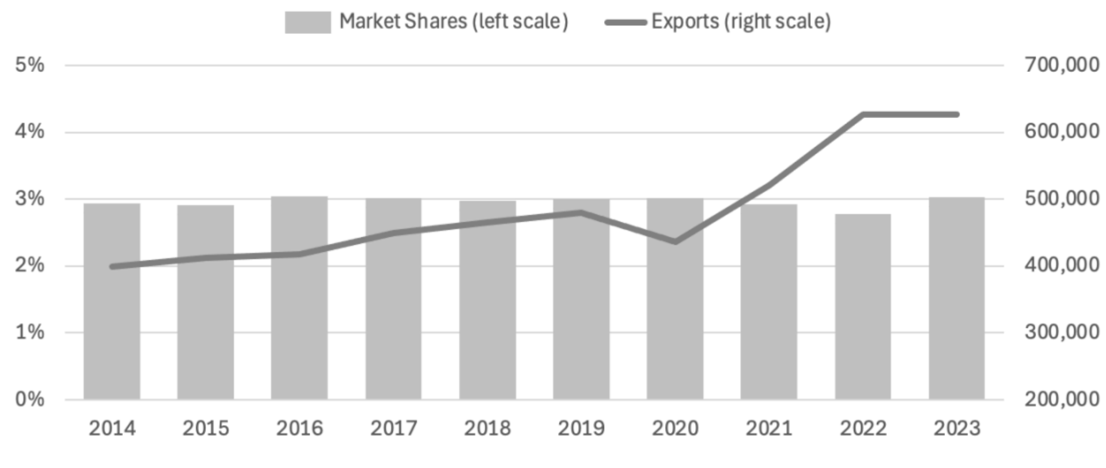
Source: Personal elaboration based on Istat & ICE (2023) and MAECI Economic Observatory (2024) data.

Notes:

(a) Derived from the ratio between the value of Italian exports and global exports.

(b) Italy's trade exchange data is available up to April 2024.

Figure 6. Comparison of Italy's Exports and Market Share of Global Goods Exports (Years 2014-2023, values in millions of euros and shares in percentage)



Source: Personal elaboration based on Istat & ICE (2023) and MAECI Economic Observatory (2024) data.

Leading Sectors and Foreign Revenue

According to data from Istat (2023), export is driven by the wider active balances recorded in *non-specified machinery and equipment* (+49,114 million euros) and *textiles, clothing, leather and accessories* (+23,948) categories, followed by *products of other manufacturing activities* (+14,104), *rubber, plastic articles and other non-metallic mineral products* (+12,515) and finally, *food, beverages and tobacco* (+11,966). On the other hand, significant negative balances are registered in *computers, electronic and optical equipment* (-14,519 million), *chemical substances and products* (-11,753 million) and in *wood, wood products, paper and printing* (-2,176 million) (Istat, 2023).

Surprisingly, Italy leads global trade in products that do not fall into the famous "three Fs" categories which make Made in Italy great (Fashion, Food and Furniture). In 2022, Italy held the largest market shares of global goods exports in several manufacturing product groups (Istat & ICE, 2023):

- terracotta building materials (22.89%);
- tanned and processed leather, travel goods, handbags, leather goods and saddlery, prepared and dyed furs (13.18%);
- bakery products (13.12%);
- cut, shaped and finished stones (12.04%);
- non-wood forest plant products (10.38%);
- pipes, ducts, hollow sections and related steel accessories, excluding cast steel (10.08 %);
- leather goods, excluding apparel (9.70%); and
- ships and boats (9.43%).

However, the contribution of Italian companies to the global economy extends beyond the mere export of goods. In order to conduct a comprehensive analysis, it is necessary to consider also the revenue (or turnover) generated by Italian subsidiaries abroad. The degree of internationalization of the Italian production system can be assessed by measuring the weight of the activities conducted abroad on the total of those performed in Italy. Particularly some industry and services sectors registered high degrees of internationalization, in terms of turnover. For instance, the *mining and quarrying sector* generates 63.8% of its national sector revenue abroad, while *manufacturing activities* collectively achieve 25.2% of their revenue from foreign operations (Istat, 2023).

3.2 The Internationalization Process of Italian Companies: Characteristics, Effects and Trends

International production is a global phenomenon that has rapidly expanded, involving also Italian companies driven by the need to enlarge their target markets, diversify risks and increase competitiveness (Bank of Italy, 2014). The growing pressures from emerging countries pose new challenges and push Italian businesses, particularly *small and medium-sized enterprises (SMEs)*, to seek new ways of international development (Cerrato & Depperu, 2010). As discussed in the first chapter, strategies of internationalization include exporting products and services, establishing foreign subsidiaries, joint ventures with local partners, acquisitions of foreign firms, and participation in global value chains. The motivations for Italian firms to go international vary depending on the sector, the target country of the investment, and the period under consideration (Bank of Italy, 2014). According to the *Invind survey*[6] reported by the Bank of Italy (2014), market access strategies represent the main reason for producing abroad (44.6% of respondents), followed by motivations related to cost reduction (particularly relevant for investments in emerging and developing countries with 26.2%, compared to 3.5% in advanced countries) and finally, the acquisition of new technologies and patents (less frequent and almost exclusively concentrated in advanced countries) (Bank of Italy, 2014).

A recent debate emerged concerning the sustainability of Italian companies' competitive advantage. In particular, it focuses on Made in Italy, with machine tools representing one of the typical sectors (Fortis, 2005). The characteristics of the latter largely reflect those of the Italian industrial system, marked by the predominance of SMEs, which have

[6] See Bank of Italy. (2015). *Imprese e mercati esteri: L'internazionalizzazione delle imprese manifatturiere italiane* (Quaderni di Economia e Finanza No. 261), pp. 11-13. https://www.bancaditalia.it/pubblicazioni/qef/2015-0261/QEF_261.pdf

traditionally shown a strong orientation toward international markets, showing high export volumes (Cerrato & Depperu, 2010). Despite their size, SMEs demonstrated great abilities in managing to compete in international markets. This has been possible thanks to Italian high product quality, innovation, design, and the ability to customize offerings according to customers' needs (ICE, n.d.). Particularly, manufacturing constituted the main drivers of Italian internationalization, with sectors of excellence such as fashion, luxury, mechanics, food and automotive (Istat, 2023).

Internationalization brings several positive effects on Italian companies, the national economy, and the production system as a whole. One of the most immediate effects is the increase of the revenue, followed by innovation stimulation, job creation, and the contribution to the growth of the *Gross Domestic Product (GDP)*.

Revenue Increase and Stability

By accessing new markets, firms immediately experience sales increase and revenue diversification, which reduce their dependence on the domestic market and lead to increased revenue. Geographic diversification of sales helps firms to offset potential downturns in domestic demand – especially during periods of economic recession, where domestic demand may be stagnant (Bank of Italy, 2014) – with growth opportunities in other markets. Indeed, internationalized companies have shown greater resilience during crises than those operating only in the domestic market. The success of Italian MNCs (in terms of profits, employment, and revenue) can be attributed to several factors. Firstly, MNCs constitute the most robust part of the national production system: all else being equal, they boast a productivity advantage over not only domestic businesses serving the domestic market but also over exporting firms (Bank of Italy, 2014). Secondly, they are able to leverage their presence in more dynamic markets than the domestic one and their greater financial and organizational strength (Bank of Italy, 2014). Additionally, MNCs' economic performances during the crisis were influenced not only by the intensity of their foreign presence (whether commercial or productive) but also by their role in *global value chains (GVCs*) (Bank of Italy, 2014). In particular, firms holding coordination positions in the GVCs performed better than those involved in intermediate stages or with subcontracting agreements (Alfaro et. al., 2019).

Innovation

Italian firms' internationalization also fostered business innovation. Firms operating in the international economic environment are exposed to new ideas, technologies, and production methodologies that stimulate continuous improvement of operating processes and encourage the adoption of global best practices (Du, Zhu, & Li, 2023). This fuels innovation within companies and also drives them to invest in research and development to maintain their competitive position. Particularly, innovation allows the development of specific competitive advantages that help firms overcome the additional costs and uncertainties that characterize foreign markets, in turn promoting internationalization (Zucchella, 2009). Firms with greater innovative capacity exhibit higher levels of internationalization, in terms of both production and trade (i.e., in terms of export intensity and the number of geographic areas they cover) (Cerrato & Depperu, 2010). The study conducted by Castellani & Zanfei (2007) underscores productivity as an important component of this relationship: firms competing in foreign markets tend to demonstrate higher productivity, often linked to innovations. SMEs also benefit from innovation, not only by expanding their presence abroad, but also by enhancing their competitiveness in the domestic market thanks to the adoption of advanced practices and technologies from international experience (Cassiman & Golovko, 2011; Alegre et al., 2012). SMEs likely embrace innovative business models based on learning from collaborations with other firms in the industry, rather than from internal R&D activities as per MNCs (Zucchella & Siano, 2014). This suggests a bidirectional causal correlation between innovation and internationalization: exporting enhances organizational learning, fostering innovation, which in turn opens new market opportunities and increases domestic competitiveness (Zucchella, 2009).

Job Creation

The internationalization phenomenon of Italian firms also has a positive impact on job creation, both directly and indirectly. Firms that grow in international markets tend to increase their workforce to support expansion. This effect is not limited to internationalized firms, but also extends to the supply chain, stimulating employment in related sectors such as logistics, marketing, and financial services. According to

Unioncamere (2023), exporting firms employ about 5.5 million people in Italy, representing about 20% of the employed workforce. This data highlights the importance of internationalization not only for the companies themselves but also for the national economy as a whole.

Contribution to GDP

From a macroeconomic point of view, the internationalization process of Italian companies positively influences the balance of trade and GDP. Exports contribute to improving the balance of payments, attracting foreign investment, and supporting economic growth. GDP's increases resulting from Italian businesses' expansion in international markets translate into economic growth and improved general welfare (Confindustria, 2023). Exports account for 28.3% of Italy's GDP (up from 27.1% recorded in 2022), emphasizing internationalization as an important driver of the country's economic growth (Confindustria, 2023). Additionally, it fosters the country's economic resilience and competition, strengthening Italy's position in the global business environment.

However, internationalization presents also several challenges. Italian firms tend to focus on a limited number of foreign markets, and the predominance of SMEs – which are increasingly entering global markets (Mariotti & Mutinelli, 2012; Borin & Cristadoro, 2014) – constitutes an obstacle to the Italian international presence. In order to support Italian companies in the process of internationalization and expansion into foreign markets, the Italian government has launched the *Export Plan*, and arranged institutions such as *SACE (Servizi Assicurativi del Commercio Estero)* and *ICE (Istituto per il Commercio Estero)* which work in synergy to promote the competitiveness of Made in Italy in the world. These programs offer financial incentives, guarantees, and support services to companies seeking export opportunities, facilitating their access to international markets. However, frequently occurs that companies considering internationalizing ultimately decide to give up the project. According to the Bank of Italy (2015), the choice to continue operating only in Italy depends mainly on the internal characteristics of the firms: small size, inadequate organizational structure or insufficient knowledge about the potential target country. The organizational obstacles attributable to the organization itself are also confirmed by the responses of MNCs to questions about the adaptation that investing abroad entails. They are generally aware from the outset that internationalization is a business growth process that entails profound organizational transformation (Bank of Italy, 2014). Financial constraints, therefore, are not identified as the main obstacle for internationalization processes, although they have become more relevant in certain periods (2008- 09 and 2012-13) or for certain businesses' typologies (small and financially fragile firms and those active in medium- to long-term exports, where the offer of payment extensions to the foreign importer assumes greater significance). Generally, while the high fixed costs required to implement internationalization processes increase the need for financial support from the banking system, other factors act in the opposite direction (e.g., higher productivity and creditworthiness), making firms that go international less exposed to credit rationing (Bank of Italy, 2015).

In conclusion, internationalization is an important opportunity for Italy to strengthen its economy and create a more prosperous future. Italian firms, through internationalization, can diversify risk, access new markets, increase competitiveness, leverage economies of scale, and enhance brand value internationally (Johanson & Vahlne, 1977; Rugman & Verbeke, 2004; Keller & Kotler, 2015). The success of Italian firms in foreign markets, despite global difficulties, demonstrates their resilience and adaptability. Nevertheless, the Italian government must continue to work to help domestic businesses seize opportunities in foreign markets as well as overcome the challenges and obstacles associated with the internationalization processes.

3.3 Southeast Asia: A Strategic Challenge for Italian Companies

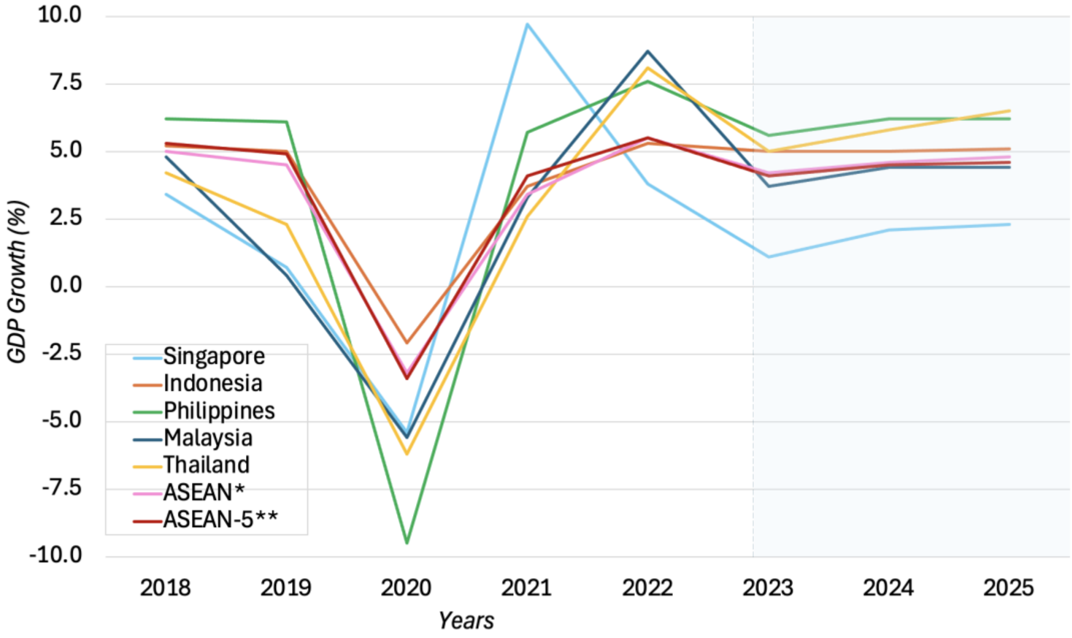
3.3.1 Opportunities for Italian Companies in ASEAN Countries

Economic potential

The Association of Southeast Asian Nations (ASEAN) is one of the most economically dynamic regions in the world. The rapidly growing GDP, the large and young population and the development of the middle class contribute to the area's attractiveness to international investors (Italy-ASEAN Association, n.d.). According to the latest World Economic Outlook data from the International Monetary Fund (2023), the total GDP of the 10 ASEAN countries is estimated at approximately 3.6 trillion of dollars for 2023 (corresponding to a growth in real GDP of 4.2%) and is expected to grow by 4.6% in 2024, despite the challenges associated with global demand shifts from goods to services and with restrictive monetary policies (IMF, 2024). The GDP growth for the entire ASEAN region saw a decline during COVID-19 crisis in 2020, followed by a recovery in the following years as shown in the graph below (see **Figure 7.**). Projections for 2024 and 2025 indicate stable growth, standing at around 4.6% and 4.8% respectively (MAECI Economic Observatory, 2024). The ASEAN-5 group follows a similar trend, with a significant resurgence in the years following the 2020 pandemic crisis, marking its economic resilience to global and regional challenges.

Data on economic activity for early 2024 have been largely encouraging, increasing the Italian and European attention towards Southeast Asia markets in recent years (Farina, 2024). For the current year, the region is expected to continue to be the most dynamic in the world, contributing about 60% of global economic growth (IMF, 2024). While in 2025, ASEAN growth is expected to further reduce to 4.3%, with the structural slowdown in China as a key factor (IMF, 2024).

Figure 7. GDP Growth of ASEAN Countries (2018-2025) – Actual and Latest Projections



Notes:

(*) ASEAN comprises Brunei Darussalam, Cambodia, Indonesia, Lao P.D.R., Malaysia, Myanmar, the Philippines, and Singapore.

(**) ASEAN–5 comprises Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

Source: Personal elaboration based on the World Economic Outlook database (IMF, 2024).

In recent years, economic growth has affected all countries within ASEAN region, albeit unevenly, accompanied by greater regional integration. Among the various states, instruments for inclusion in the value chain creation have been extended and accepted. Additionally, the investments of multinationals are now regulated, protected, and negotiated by all executives. In return technology and capital acquisition, these countries guarantee legal protection, tax reductions, access to raw materials, and availability of cheap and disciplined labor. Moreover, the formidable rise of the local market is becoming increasingly appealing and no longer limited to consumers' basic needs satisfaction, where the emergence of a large and ambitious middle class represents the main contribution, representing the most interesting socio-economic phenomena within the area (ICE, n.d.).

Urbanization and expansion of the middle class

The constant economic growth is accompanied by a significant infrastructure need, estimated at over 500 billion euros, and by a 105% increase in consumer spending by 2030 (Inzerilli, 2017). This result is fueled by the expansion of the middle class, whose total income is expected to reach 300 billion dollars by 2022 (Italy-ASEAN Association, n.d.). Rapid urbanization and the rise of the middle class make ASEAN market highly attractive for Italian exporters. Italian businesses have the opportunity to leverage the cultural diversity and new consumption habits by tailoring their products and services to different local markets. This opportunity mainly benefits the machinery, chemicals and petroleum products, agribusiness, fashion, and household goods sectors (ICE, n.d.).

ASEAN's strategic role in the global supply chain

ASEAN's geographic location gives the region a strategic role from a geopolitical and geoeconomic perspective. Situated between the Indian and the Pacific Oceans, in the south of the major Asian economies and north of Australia, ASEAN is crossed by the world's busiest shipping lanes. For instance, the Strait of Malacca, is a crucial transit route traversed by 80% of Chinese exports (Italy-ASEAN Association, n.d.). This location makes ASEAN a central hub in the global supply chain, particularly relevant in light of recent changes in global geoeconomic balances. Italian companies establishing production sites in the region can benefit from this strategic area position to optimize their logistics and trade operations (Italy-ASEAN Association, n.d.).

Openness to trade and investment facilitator

In recent years, the ASEAN region adopted a policy of openness to trade and investment, developing strong economic relations with several regional and international partners. This strategy has caught the attention of European and Italian investors, who are extremely satisfied with the opportunities offered by the region (Italy-ASEAN Association, n.d.). Indeed, one of the main reasons behind ASEAN's economic success lies in the commitment of all member countries to integrate into global trade and investment flows, encouraging foreign companies and capital entrance (Italy-ASEAN Association, n.d.). The World Bank's Ease of Doing Business index places Singapore in second position, Malaysia in twelfth and Thailand in twenty-first among the countries where it is easier to start and run a business, while Italy ranks only fifty-eighth (World Bank, n.d.).

In 2018, ASEAN attracted about 154.7 billion dollars in FDIs, representing 11.9% of the global total. The European Union is the largest source of FDI in the region (accounting for 14.2% of the total), followed by Japan (13.7%), China and Hong Kong (both at 6.6%). Italy, however, contributes only 0.9% of the total foreign investments in ASEAN (Italy-ASEAN Association, n.d.).

The latest edition of the EU-ASEAN Business Sentiment Survey confirms the satisfaction of European entrepreneurs already present in the region: 88% of respondents affirm they intend to increase their business in ASEAN over the next five years, while 53% indicate ASEAN as the region in the world offering the greatest business opportunities (EU-ASEAN Business Council, 2023). The free trade agreements between EU and ASEAN countries (Singapore and Vietnam) and those under negotiation (Thailand, Malaysia and Indonesia), act as facilitators in deepening economic relations with the area (Italy-ASEAN Association, n.d.).

3.3.2 Italian Presence and Economic Relations with ASEAN Countries

Trade between Italy and the ASEAN countries represents an increasingly important dimension in international economic relations. According to data provided by the MAECI Economic Observatory (2024), in the last year the trade value reached over 22 billion euros, with Italian exports amounting to almost 9.7 billion euros and Italian imports from ASEAN countries 12.3 billion euros. However, the trade balance in recent years has been consistently negative (indicating that Italy imports from the Asian area more than it exports), although the deficit has seen a reduction in 2023. This result, although positive, highlights the need for greater commitment by Italian companies to fully exploit the potential offered by this emerging economic area.

One of the strengths of the ten Southeast Asian nations, lies in their ability to be major exporters and importers. Additionally, the imminent rise of their middle class and consumptions, provides an increasingly promising market for Italian companies, both

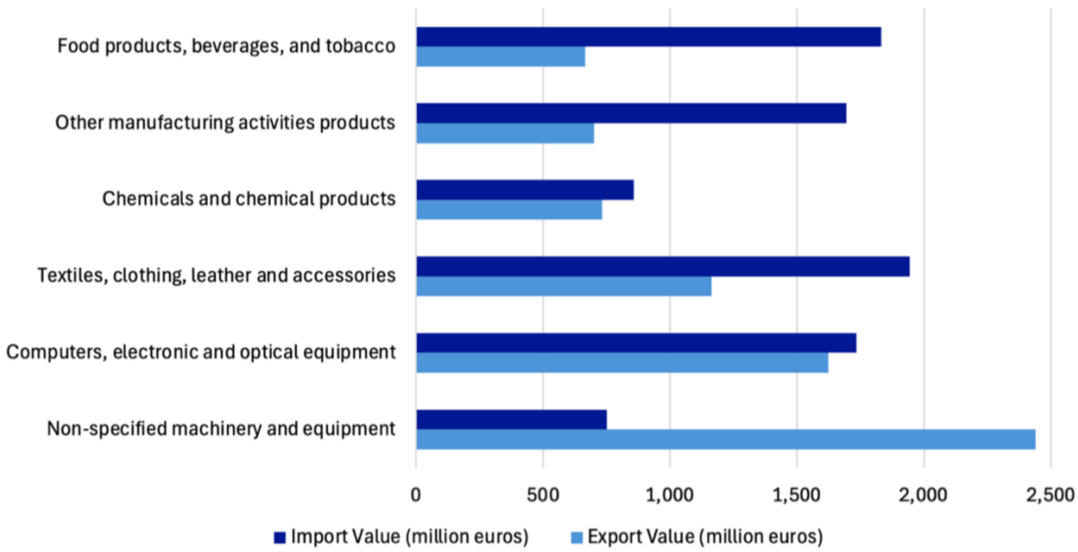
large and small, which manage to focus on and leverage the quality of their products and processes and that can introduce Italian technical expertise and lifestyle to new consumers (ICE, n.d.). However, Italy has not yet fully took advantage on these opportunities, as highlighted by the evidence on Italian exports to ASEAN countries, which do not fully reflect the global reputation and prestige of Made in Italy. In fact, Italian exports are still low compared to other major European competitors in the agri-food, fashion and home system sectors (ICE, n.d.). In 2023, Italy occupied the 20th position as supplier and customer of the ASEAN area, with a market share of 0.6% (MAECI Economic Observatory, 2024).
The EU's trade policy plays a crucial role in this context by facilitating trade and reducing tariff and non-tariff barriers towards the most promising areas of the world. As general negotiations for ASEAN as a whole were not possible, the European Commission initiated negotiations for free trade agreements bilaterally with individual countries. The most advanced case concerns Singapore, with which the negotiation is technically concluded but not yet signed (ICE, n.d.). Strengthening diplomatic and commercial ties between Italy and ASEAN countries is thus an important part of this evolution. At the end of 2019, 522 Italian companies were physically present in ASEAN area, underscoring the importance of a wider Italian presence in the region to grasp the opportunities offered by this rapidly growing markets.

Over the last years, Italian exports to this specific region were predominantly composed of mechanical and instrumental goods showing that Italian production effectively addressed the local demands of these rapidly industrializing emerging economies with reliable machinery (ICE, n.d.). In particular, in 2023, *Non-specified machinery and equipment* category reached an export value of 2,440 million euros (**Figure 8.**) accounting for 25% of Italy's total exports to ASEAN region. The second major export category is constituted by *Computers, electronic and optical equipment* (1.624 million euros), representing 16.7% of total exports. Significant, though smaller, quantities were also recorded for *Textiles, clothing, leather, and accessories* (1,162 million euros or 11.9%) – employed by local industries for higher-quality goods intended for export or the growing middle class in the region (ICE, n.d.) – as well as *Chemicals and chemical products* (733 million euros or 7.5%), *Other manufacturing activities products* (701 million euros or

7.2%), and *Food products, beverages, and tobacco* (666 million euros or 6.8%). Regarding Italy's imports, the main products from ASEAN countries were:

- *Textiles, clothing, leather, and accessories* (1,944 million euros)
- *Food products, beverages, and tobacco* (1,832 million euros)
- *Computers, electronic and optical equipment* (1,734 million euros)
- *Basic metals and fabricated metal products, except machinery and equipment* (1,694 million euros)
- *Chemicals and chemical products* (857 million euros)
- *Non-specified machinery and equipment* (750 million euros)
- *Metallurgy products* (484 million euros)
- *Agricultural, fishing, and forestry products* (481 million euros).

Figure 8. Comparison of Italy's Exports to – and Imports from – ASEAN by Product Category (2023)



Source: Personal elaboration based on MAECI Economic Observatory (2024) data.

Italy remains a minor partner for ASEAN, and vice versa, but there are promising possibilities to increase trade between them, especially given the excellence of Italian manufacturing sector (Italy-ASEAN Association, n.d.). Although ASEAN countries represent a relatively unexplored destination for Made in Italy (accounting for 1.5% of total Italian exports), over the last decade the export of "Bello e Ben Fatto (BBF) (“beautiful and well done") products exhibited great dynamism. During the decade 2010-2019, BBF exports to ASEAN countries increased by 7.2%, compared to 5.3% global increase. Almost a quarter of BBF’s exports to ASEAN were composed by food and beverage, with significant sales of wine, chocolates, pasta and bakery products. Jewellery and leather goods follow. The wood and furniture sector has decreased in the last year, probably reflecting episodic factors linked to recent megatrends and geopolitical changes (Confindustria, 2023).

3.3.3 Challenges and Best Practices for Italian MNCs’ Internationalization

For many Italian companies, especially SMEs, facing internationalization remains a complex and risky undertaking (Caroli, 2007; Bertoli & Valdani, 2006), particularly in culturally distant markets like the Asian one (Amighini & Chiarlone, 2004; Musso et al., 2005), where major development opportunities and concrete facilitating factors are not always sufficient to adequately address the significant entry difficulties and high investment risks. Beyond limitations within the company, critical aspects such as the difficulties related to new market understanding, regulatory constraints, cultural barriers, the substantial burden of research and control of partners, challenges in commercial and institutional relations, and intense competitive pressure stand out (De Luca, Vianelli, & Marzano, 2011). This section will explore these issues and outline effective strategies and best practices to address them.

Internal Barriers

According to research conducted by the Bank of Italy’s Department of Economics and Statistics, businesses that considered going global but ultimately decided against it, have identified internal barriers as the primary obstacles to internationalization, specifically reduced size or inadequate organizational structure (Bank of Italy, 2015). Organizational constraints represent a challenge also for MNCs, being aware that internationalization is a growth process that involves a profound organizational transformation and a huge financial investment. Insufficient information of the foreign market is an additional

common obstacle for both SMEs and MNCs. Without a thorough knowledge of local dynamics, companies find it difficult to make informed strategic decisions.
The same research remarks that financial constraints are not the main impediment to the internationalization process, although they have become more relevant during economic recession periods or for smaller and financially fragile enterprises (Bank of Italy, 2015). These companies struggle with credit management, often due to inadequate risk assessment and unstructured commercial agreements, or lack of accessible management tools during critical periods and instances of non-payment (La Stampa, 2022). Problems such as physical distance, regulatory differences, and scarce preparation aggravate the difficulties, especially in the complex and delicate Southeast Asian market. However, while the high fixed costs required to implement internationalization processes prompt the need for financial support from the banking system, other factors such as increased productivity can mitigate this issue, making businesses less susceptible to credit rationing (Bank of Italy, 2015).

External obstacles

Italian companies attempting to internationalize into the Southeast Asian market face several external challenges that complicate their penetration and establishment. Notable among these are:

- **Cultural and linguistic differences**: Obtaining information on tastes and demand trends (McEwen, et al., 2006; Oliver & Coulter, 2004) is imperative in order to adapt to local language and culture (Campbell & Jones, 2007; Lin & Lin, 2008) but might prevent finding a suitable target for the product (De Luca, Vianelli, & Marzano, 2011). Moreover, ASEAN countries have very different business cultures from Italy, with diverse commercial practices, regulations and cultural expectations that can hinder negotiation processes (Battaglia et al., 2011). For example, trading in many ASEAN countries tends to be indirect and influenced by personal relationships and respect for authority, elements that may not be immediately understood by Italian companies accustomed to greater transparency and directness (Battaglia et al., 2011).
- **Policy and regulatory challenges**: ASEAN countries have complex policy systems that might result opaque for Italian companies, especially regarding legal

constraints and regulatory differences. Additionally, despite efforts to harmonize international intellectual property laws (European Commission, n.d.), a significant mismatch remains between countries, incrementing the risks for Italian companies' innovations and brands that need protection. Furthermore, corruption and political instability in some ASEAN countries can seriously compromise foreign investment and business operations (Giovannini, 2023). Finally, tariff and non-tariff barriers, such as technical regulations, quality standards, and compliance requirements, can be an additional obstacle. For example, a significant portion of Italy exports comes from luxury goods, machinery, and agri-food products sectors, whose required standards and certifications vary significantly from one country to another within ASEAN (Giovannini, 2023).

- **Local competition**: ASEAN markets are often dominated by well-established local businesses and multinationals from other nations who have already established a strong presence with deep local market understanding, consolidated relationships, and notable consumer loyalty. Local competitors better understand Asian consumer preferences and are able to adapt more quickly to market changes (Woetzel et al., 2019). In addition, consumers in ASEAN countries far prefer local brands, posing a common challenge for Italian MNCs entering their attractive markets (Vinayak, Thompson, & Tonby, 2014).
- **Infrastructure and logistics**: Although some ASEAN countries, such as Singapore, have world-class infrastructure, other countries are still struggling with significant shortages. Logistics, connectivity, and the quality of transport and communication infrastructures can negatively affect the ability of Italian companies to operate effectively. Variability in infrastructure quality can increase operating costs and reduce supply chain efficiency (ICE, 2021).

Entry and Adaptation Strategies

For Italian companies aiming to enter and succeed in ASEAN markets, it has proved essential the adoption of well-thought-out entry and adaptation strategies. These strategies must address the challenges and obstacles discussed above, which significantly affect companies' internationalization path. Among others, these include a comprehensive understanding of local markets, building strong local relationships and adapting their offerings and operations to the peculiarities and needs of each country (Battaglia et al., 2011; Franco Angeli, 2023).

Knowing local markets implies a comprehensive analysis of their economic dynamics, local regulations, and target consumers' preferences and trends. Particularly, it is important to appreciate how cultural differences affect consumer habits. In Vietnam, for instance, consumers may prefer products that emphasize freshness and local quality over imported ones, while in Singapore may be oriented toward international luxury brands (Franco Angeli, 2023). This understanding allows companies to tailor their strategies to the specific needs of each country, ensuring greater visibility and acceptance of their products and services. This may include modifying products to suit local tastes, adjusting business models according to market conditions, and customizing marketing strategies. For example, an Italian food company should modify recipes to match local tastes or a fashion manufacturer may need to revise its collections to satisfy the aesthetic and climate preferences of local consumers (Giovannini, 2023).

As previously mentioned, invest in building strong relationships with local actors – i.e., distributors, suppliers, and government agencies – is crucial to facilitate market entry of Italian companies and enhance their performance in Asian market. According to Battaglia et al. (2011), trust and mutual respect, built through face-to-face interactions and long-term commitment, can be decisive for success in many ASEAN countries.

Furthermore, leveraging technology and innovation is essential to survive and compete abroad, especially in countries with sustained development rates like those in Asia. Embracing advanced technologies allows Italian companies overcoming penetration challenges in these distant markets, not only geographically. Advanced solutions, such as e-commerce and digital marketing, are particularly relevant for reaching a wide audience in ASEAN markets, where the use of the internet and mobile devices is growing rapidly. Moreover, innovation in production processes can improve efficiency and reduce costs, allowing companies to offer high-quality products at convenient prices (Franco Angeli, 2023).

Finally, ensuring compliance with local regulations and standards is imperative to avoid penalties and protect a company's reputation. This includes conformity with labor and safety policies as well as the adoption of environmental sustainability practices, which is becoming increasingly important in ASEAN countries, where environmental awareness is growing (ICE, 2021).

The Bank of Italy (2015) identifies additional success factors that are consistent with the relevant obstacles in internationalization, such as "(i) the need to reconcile the parent company's control over critical decision-making processes with the subsidiary's autonomy to identify the most suitable strategies for the local market; (ii) the willingness to accept substantial changes in organizational and governance structures; and (iii) the ability to adapt to the characteristics of different markets, with very different traditions and uses, and to maintain control over the quality of production" (Bank of Italy, 2015).

3.4 Singaporean Context: Growth Potential and Competitive Landscape for Italian Companies

3.4.1 Economic Overview of the Singapore Market

Singapore is a city-state located at the southern end of the Malay Peninsula that serves as a global hub for trade, finance, and transportation. With a population of almost 5.92 million people (Singapore Department of Statistics, 2023), Singapore is characterized by the most advanced economic system among Southeast Asian countries, boasting one of the highest per capita incomes globally (113,779 SGD in 2023)[7], an educated population and the highest rate of innovation in Asia, ranking fifth worldwide according to the 2023 Global Innovation Index by WIPO.

The city-state stands out for its governmental effectiveness, access to information and communication technologies (ICT), and availability of venture capital (OECD, 2023). Additionally, it leads in innovation facilitators, including a favorable institutional, regulatory, and business environment, along with strong human capital and advanced research infrastructure (OECD, 2023). The WEF's Global Competitiveness Report 2019 reports Singapore as the most competitive country in the world, surpassing the United

[7] Source: Singapore Department of Statistics. (2023). *Population and population structure: Latest data*. https://www.singstat.gov.sg/find-data/search-by-theme/population/population-and-population-structure/latest-data

States thanks to its excellent infrastructure, efficient labor market, and developed financial sector.

Singapore’s strategic location and advanced infrastructure make it a crucial entry point for companies seeking to access the Southeast Asian market. Moreover, the political and institutional stability of the city-state reduces political risks, fostering a safe environment for foreign investments (InfoMercatiEsteri, 2024). Indeed, Singapore consistently ranks among the top countries for ease of doing business due to its efficient regulatory framework and its favorable tax regime. These are designed to attract and support international businesses by prescribing simplified procedures to start a business, get building permits, and get access to credit, reducing uncertainty for MNCs operating in the country. Incentives to attract foreign investment provided by the Government of Singapore include tax breaks, financial resources for research and development, and funding for innovation (Singapore Economic Development Board, 2022). In addition, Singapore has signed numerous free trade agreements (FTAs) and bilateral investment treaties (BITs), intended to facilitate trade and investment with many countries, providing multinationals with preferential access to regional and global markets (Ministry of Trade and Industry, 2020).

Thus, companies increasingly redeem Singapore as an ideal location to boost profits through both exports and production relocation (International Trade Administration, 2024). Particularly, exporters will find proven market opportunities for a wide range of products and services, including consumer goods, high-tech business solutions and services, machinery, aerospace (International Trade Administration, 2024).

3.4.2 The Evolving Trade Relationship Between Italy and Singapore

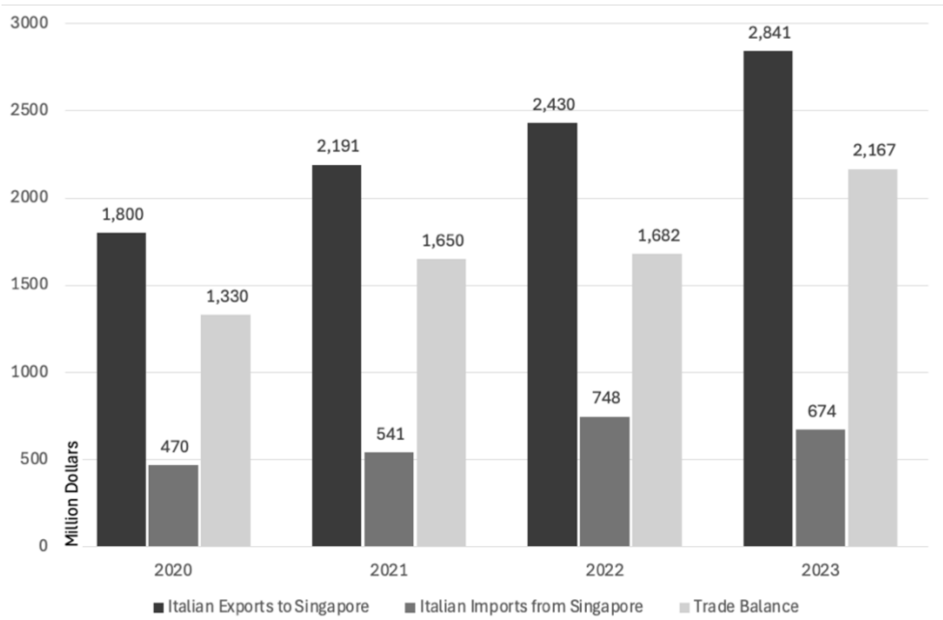
Italy and Singapore maintain friendly and long-standing relations that have intensified in recent years. These relations have developed through multiple forms of economic, cultural, political and scientific cooperation, evidenced by the numerous recent institutional meetings. For example, in 2021, several members of the Singapore government, including Prime Minister Lee Hsien Long, visited Italy to participate in the G20 meetings chaired by Italy (InfoMercatiEsteri, 2024).

The city-state represents the main European Union's trading partner in Southeast Asia and the primary destination for Italian exports in the ASEAN area, accounting for over 2.8

billion euros in 2023 (**Figure 9.**) (InfoMercatiEsteri, 2024). In 2020, due to the COVID-19 pandemic crisis, trade between the two countries experienced a significant decline, recording exports of 1.8 billion (-9.7%) and imports of 470 million (-13.7%), although the trade balance was still positive (InfoMercationsEsteri, 2024). While the following years it saw a formidable recovery as shown in the graph below.

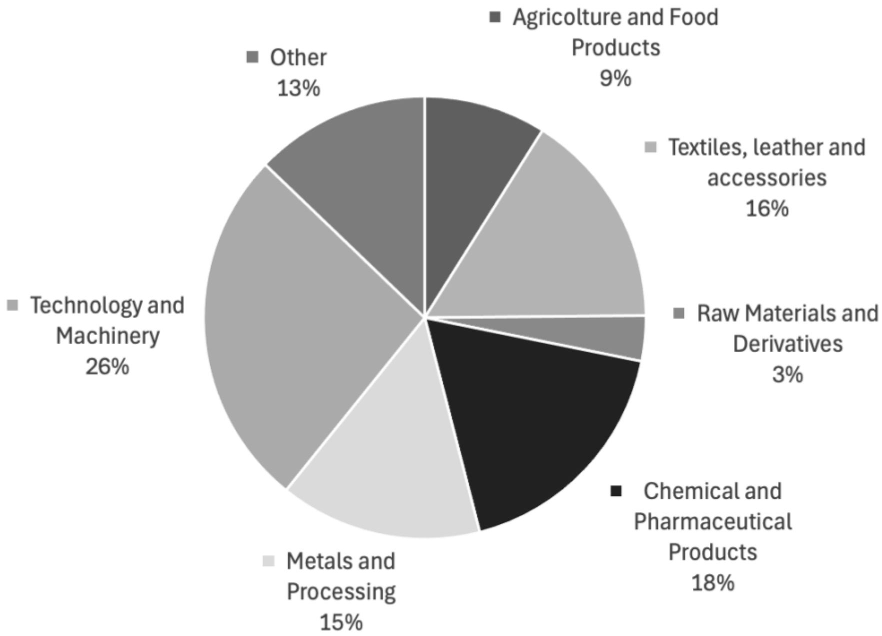
Italy primarily exports to Singapore machinery, chemicals, and fashion products (see **Figure 10.**). In particular, *computers, electronics and optics products* (883.33 million euros) together with *technology and machinery* (424.19 million euros) were the two main macro-categories of products exported from Italy to Singapore in 2023, followed by *chemicals and pharmaceutical products* (286.86) and *textiles, leather and accessories* (255.69) (InfoMercatiEsteri, 2024). The main imports from Singapore involved *computers, electronics and optics* (191) *chemicals and metallurgy* (94.45) and *basic and prepared pharmaceuticals* (85.71) (InfoMercatiEsteri, 2024).

Figure 9. Italy-Singapore Trade Balance (2020-2023) (values in millions of euros)



Source: Personal elaboration based on InfoMercatiEsteri and *MAECI Economic Observatory (2024) data.* www.infomercatiesteri.it

Figure 10. Aggregated Composition of Italian Exports to Singapore in 2023 (values in millions of euros)



Source: Personal elaboration based on InfoMercatiEsteri and *MAECI Economic Observatory (2024) data.* www.infomercatiesteri.it

Trade and the Italian presence in the City-State certainly have room for growth. Singapore increasingly continues a strategic commercial, financial, and logistical hub. Italian companies, especially those with high technological content, can find here high-profile partners to develop the product or to re-export it to the rest of the region, as well as concrete support from government agencies intended for high value-added investment support. By leveraging the logistic and infrastructural platform offered by Singapore, Italian MNCs can project their operations across ASEAN market (InfoMercatiEsteri, 2024).

3.4.3 Expanding Made in Italy's Horizons in Singapore: Fashion, Luxury, and Design Market Insights

One of the most promising sectors for Italian companies seeking to compete in the Singapore Market, is **fashion and luxury goods**, where Made in Italy enjoys an excellent reputation. In fact, Singapore is emerging as an important Asian hub for luxury shopping, attracting investment from leading brands in the industry. With a mature high-class population, the city-state is among the most interesting Asian markets for Italian companies specializing in high fashion, luxury, and jewelry. Singaporean consumers in Singapore, with high incomes and a sophisticated taste, particularly appreciate high-quality Italian products, such as fashion, accessories, furniture, and food. Mordor Intelligence predictions (2023) suggest that Singapore's luxury goods market will continue to grow at sustained rates, with a projected pace of about 5% annually over the next six years.

In 2022, Italian exports to Singapore of the so-called BBF ("Bello e Ben Fatto") – i.e., Italian luxury and lifestyle products – reached almost 562 million euros, registering an increase of 34% compared to the previous year. What contributes to the sector's dominant position is the strong purchasing power of the citizens of Singapore, with an average income of almost 80,000 dollars in 2022, and their particular orientation towards luxury goods (Confindustria, 2023). In addition, the inauguration of the Singapore Freeport in 2010 further facilitated sales' rise for BBF. This high-security free zone is used for the import and storage of luxury goods, such as jewelry, precious metals, artwork, wines, and vintage cars.

Tourism is another important driver for BBF demand. Tourists visiting Singapore often belong to upper- and middle-income groups and dedicate part of their stay to luxury shopping. This trend is particularly strong among visitors from neighboring countries, where access to certain luxury products is more limited.

Finally, the fashion and luxury industry in Singapore is strongly influenced by the presence of high-end international brands, such as Hermes, LVMH and Gucci, which consider the city-state not only a key market but also a strategic base to expand their presence in Southeast Asia. The same consideration applies to Italian brands, which find in Singapore a sophisticated audience and attentive to the details of luxury and fashion.

Another relevant sector is represented by **cosmetics**. The *Society of Cosmetic Scientists of Singapore (SCSS)* estimates that the local cosmetics market is worth about 120 million SDG per year, with an average annual growth of 30%. This segment mainly includes perfumes, skincare and make-up products. Singapore is considered an strategic location in Asia for the development of new aromas, essences, and perfumes, with a particular focus on high-value-added and technologically advanced products. Major international brands such as Givaudan, IFF and Takasago have an established presence in Singapore, leveraging its hub to test and launch new products for the entire Southeast Asia region. However, the cosmetics market in Singapore is dominated by MNCs that offer a huge variety of innovative products, making competition very intense for Italian brands. Nevertheless, Italian companies could find interesting market niches thanks to the reputation of the Italian lifestyle, much appreciated by Singaporean consumers. However, it is important to note that all imported cosmetic products must be notified to the 'Health Sciences Authority' (HSA) and comply with strict international standards.

The **furniture and design industry** in Singapore is equally significant. The creation of the *DesignSingapore Council* in 2003 and Singapore's designation as a “UNESCO Creative City of Design” in 2015 highlight the importance of design in promoting the city-state's value and economic growth (Ministry of Trade and Industry Singapore, n.d.). The Executive Director of the *DesignSingapore Council*, Mark Wee, stressed that the success of Singapore is closely linked to innovation and design, crucial elements to improve business and, in general, the quality of life in the country (Ministry of Trade and Industry Singapore, n.d.).

Despite numerous opportunities, Italian multinationals face some operational challenges in Singapore. First, Singapore is one of the most expensive cities in the world, and the high cost of living and doing business could obstacle the domestic market penetration, especially SMEs (Mercer, n.d.). In addition, Singapore’s business environment is highly competitive, with the presence of numerous innovative (Euromonitor, n.d.). Finally, as a city-state with limited territorial resources, Singapore faces challenges related to the availability of space for business expansion and infrastructure development (Urban Redevelopment Authority, 2023).

4 A QUALITATIVE EMPIRICAL STUDY ON ITALIAN COMPANIES' INTERNATIONALIZATION IN SINGAPORE

4.1 Introduction and Research Context

The issue of embarking on internationalization within nowadays global business landscape holds significant relevance in Italy, especially in light of recent global economic shifts. Global megatrends such as urbanization, technological advancements, demographic shifts, and the complexities of globalization are profoundly reshaping our world. Geopolitical changes, including trade tensions among major economic powers – notably the rise of Asian influence – consistently alter market dynamics. The increasing competitive pressures from emerging economies pose new challenges and push Italian companies to explore new avenues for international expansion. These factors, combined with disruptive phenomena such as the recent COVID-19 pandemic, require businesses to adapt rapidly and strategically to maintain their competitiveness. For large Italian enterprises, particularly those operating in the "Made in Italy" sector, understanding and responding promptly to these changes is essential for their long-term success and sustainability.

The rationale for a detailed analysis of the Singapore market, as extensively discussed in the previous chapters, lies in the fact that, in recent decades, Asia has emerged as a region of primary strategic importance. Among ASEAN countries, Singapore stands out as a vital commercial hub due to its advantageous geographic position along major maritime trade routes and its favorable economic policies. Advanced infrastructure and a business-friendly environment have further solidified its role as a central hub for international trade and investment. These elements have made Singapore an attractive destination for Italian companies, renowned for their quality, design, and craftsmanship. Specifically, opportunities for Italian companies in sophisticated machinery and niche luxury products arise from the substantial purchasing power of Singapore's middle-upper-class consumers. Additionally, the perception of "Made in Italy" as a hallmark of quality, design, and authenticity – often in production techniques passed down through generations – coupled with the recent trend of Singaporean consumers being influenced by Western consumption models, further enhances its appeal.

However, despite these significant opportunities providing fertile ground for expansion, Italian companies face unique challenges in the Singaporean context. These include high operational costs, intense local and international competition, and the need to adapt quickly to market changes. The fragmented market structure and limited entry opportunities for niche luxury products targeted at a small segment further exacerbate these challenges. Moreover, the COVID-19 pandemic has disrupted global supply chains and accelerated the need for adaptation and innovation. Simultaneously, the US-China trade war has created an environment of uncertainty, prompting companies to rethink their internationalization strategies. Italian companies must find ways to maintain and expand their presence in the dynamic Singaporean market by diversifying their supply chain, investing heavily in digitalization, and forming strategic partnerships to better manage operations and engage with Singaporean consumers. Additionally, the emphasis on sustainability has become increasingly important, with Italian companies recognizing the growing demand for environmentally responsible practices among Singaporean consumers. Finally, the role of Italian institutions in Singapore has been crucial in providing strategic and operational support. These institutions have facilitated market entry and the establishment of local partnerships, helping Italian companies navigate the complexities of the Singaporean market.

4.2 Objectives & Research Methodology

The primary objective of this thesis is to explore how big Italian companies operating in the Made in Italy sector have adapted their internationalization strategies over the past decade to enter and compete in the Singaporean market, in response to global megatrends and recent geopolitical shifts. Through a comprehensive analysis based on empirical data and interviews with industry leaders and institutional representatives, this research offers valuable insights into the strategies' evolution of Italian companies in Singapore, providing important guidance for achieving long-term success in an ever-evolving global environment.

Building on the literature that highlights both main facilitating factors and several specific entry challenges at an international level, particularly in Southeast Asia, this study aims to extend these findings to the internationalization process of Italian MNCs in Singapore.

Particularly, the research explores the characteristics of Italian companies' presence in Singapore and their internationalization strategies. It examines the key factors influencing the international development of these companies, their modes of entry, and their operations in the Singaporean market. For this purpose, the following **research question** was formulated:

How and why have the internationalization strategies of big Italian companies in the Made in Italy sector evolved over the past decade in response to global megatrends and recent geopolitical shifts in the Singaporean market?

To achieve a comprehensive understanding of the research question, the following **research subquestions** have been developed:

- *What are the main global megatrends and geopolitical changes that have influenced the Asian market, and how have these dynamics impacted the internationalization process of Italian companies operating in the Singaporean market?*
- *What factors have facilitated the entry of Italian MNCs into the Singaporean market?*
- *What are the main challenges or difficulties faced by Italian MNCs in the Singaporean market, and what measures have been taken to address them?*
- *What are the future prospects and opportunities for Made in Italy products in Singapore?*

These subquestions were designed to break down the complex main research question into key elements that require in-depth analysis. For instance, the first subquestion examines the impact of global megatrends and geopolitical changes, which, according to current literature, are crucial factors influencing internationalization strategies. The subsequent subquestions focus on the main facilitating factors and specific challenges encountered by Italian companies, which are essential for understanding the dynamics of their entry into the Singaporean market. Finally, the last subquestion revolves around the future, seeking to identify emerging opportunities, which is critical for providing strategic recommendations to Italian companies interested in the Singaporean market.

This thesis employs an explanatory qualitative research approach, a methodology used to gain deeper insights into complex phenomena, behaviors, or experiences by exploring the underlying reasons, motivations, and relationships. The study adopts a methodological approach that combines the principles of the *Grounded Theory* with the *Gioia methodology*, aiming to develop a theory that is closely grounded in the empirical data collected. Data were collected through semi-structured interviews and subsequently analyzed following the iterative process typical of the Grounded Theory (Saldaña, 2013), which includes phases of initial coding (*open coding*), concepts' organization (*axial coding*), and main themes formulation (*selective or theoretical coding)*. Additionally, the use of analytical *memos* facilitated critical reflection and the linkage between emerging concepts, allowing the identification and development of categories and main themes directly from the data, resulting in a solid and coherent theory (Gioia, Corley, & Hamilton, 2012). For this study, a rigorous **investigation protocol** was developed to ensure a well-aligned and standardized procedure throughout all stages of the research. Particularly, it was designed to enable a systematic and rigorous approach, prioritizing replicability to enhance the accuracy and reliability of the results. By integrating the investigation protocol with the approaches of Grounded Theory and the Gioia methodology, the research facilitated the development of a robust, empirically grounded theory, ensuring both rigor and replicability, which contributed to reliable and meaningful outcomes.

4.2.1 Data Collection

Data collection through interviews is a crucial component of qualitative research, offering valuable insights into participants' perspectives, experiences, and attitudes. In this study, interviews served as the primary method for gathering detailed information from individuals who have familiarity with the internationalization process of Italian companies in the Singaporean market. The data collection process involved two main phases: identification and selection of participants, and conduction of the interviews with the selected sample who agreed to participate.

Participants

The sampling methods employed in the data collection process included purposive and non-probabilistic sampling. *Purposive sampling* involves selecting participants based on specific criteria aligned with the research objectives. In this case, individuals with either expertise or direct involvement in the internationalization process of Italian companies in Singapore were chosen. This included professionals from both corporate and institutional settings possessing significant knowledge of the phenomenon. *Non-probabilistic sampling* is utilized when the researcher deliberately selects participants based on predetermined criteria, rather than using random selection techniques. In this study, such a method targeted individuals holding key positions in their organization that provide them with significant experience or expertise in the internationalization process of Italian companies in Singapore. By recruiting specific segments of the population most relevant to the research, this approach ensured the collection of in-depth insights into the operations, challenges, and strategies involved, thereby enhancing the significance of the collected data. Well-chosen samples can accurately reflect the characteristics of the broader population, leading to valid conclusions. As a result, the study included interviews with key personnel from large Italian multinational corporations (MNCs) operating in the Singaporean market, representatives from institutions promoting trade and international relations between Italy and Singapore, as well as sector experts such as economists and professors, each holding significant roles and responsibilities in their respective fields. Specifically, the criteria for participant selection were as follows:

- **Key Corporate Figures:** Participants needed to hold the position of manager, branch head, or otherwise a key figure within an Italian multinational corporation in the Made in Italy sector with a stable presence in Singapore. In particular, the company must be classified as a large enterprise[8] and demonstrate a clear and effective "international orientation," meaning production facilities and distribution structures are located in Singapore, while decision-making headquarters remain in Italy. Finally, the company must belong to sectors particularly significant for the national economy, namely manufacturing (automotive, machinery and equipment, textiles and apparel, furniture, electric and electronic), food and beverage (agri-food), and luxury goods (fashion and

[8] According to Italian law, aligning with EU directives, a large company is defined by meeting the following cumulative criteria: (i) more than 250 employees, (ii) an annual turnover exceeding 50 million euros, and (iii) an annual balance sheet total exceeding 43 million euros. The company must meet at least one of the first two criteria (employees or turnover) and the third criterion (balance sheet total) to be considered a large enterprise.

accessories) (Fortis, 2005; ISTAT, 2008; Italian Trade Agency; n.d.). Italian companies that are not present in the city-state – neither producing nor selling – but had considered entering the Singaporean market were excluded from the sample due to the difficulty in identifying such companies.

- **Institutional Representatives:** Participants could also be institutional representatives of institutional bodies in charge of promoting trade or international relations between Italy and Singapore.
- **Sector Experts:** Another category of participants included sector experts who could significantly contribute to the study. This includes individuals with consolidated knowledge of the businesses' internationalization processes, as well as those directly involved in research, study, or project development related to the subject matter, such as economists, professors, and researchers.

Once the potential interviewees were identified, they were contacted directly via email. The contacts were provided by organizations' websites or by other interviewees. Individuals were invited to participate in the study through direct interviews conducted via video call software. Eleven participants volunteered and met the criteria, resulting in a final sample of experts as diverse as possible in terms of their level of involvement and their roles concerning the internationalization dynamics of Italian companies in Singapore. The participants were based in both Italy and Singapore and were recruited from seven different organizations across private and public sectors. The interview sample was carefully selected to include a diverse range of sector experts. Two participants fell into the first selection category, which included key personnel within large Italian MNCs from the Made in Italy sector with a stable presence in Singapore. These participants held leadership roles in their respective companies, such as heads of business development and operations management in the Asian market, overseeing market expansion and supervising operations in their sector. Their experiences provided unique perspectives on international market challenges and opportunities, along with concrete examples of strategies and decisions related to internationalization, enriching the analysis of this thesis. Three participants were Italian institutional representatives playing a crucial role in promoting trade relations and supporting national companies in Singapore. These individuals held prominent positions in organizations like the Italian

Chamber of Commerce and the Italian Embassy in Singapore, focusing on promoting Italian businesses, supporting national interests, and enhancing Italian exports in local markets. They provided an institutional perspective on the internationalization process, the characteristics of the Singaporean market, and the behavior of Italian companies there, as well as insights into the most utilized and requested services and recommendations for long-term success. Finally, three participants were identified as sector experts with deep knowledge of the economic and strategic dynamics related to internationalization. These participants included an economist, an associate professor, and an export finance specialist, offering perspectives based on the analysis of economic trends, corporate strategies, and risk management in international markets. Notably, while eight subjects appear to be listed, it is important to clarify that one interviewee held two roles, belonging to both the managerial and institutional representative categories. A summary detailing the demographics and professional details of the interviewees is provided in **Table 4**. Purposive and non-probabilistic sampling methods, as employed in this study, ensured the data collected was relevant and informative, providing nuanced perspectives and detailed information essential for achieving the research objectives.

Procedure

Once the availability of the participants who agreed to take part was confirmed, direct online interviews (justified by the geographical distance between interviewer and interviewee) were conducted, with the exploratory aim of gathering useful information to meet the research objectives. The interview schedule was developed based on literature about the internationalization of Italian companies in Asian markets and the characteristics of the Singaporean market. After identifying key concepts to explore, a set of guiding questions was formulated, allowing for adjustments based on the specific role of the participant. Open-ended questions were used to encourage unbiased responses, and an iterative process allowed the data analysis to inform subsequent interviews throughout the study.

Table 4. Demographic and Professional details of the Interviewees

Interview Reference	Interview Date	Gender	Age Group	Job Position	Organization	Industry Sector
A1	August 1, 2024	Male	36-45	Business Development Manager	Banfi	Wine & Spirits
A2	August 1, 2024	Male	46-55	President	Italian Chamber of Commerce in Singapore (ICCS)	Business & Trade Promotion
				General Manager	Vimar Asia Pacific Pte Ltd	Electrical and Electorinc Manufacturing
A3	August 29, 2024	Male	46-55	Deputy Head of Mission	Italian Embassy in Singapore	Diplomacy & International Relations
A4	August 29, 2024	Female	36-45	Deputy Trade Commissioner	Italian Trade Agency (ICE)	Trade & Export
A5	August 30, 2024	Male	36-45	Economist	Confindustria Research Department	Research & Policy
A6	July 22, 2024	Male	46-55	Associate Professor	Singapore Management University	Academia & Research
A7	September 9, 2024	Male	36-45	Relationship Manager	SACE	Finance & Insurance

The literature review from previous chapters guided the development of open-ended, focusing on the following macro areas of interest:

- Characteristics and Positioning of Italian Companies in the Singaporean Market: to analyze the motivations behind the growing interest in the Singaporean market by Italian companies and which sectors have developed the most.
- Main Facilitating Factors for Entering the Singaporean Market: to investigate the entry strategies adopted by Italian companies and the motivations behind them.
- Main Obstacles Encountered in the Singaporean Market: to investigate and understand the concrete or perceived difficulties in the market under study.
- Significant Events Impacting Strategic Direction of Italian Companies in the Singaporean Market: to explore relevant global megatrends or other events within the Singaporean business landscape that affect Italian businesses, along with the resulting adaptation strategies and their evolution over time.

The interviews were conducted between July and September 2024, each one typically lasting between 30 and 45 minutes. A **semi-structured interview protocol** tailored to the explanatory nature of the research question was employed. The semi-structured approach ensured coverage of the four key research areas while leaving room for follow-up questions, allowing flexibility to explore emerging topics. This method allowed for the interviewer to follow a guide with predefined questions while adapting the conversation based on the responses obtained. The dynamic nature of the interaction enabled in-depth exploration of emerging areas of particular interest, ensuring a richer and more authentic data collection. The interviews also captured participants' opinions, considerations, expectations, and perceptions, deepening the understanding of the managerial, strategic, and organizational complexities related to the pursuit (or lack thereof) of international development paths by the companies under study.

All interviews were recorded, with prior consent from the participants, and transcribed for detailed data analysis. An open style of questioning was employed to complement the semi-structured questions, which were divided into seven sections:

- *Section1:* “About you”, requested details on the participant's role and professional background.
- *Section 2:* “Opportunities in Singapore”, included questions on identifying opportunities for Italian companies and their products in the Singaporean market.
- *Section 3*: “Entry Challenges”, focused on the main obstacles faced by Italian companies in the Singaporean market.
- *Section 4*: “Internationalization Strategies”, explored strategies for entry, competition, and overcoming challenges in the Singaporean market.
- *Section 5*: “Adaptation to Global Megatrends”, included questions on how companies are adapting to relevant global megatrends such as digitalization, sustainability, and changes in consumption models.
- *Section 6*: “Impact of Geopolitical Changes”, included questions on identifying recent geopolitical changes that impacted Italian businesses' operations and their mitigation strategies.
- *Section 7*: “Support for Italian Companies”, covered the role of national institutions in supporting Italian companies in their international expansion efforts.

Ethical considerations were paramount throughout the data collection process. Prior to the interviews, participants were given an informed consent form outlining the study's purpose and requesting permission for audio recording and data usage. No unreasonable questions were asked without justification, and adherence to the predefined interview guide was maintained, allowing participants the autonomy to express their viewpoints freely. This structured approach facilitated a comprehensive examination of the evolution of internationalization strategies of large Italian companies operating in Singapore, providing valuable insights for companies aiming to enter Asian markets. Participation was voluntary, and confidentiality agreements were put in place to protect their privacy. Information collected was anonymized during analysis and in the publication of results. By adhering to these procedures, we ensured the integrity and reliability of the data collected, which is crucial for the subsequent analysis and findings of this study.

4.2.2 Data Analysis

The data analysis of this study was conducted using a combination of Grounded Theory and the Gioia Methodology, both of which are well-suited for identifying emerging concepts from interview data and constructing theories based on the collected evidence. The use of these methodologies allowed for a systematic exploration of the phenomena under study, enabling a structured understanding of how various internal and external factors shape the internationalization processes of Italian companies in Singapore. This approach added an additional layer of rigor to the analysis. Each interview was transcribed to create an accurate dataset, and these transcripts were then examined line by line and segment by segment using a structured coding system to identify recurring patterns and insights. By following Saldana's (2013) coding manual, the data was systematically categorized and interpreted, which enhanced the study's reliability and validity. Additionally, following a similar approach to Annosi and Lanzolla (2023), a thematic analysis was employed as a qualitative tool to further interpret the collected data. These methodologies provided a robust framework for coding and categorizing the data, facilitating the systematic development of theory based on the evidence collected during the interviews. This approach strengthened the study's analytical depth and contributed to the overall credibility of the findings.

Data Coding Process

According to Saldana's coding manual (2013), the data coding process was carried out in three phases: *open coding*, *axial coding*, and *selective coding*. The first phase, open coding, was performed using the *Taguette code creation system*, an open-source tool designed to support qualitative data analysis. The subsequent axial coding phase involved transferring open codes from Taguette to Excel for further refinement. Finally, selective coding was also conducted using Excel to group and integrate the codes into higher-order categories that represent the key findings of the research.

Open coding was the initial stage of data analysis. It involved breaking down interview transcripts into discrete segments and analyzing them for similarities and differences. During this phase, codes were assigned to relevant words, phrases, and paragraphs that represented different key concepts in the text. The goal was to identify data and information linked with the research scope. This process generated a total of 200 open codes, with approximately 30 codes per interview, covering topics such as internationalization strategies, market challenges and opportunities, and responses to global megatrends. Each code was analyzed independently to ensure that emerging themes were thoroughly explored without being influenced by predefined categories. By allowing the data to speak for itself, the open coding process provided a foundation for subsequent stages of analysis.

The second stage of the coding process involved **axial coding**, which aims to reassemble the data by identifying relationships among the open codes. This process helps to organize the concepts into a more coherent framework, linking categories to subcategories and showing how they interact. In this study, axial coding was conducted using Microsoft Excel, where the 200 open codes from the previous stage were grouped into 20 main categories, reflecting various aspects of the internationalization process of Italian companies in Singapore.

Selective coding was the final phase of data coding, where the theory was integrated and refined by selecting a core theme and systematically relating it to other categories. The purpose of selective coding is to develop a central storyline that ties together all categories and subcategories identified in the previous stages of analysis. In this study, the main theme that emerged was the strategic adaptation of Italian multinational companies (MNCs) in Singapore to both market opportunities and external challenges. This concept was found to encompass several interrelated subcategories, including market entry strategies, challenges in the Singaporean market, responses to global megatrends, and institutional support for internationalization. These subcategories were systematically connected to form a coherent narrative that captures the complexities of international expansion in the context of the Singaporean market.

By integrating the codes into a central framework, the selective coding process enabled a deeper understanding of the ways in which Italian MNCs navigate internationalization, balancing market demands, geopolitical risks, and the influence of global trends.

Thematic Analysis

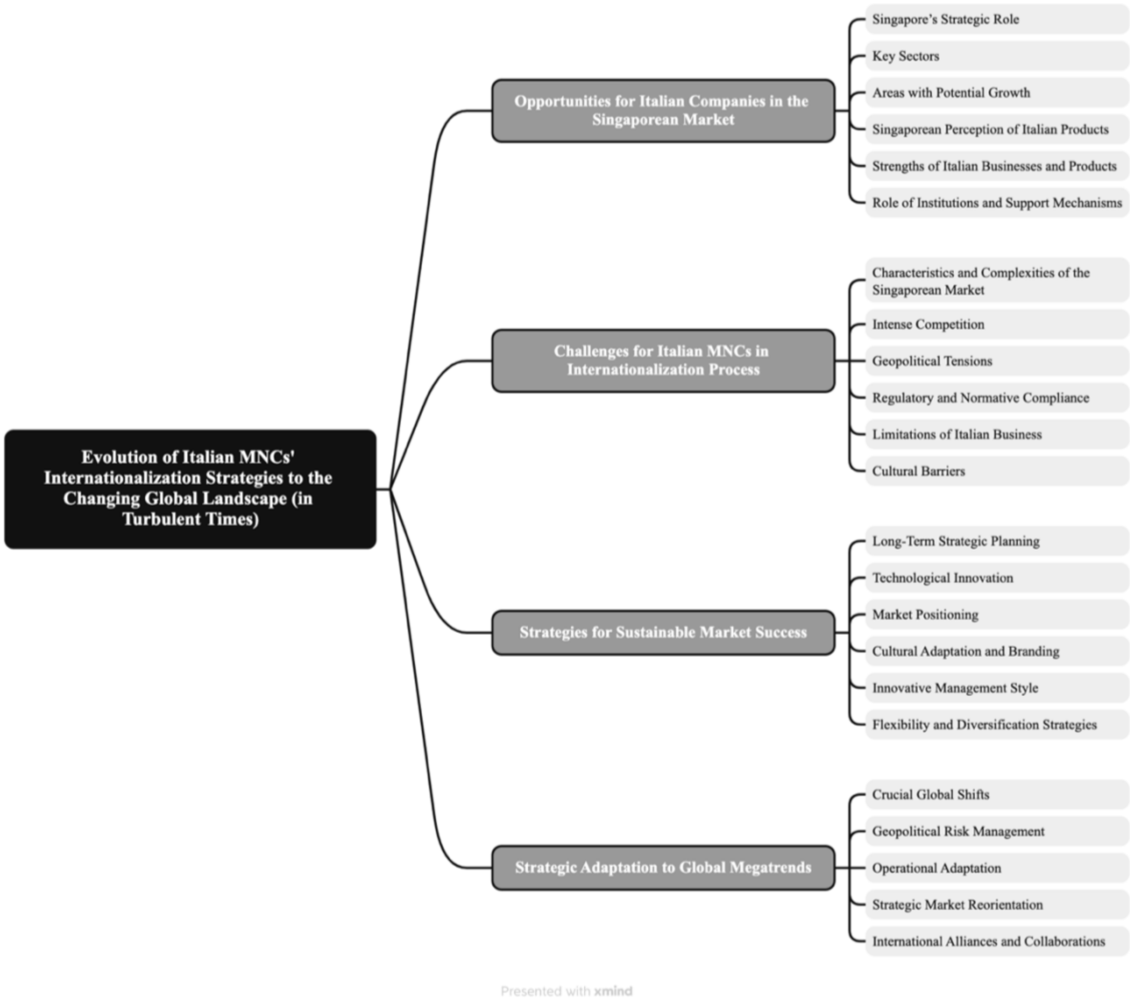
The qualitative data from the interviews were further interpreted using thematic analysis, which organized and structured the findings into coherent sections based on key research themes. Following an approach similar to that of Annosi and Lanzolla (2023), the present analysis was divided into phases representing the different stages of the internationalization process of Italian companies in Singapore. These stages include initial market entry – where opportunities for companies to penetrate and operate in the Singaporean market emerge, challenges faced during the internationalization process, adaptation to global trends and finally strategies to succeed and remain competitive in the area. Specifically, results were grouped into four thematic areas:

1. Opportunities For Italian Companies in The Singaporean Market
2. Challenges For MNCs Internationalization Process
3. Strategies For Sustainable Market Success
4. Strategic Adaptation to Global Megatrends

Each of these themes was explored to understand how Italian companies' internationalization strategies were shaped by both internal factors (i.e., direction's objectives, organizational capabilities, and financial resources) and external forces (i.e., market dynamics and global megatrends). The thematic analysis helped to detect the primary factors influencing the internationalization efforts of Italian companies in Singapore. For example, companies frequently mentioned adapting their strategies to fit the unique demands of the Singaporean market, including its regulatory environment, consumer preferences, and competitive landscape. Additionally, many participants discussed how megatrends, such as sustainability and digitalization, have become critical components of their long-term strategies.

By organizing the interview data into these aggregate dimensions, the analysis provided a structured and comprehensive understanding of how these MNCs are addressing both opportunities and challenges in their internationalization process. Moreover, this approach offered deeper insights into how these companies' direction is evolving to meet global demands while capitalizing on the unique characteristics of the Singaporean market. **Figure 11.** provides a visual representation of the data structure, enhancing the understanding of the conceptual model developed.

Figure 11. Data Structure



4.3 Findings

This section presents the findings from the interviews conducted with experts involved in the internationalization process of Italian companies in Singapore. The analysis identified four main themes that help address the research question. Each theme is explored in depth, supported by empirical evidence and representative quotes from the interviews to highlight key insights.

4.3.1 Opportunities for Italian Companies in the Singaporean Market

The first main theme explores the specific opportunities that the Singaporean market offers to Italian companies, which constitute the primary motivations making this market particularly attractive, especially in recent years. Singapore's unique characteristics as both a dynamic market and regional hub present unparalleled opportunities to serve the broader ASEAN market, although considerable challenges remain.

Singapore as a Strategic Hub

Singapore has emerged as one of the most important economic and financial hubs in the ASEAN region, not only for trade in goods but also for financial flows. Its strategic geographic location as Asia's financial capital, its political stability, and its world-class infrastructure make Singapore a strategic spot for Italian businesses seeking to expand in the Asian market. As stated by an Economist at the Confindustria Research Department:

> *(The attractiveness of Singapore lies in the fact that it represents an accessible first step for entering the Asian market, where companies can connect with local providers and build commercial networks extending across Asia. Additionally, Singapore offers a business-friendly environment, with regulatory frameworks more aligned with European standards and a legal system that facilitates international commercial interactions.)* (Interview A5)

Singapore should be considered a "privileged observatory" for Italian companies aiming to expand into the region. A SACE associate underlined, "*(Despite being an attractive market for Italian companies, Singapore should not be viewed in isolation. Its position as a central hub for accessing larger Southeast Asian markets, such as Indonesia, Vietnam, and Thailand, is invaluable. These neighboring countries present much larger markets, with growing middle classes and significant demand for Italian machinery, technology, and luxury goods.)*" (Interview A7) Finally, the widespread use of English facilitates foreign business entry and the city-state's neutral position as a crossroads between the

West and Asia is particularly advantageous for maintaining commercial relationships in a complex geopolitical landscape.

Sectoral Opportunities

Singapore is a key destination market in Southeast Asia, with a rapidly expanding industrial base that has attracted strong interest from Italian companies across various sectors. Italy has traditionally maintained a strong presence in well-established "Made in Italy" industries such as Food & Beverage, Fashion & Design, Furniture, and Automotive, or more broadly in the luxury and high-end sectors. Nevertheless, the Italian presence is also well-structured throughout the local socio-economic fabric, with many companies operating in sectors important to Singapore's economy, such as maritime transport (shipping), construction, and finance. The Deputy Head of Mission at the Italian Embassy in Singapore highlighted, "*(If we look at the data related to trade between Italy and Singapore, what stands out is the exchange of electronics, machinery, and pharmaceutical products.)*" (Interview A3) Italy's growing presence and reputation in high-tech sectors, further reinforce Singapore's strategic importance. The demand for Italian machinery and technology, particularly in the pharmaceutical sector and advanced manufacturing, positions Singapore as a critical market for these exports. Therefore, Italian high-performance machinery, which is highly valued in Singapore, presents significant opportunities for growth in the market. The President of the Italian Chamber of Commerce in Singapore (ICCS) highlighted this trend:

> *(There is a particularly strong demand for high-performing and premium equipment, which is why Italian products, such as coffee machines and gelato machines – especially for the HORECA (Hotel, Restaurant, Café) sector, which is very strong in the area – are often preferred despite being more expensive compared to competitors due to their efficiency and quality.)* (Interview A2)

In this market progressively embracing digital transformation, significant growth potential has been noted also in innovative sectors such as cybersecurity, startups, fintech, renewable energy (cleantech), robotics, and artificial intelligence.

Italian Excellence and Reputation

In addition to Singapore's favorable economic, political, and geographic conditions, a third crucial advantage for Italian companies is their strong international reputation. Italian products are widely associated with high-end lifestyle offerings, and Singapore's brand-conscious consumer market, which prioritizes luxury and high-quality goods, presents significant opportunities for Italian businesses. This is especially true in sectors such as fashion, design, and food and beverage, where Italian products are seen as symbols of sophistication and elevated social status. An interviewee observed, "*(In Singapore, people are willing to pay more for products that enhance their social standing. This is where the strength of Italian brands comes into play.)*" (Interview A2) The association of Italian products with luxury and exclusivity has proven to be a powerful selling point in this highly discerning market.

The Role of Institutions and Support Mechanisms

The role of Italian institutions in supporting companies looking to internationalize in Southeast Asia is crucial. The synergy between Italian institutions – namely the Italian Embassy, ICE (Italian Trade Agency), the Italian Chamber of Commerce, and SACE – has been crucial in offering the necessary assistance to companies, whether they are entering the Singaporean market or already established there, in navigating the complexities of the local market. By promoting networking and strategic partnerships with local stakeholders, and by supporting in trade fairs and market research, these institutions help companies tap into new opportunities, particularly in technology-driven sectors which are gaining traction in Southeast Asia. Their local presence allows them to act as privileged observers of market dynamics, offering timely access to critical information that supports Italian businesses' internationalization in Singapore.

SACE, in particular, has been instrumental in helping Italian firms navigate the complexities of entering high-risk markets through financial guarantees and innovative funding models like the "push strategy." This initiative, which involves financing large international buyers in exchange for a commitment to source goods from Italian SMEs, has opened new doors for Italian companies, particularly those without significant international exposure. A SACE associate remarked, *"(This strategy has generated*

approximately 20 billion euros in guarantees over the past five years, helping SMEs connect with large international buyers and increase their exports.)" (Interview A7)
One notable initiative to promote Italian products in Singapore is the "Made in Italy Day," recently established by the Ministry of Foreign Affairs. This day, celebrated on May 15th by the entire diplomatic-consular network, includes specific events dedicated to a particular sector or multiple sectors. This event focuses on showcasing Italian excellence in various industries, helping to enhance the reputation of Italian products in the market. The Deputy Head of Mission at the Italian Embassy in Singapore, emphasized:

> *(The Made in Italy Day has been a great initiative to highlight the quality and innovation of Italian products in Singapore. The latest celebration focused on Italian industrial machinery sector. This choice was motivated by the need to highlight the quality of Italian excellence, which may be less well-known but is extremely valuable, especially in expanding technology markets like Singapore.)* (interview A3)

During the event, a memorandum of understanding was established between the Italian company Meridionale Impianti (MI) – a specialist in high-tech engineering solutions – and the Institute of Technology Education (ITE). As part of this initiative, MI donated a machine to train students attending courses at ITE, intending to promote Italian craftsmanship excellence.

A key element of the institutional support framework is the strategic focus on attracting investments and building networks between Italian companies and local high-net-worth individuals. An interviewee noted, "*(What we strive to do is foster local collaborations and partnerships, enabling Italian companies to benefit from local market knowledge while further consolidating these networks.)*" (Interview A3) This approach not only helps Italian companies secure funding but also facilitates their integration into the local business community. Moreover, in alignment with Singapore's economic strategy, which focuses on attracting investments and recognizing the significant presence of family offices and high-net-worth individuals in the region, the Italian Embassy in Singapore recently launched a series called "Made in Italy in the World." This initiative seeks to introduce prominent Italian CEOs based in Singapore, showcasing their companies to attract investments from Singapore to Italy.

4.3.2 Challenges for Italian MNCs' Internationalization Process

The second aggregate dimension explores the specific challenges faced by Italian companies in the Singaporean market. This market is highly competitive, with many international players competing for limited market space. Additionally, the high cost of living and operational expenses in Singapore further exacerbate these challenges, making it a difficult environment for businesses, particularly SMEs. "*(Singapore is a tough market. It's expensive to operate here, and the competition is fierce. You need deep pockets and a solid strategy to succeed.)*" (Interview A2)

Singaporean Market Characteristics and Complexities

Italian companies entering and operating in Singapore encounter various barriers due to the market's unique characteristics. One significant challenge is the geographical distance, making it difficult for Italian firms to establish and maintain close ties with local partners. Substantial financial resources and strategic planning become critical to success. The market's fragmented nature also limits accessibility, particularly in luxury goods, where Italian products are typically positioned. While demand for high-end products exists, the consumer base is relatively small, requiring companies to work harder to secure and retain market share. The President of ICCS remarked, "*(Although Asia is a vast market with enormous economic potential, it proves to be quite narrow for Italian products, as many operate in the high-end luxury niche.)*" (Interview A2) Moreover, the high operational costs and limited spatial capacity of Singapore add to the difficulties faced by Italian firms.

> *(Running a business in Singapore is expensive. The cost of living and operational expenses are significantly higher than in many other regions, which poses a substantial burden on companies, particularly those in sectors with slim margins. This has led some companies to consider moving their lower-skilled operations to*

countries with more space and lower costs, such as Malaysia or Thailand. The limited spatial capacity further complicates matters, as it restricts the ability to expand operations.) (Interview A1)

Cultural Barriers

Cultural distance remains a significant challenge for Italian companies in Singapore. The cultural gap between Italy and Singapore, influenced by the strong Chinese presence, requires Italian firms to adapt their strategies to resonate with local consumers. Singapore's consumer behavior, shaped by its Chinese majority and multiculturalism, can be difficult for Western companies to navigate. Italian firms must adjust their marketing strategies to resonate with local consumers, often rethinking how they present their brands and products. "*(The influence of Chinese culture in Singapore is strong, affecting consumer behavior, business practices and regulations. Italian companies must understand and adapt to these cultural nuances to succeed.)*" (Interview A5)

Changing consumer models in Singapore further complicates market entry, as preferences are shaped by both global trends and local traditions. The Business Development Manager at Banfi pointed out:

> *(Adapting our product to fit the local taste has been essential. In the wine industry, for instance, preferences can vary widely, and we've had to tailor our offerings to meet these evolving demands [...] In general, the cultural barrier has been a significant challenge. It's not easy to replicate the successes achieved in Europe or the Americas in Asia, especially for products like wine. Much of our success in Asia relies on European expatriates who are familiar with our products.)* (Interview A1)

This challenge is further compounded by the language barrier, as many Italian businesspeople are not always fluent in English. Trust, which is a cornerstone of business relationships in the region, becomes harder to establish without effective communication.

Intense Competition

Competition in the Singaporean market is fierce, with challenges arising not only from local businesses but also from international players. Italian companies operating in this environment must contend with well-established competitors who have already adapted to the local market dynamics.

> *(The competition in Singapore is intense, particularly due to the presence of well-established global brands. While the 'Made in Italy' brand holds prestige, local and regional competitors are rapidly improving, especially in sectors like technology and luxury goods, making it crucial for Italian companies to continuously innovate and differentiate themselves.)* (Interview A2)

Among the most significant challenges is the rise of Chinese companies, which offer high-quality products at competitive prices, placing immense pressure on Italian firms, particularly in high-tech and machinery sectors. Chinese companies are rapidly improving their technological capabilities while maintaining lower pricing, forcing Italian companies to continually innovate to sustain their market position. However, to truly capture the market, Italian companies must change their mindset. Instead of simply exporting machinery, they should invest in local production facilities and see Southeast Asia not only as a supplier hub but as an end-market in itself.

> *(Italian companies are part of the supply chain as machinery providers, but they are mostly limited to exporting machinery that serves global companies, rather than capturing the market as consumers. […] Italian companies are innovating technologically – we can now manage machines entirely remotely from Italy – but there needs to be a mindset shift. Entering the value chain does not just mean participating in a small process; it means establishing local operations, opening*

> *plants, and viewing Southeast Asia as a consumer market, not just an intermediate one.)* (Interview A7)

This challenge is further exacerbated by other international players, particularly those from France and Australia. French companies, for instance, have historically maintained a strong presence in Asia due to their early market entry and well-established distribution networks, making it more difficult for Italian companies to establish a foothold. As noted by an interviewee, "*(They immediately captured a segment of the market that associates luxury with certain labels and products. The French image arrived first.)*" (Interview A1)

Regulatory and Normative Compliance

Navigating the regulatory landscape in Singapore poses the final significant challenge for Italian companies. Their limited knowledge of local regulatory frameworks and the lack of legal guidance, coupled with the need to comply with strict local regulations and certification requirements adds another layer of complexity. According to a member of Italian Embassy in Singapore:

> *(Although Singapore offers a relatively transparent and stable regulatory environment, the complexity arises from ensuring compliance with both local and international standards. Local law and standards are rigorous, and companies must invest time and resources to ensure they meet these standards, which can be particularly burdensome for smaller firms.)* (Interview A3)

Moreover, Certifications vary by industry and can be particularly challenging for sectors such as electronics, pharmaceuticals, and food and beverage. The General Manager at Vimar Pacific Ltd explained, "*(For our electrical products, we must meet the certification standards specific to Singapore, which involves a complex and costly process. This is a significant barrier, particularly for smaller companies that may not have the resources to navigate these requirements efficiently.)*" (Interview A2)

This adaptation is not merely a matter of compliance but also of ensuring that the products remain competitive in the market. For instance, the food and beverage sector must adhere to strict food safety regulations, which require adjustments to labeling, ingredient sourcing, and even product formulations. To mitigate these regulatory challenges, Italian companies are increasingly seeking local partnerships and consulting experts familiar with Singapore's regulatory landscape. This strategic approach helps them overcome immediate barriers and establish a sustainable presence in the market.

4.3.3 Strategic Adaptation to Global Megatrends and Geopolitical Shift

Italian companies, operating in one of the main Asian economic hubs, face a dynamic environment influenced by recent geopolitical changes and global megatrends such as such as digitalization, sustainability, and thus evolving consumption patterns. The third main theme explores the events that have most impacted the Singaporean market and business operations, as well as the strategies Italian companies have adopted to compete in response to these challenges.

Navigating Turbulent Times

The ongoing trade war between the United States and China has significantly affected the global business landscape, with notable repercussions for the Southeast Asian market and Italian companies operating in Singapore. Although Singapore maintains a neutral stance, it has been deeply impacted by this event, which involved the realignment of trade routes, supply chains, and investment flows in the region.

> *(We are in a delicate phase of geopolitical transition, with new global balances being defined. The ongoing tensions between the US and China have certainly made the global context more unstable and unpredictable, affecting how companies approach the Singaporean market. Particularly, Italian companies operating in Singapore must navigate this uncertainty, which impacts everything from supply chain decisions to long-term investment strategies.)* (Interview A3)

The geopolitical complexities of the region, especially the strategic competition between the US and China, create an environment of uncertainty that impacts business operations worldwide. Italian companies in Singapore have been compelled to rethink their supply chain strategies, diversifying to reduce dependency on any single market. This shift includes exploring alternatives to China, with firms increasingly looking at Vietnam, Malaysia, and other Southeast Asian nations.

> *(The US-China trade war […] has had a lasting impact, pushing companies to reconsider their reliance on China. In the past, many multinational companies, particularly from Europe, established operations in China to tap into its vast market and advanced technologies. However, due to the US-China trade war, the United States has encouraged these companies to relocate to other countries, particularly Vietnam and India. For example, Apple has shifted part of its production to India, prompting its key suppliers to follow suit. Similarly, higher US tariffs on Chinese products have led many Chinese factories to move operations to Vietnam, where they engage in simple labeling and packaging activities to change the country of origin and avoid tariffs. Malaysia has also seen an influx of Chinese companies adopting this strategy to bypass US trade tariffs.)*
> (Interview A6)

Singapore, with its strategic location and robust logistical infrastructure, is viewed as an ideal hub for optimizing distribution networks and ensuring operational continuity. However, due to China's significant influence, many Italian companies are diversifying their supply chains. They are actively seeking alternative suppliers in Southeast Asia or even turning back to Europe to mitigate the risks associated with over-reliance on China, which is currently seen as an unstable and risky market. This reflects a broader trend of deglobalization, as companies increasingly form regional supply chains to mitigate geopolitical risks. The world is gradually evolving into two distinct economic blocs, each with its own supply chain. China is developing its own supply chain network, while the

United States, in collaboration with European countries, is working to establish an alternative supply chain that minimizes dependency on China. For Italian companies becomes essential to reconfigure supply chains and explore new markets for managing geopolitical risks and maintaining efficiency within these emerging economic blocs. This includes greater emphasis on risk management and scenario planning to anticipate and respond to potential geopolitical disruptions.

The COVID-19 pandemic further accelerated these changes, exposing vulnerabilities in global supply chains and prompting many companies to reassess their strategies. In Singapore, ultra-restrictive measures, such as entry bans for employment pass holders stranded abroad, resulted in a significant exodus of expatriates. This had a profound effect on businesses, particularly those heavily dependent on foreign talent. Consequently, many companies began shifting their focus to other regions, including the Middle East and Europe. The retreat of European investments in Asia and the distancing from China have led to a significant reassessment of strategies in the Asian market. Companies are increasingly focusing on building resilience into their operations, which includes diversifying their market presence and developing contingency plans for future disruptions.

Other geopolitical events, such as the Russia-Ukraine conflict and ongoing crises in the Middle East, also influenced business strategies in Singapore. The disruption of trade routes, particularly in the maritime sector, has hindered commercial activities and partnerships that Italian companies had established in the region. This increased the importance of strengthening risk management strategies and ensuring flexibility in business models to adapt to shifting global conditions.

Alignment to Global Megatrends

Alongside geopolitical challenges, global megatrends such as digitalization, sustainability, and the consequent changes in consumer behavior, have become crucial factors in shaping business strategies. These trends are now critical components of internationalization strategies for both multinationals and SMEs.

(A critical factor that Italian companies must consider in their internationalization strategies in Singapore is the influence of global megatrends. Companies, whether multinationals or SMEs, need to adapt to the consumption preferences of the local population. This necessitates substantial investments in digital technologies and innovative processes, not only to enhance competitiveness but also to meet the demands of the local market. Specifically, companies need to tailor their products with a focus on sustainability to better align with consumer expectations.) (Interview A3)

(The increasing emphasis on digitalization and sustainability is transforming our operations. We must invest in technology and innovative processes not only to enhance our competitiveness but also to meet the growing demands for sustainability in the local market. Our company, like many others in the Food & Beverage sector, has implemented sustainable practices to minimize environmental impact and meet the growing consumer expectations for sustainability.) (Interview A1)

The push towards digitalization is a clear response to the global trend of increasing technological integration in business processes. The integration of digital tools has become essential, particularly as e-commerce and digital marketing gain prominence in the region. Several Italian companies have embraced digitalization to manage their supply chains and marketing efforts more effectively in the Asian market. This shift reflects a fundamental rethinking of business models to incorporate digital resilience and agility, especially in the wake of the pandemic. Despite this, it has been remarked, that "*(...there is still a need for a shift in mindset: Italian companies must see Southeast Asia not only* *as a source for production or intermediate goods but as a final destination for their products.)*" (Interview A7)

Sustainability has also become a key differentiator for Italian firms in Singapore. As global consumers increasingly demand environmentally friendly products, businesses are compelled to integrate sustainable practices into their operations. This is particularly evident in sectors like high-tech and machinery, where green technologies and cleantech innovations are gaining traction. The President of ICCS highlighted, "*(Sustainability is not just a trend; it is a necessity. Our efforts to incorporate sustainable practices are driven by both consumer demand and regulatory pressures, and this is becoming a crucial part of our value proposition in the market.)*" (Interview A2) Incorporating sustainability into business strategies includes reducing carbon footprints, enhancing energy efficiency, and adopting circular economy practices. Italian companies recognize that sustainability is not just about regulatory compliance, but also about meeting growing consumer expectations and positioning themselves as leaders in environmental stewardship.

Overall, the adaptation of Italian companies in Singapore in response to global megatrends and geopolitical shifts is a blend of technological innovation, sustainability, and operational flexibility. With Singapore serving as a strategic hub for accessing Asian markets amidst an evolving geopolitical landscape, Italian businesses are well-positioned to seize opportunities in the region while mitigating global geopolitical risks. Although the challenges are significant, but with the right strategies and a focus on long-term resilience, Italian companies can continue to play a leading role in the dynamic and fast-growing Southeast Asian market.

4.3.4 Strategies for Sustainable Market Success

The fourth main theme focuses on the strategies, both market entry and growth strategies, adopted by Italian companies to achieve sustainable market success in Singapore. Key factors such as strategic foresight, market presence, adaptability, and structured management provided them with a consistent ability to grow or remain competitive in Singapore's competitive and dynamic market.

One of the most critical elements for sustainable success in the Singaporean market is the adoption of a **long-term strategic vision**. Companies that have committed to maintaining a sustained presence in the region have been able to navigate challenges effectively and leverage opportunities. In contrast, those focused on achieving immediate results have often faced failure.

> *(In Asia, success requires time and a long-term vision. Adopting a short-term approach, without committing to acquisitions or engaging in major operations like M&A, but instead relying solely on organic growth through a small factory or sales office, entails risks of not achieving the "critical mass" necessary for effectively penetrating the market. This is the reason why many Italian companies failed in Asia and were forced to retreat.)* (Interview A2)

Companies, especially SMEs, should unite to create **critical mass** before attempting to enter the Asian market independently. This could involve partnering with complementary businesses to gain greater market access and competitiveness. The small size of many Italian businesses, insufficient resources, and inadequate strategies often prevent them from succeeding in Asia. This is primarily because most Italian companies are not equipped to thrive in the Asian market due to factors such as limited business scale, lack of resources, or ineffective strategies. Additionally, Italy's industrial fabric is predominantly composed of small and medium-sized enterprises (SMEs), which, while being a strength in other contexts, can pose a challenge in Asia if they are unable to reach the business volume required to compete effectively. "*(To succeed in Asia, you need to build critical mass. It's about knowing your strengths and weaknesses and executing your plan effectively.)*" (Interview A2) This long-term perspective is exemplified by companies like Banfi, which has divided its Asian operations into two macro-regions, each managed by dedicated teams, to better address the specific needs and opportunities of each market. This structured approach allows them to manage the diverse and complex markets across Asia more effectively. As Banfi's Business Development Manager mentioned, "*(We understood early on that to be successful in Asia, we needed a long-*

term commitment. This meant not just entering the market but structuring our presence in a way that we could adapt and grow.)" (Interview A1)

Having a **structured presence** in Singapore has been vital for effectively managing operations and expanding market share. By developing a well-organized commercial and marketing structure capable of managing distant markets, Italian companies are better equipped to manage distant markets. In addition, Banfi has successfully managed its sales channels in Singapore by partnering with local importers for distribution in Western-oriented venues, such as hotels and upscale restaurants. This strategy has allowed them to maintain a strong presence in the market while leveraging the expertise of local distributors. The use of large retail chains for product distribution has further expanded their reach and ensured that their products are accessible to a broader audience.

> *(Market presidium is the key to achieving success in terms of sales, marketing, branding, and return on investment. Structuring a sales and marketing organization capable of handling even distant markets was crucial to our company's success and rapid growth.)* (Interview A1)

Another critical factor for success involves **pioneering market presence**. Companies that entered the Asian market early have been able to build strong brand recognition and establish a solidify their position over time. This has been particularly beneficial in sectors like food and beverage, where building a reputation for quality and consistency is vital. The ability to respond to market changes and consumer preferences over time has enabled these companies to sustain and grow their market share. As mentioned by a manager, *"(Our early presence has been critical to our long-term success in Singapore. We understood the importance of establishing ourselves early and adapting as the market evolved.)*" (Interview A1)

Furthermore, to succeed in the Asia market, particularly in Singapore, companies must "fit Asia" not only by scaling their business appropriately but also by adapting to changing consumer models. That is, gaining a deep understanding of the local market and adapting to consumer preferences and tastes. A significant aspect of this adaptation involves the **branding and perception** of products. The "Made in Italy" label carries significant prestige in Singapore, particularly in high-end segments such as food and beverage, fashion, and design. Italian products are associated with quality and luxury, driving demand among consumers who seek to elevate their social status: "*(In Singapore, the brand is everything. If you have a recognized brand, your products will succeed. Otherwise, it's an uphill battle.)*" (Interview A2) Branding is particularly important in a market like Singapore, where consumers are highly brand-conscious and willing to pay a premium for prestigious products. Companies that have capitalized on their brand's reputation are better positioned to succeed in this competitive environment.

Lastly, it's important to note that the way this market is managed has evolved over time, as have the managerial approaches used by companies. Staying competitive requires an **innovative management style** that is responsive to market changes and can adapt quickly to new conditions. "*(Our management approach has had to evolve. We've learned that being adaptable and flexible in our management style is crucial for success in Singapore.)*" (Interview A1) For instance, aligning with large distribution networks has been a winning choice for Banfi. This strategy reflects a deep understanding of how the Singaporean market operates and demonstrates the importance of having a proactive and adaptable vision. Without these qualities, Banfi would not have been able to fully capitalize on the significant opportunities that this market offers for expanding its presence.

4.4 Discussion of the Results

This thesis aimed to explore the evolution of the internationalization strategies of Italian companies operating in Singapore, assess the opportunities and challenges they face, and identify the relevant events and global trends affecting their expansion into Southeast Asia. The results revealed four main themes: (i) Opportunities for Italian Companies in The Singaporean Market, (ii) Challenges For MNCs Internationalization Process, (iii) Strategic Adaptation to Global Megatrends, and (iv) Strategies For Sustainable Market Success.

Key Findings Summary

Singapore's role as a strategic hub in Southeast Asia offers unparalleled access to the broader ASEAN market. Its geographical location, political stability, and strong regulatory frameworks closely aligned with European standards make it an attractive entry point for Italian companies. Experts emphasized that Singapore is not just a final market but also a gateway to larger, rapidly growing markets such as Indonesia, Thailand, and Vietnam, where demand for Italian high-end products is rising. Particularly "Made in Italy" goods and industrial machinery hold significant promise, with Italian brands benefiting from their reputation for quality and innovation.

However, operating in Singapore presents significant challenges. High operational costs, combined with intense competition from both local and global players, make market entry difficult. Italian firms, especially SMEs, often struggle to scale due to their limited size and resources compared to competitors. Cultural differences and stringent regulatory requirements further complicate their expansion efforts. Precarious knowledge of the market, financial backing, and long-term strategic planning constitute additional hurdles.

Moreover, global megatrends are reshaping business operations in Singapore. Italian companies are increasingly embracing digital transformation and sustainability practices to remain competitive. The COVID-19 pandemic and geopolitical shifts, such as the US-China trade tensions, have driven companies to rethink their supply chains, often seeking diversification across Southeast Asia or even back in Europe to reduce reliance on any one market.

For long-term success in Singapore, Italian companies must adopt a forward-looking strategic vision. This includes building a solid and structured market presence, prioritizing brand positioning and local perception, and fostering an innovative management approach. Experts stress that achieving critical mass is essential, particularly for smaller firms. This can be achieved through partnerships, strategic alliances, and collaborations, allowing Italian businesses to navigate the complexities of the Singaporean market more effectively.

The SWOT analysis conducted as part of the research helps interpret these findings more clearly (**Figure 12.**). *Strengths* include the strong recognition of the "Made in Italy" brand, the superior quality of Italian products, and the ability to adapt to niche markets with high demand for luxury and artisanal goods. However, *Weaknesses* such as dependence on the global supply chain and limited presence in the e-commerce sector, crucial for reaching younger consumers, pose significant challenges. *Opportunities* focus on the growth of the middle class in Asian markets, driving demand for premium products, and the digitalization that opens new avenues for expansion. Meanwhile, *Threats* include geopolitical tensions and market saturation, which could reduce profit margins for Italian brands.

Figure 13. SWOT Analysis of Italian Multinational Companies' Internationalization Strategies in the Singapore Market

STRENGHTS

- Strong recognition of the "Made in Italy" brand
- Superior quality of Italian products compared to competitors
- Ability to adapt to niche markets with high demand for luxury and artisanal goods
- Extensive experience and know-how in managerial international operations through subsidiaries or joint ventures
- Increasing support from Italian government and trade organizations facilitating international expansion

WEAKNESSES

- Significant dependence on global supply chains, which may be vulnerable to geopolitical tensions
- Challenges in adapting operational models and products to the cultural and consumer specificities of the Singaporean market
- Limited presence in the e-commerce and digital platform sector, which is essential for reaching younger consumer
- High operational costs to maintain a strong physical presence in Singapore and across ASEAN region

OPPORTUNITIES

- Growth of the middle class in Asian market, driving demand for luxury and premium products
- Singapore as a strategic hub to penetrate ASEAN markets and developing countries
- Technological development and digitalization create new expansion opportunities through e-commerce and digital marketing
- Rising demand for sustainable and eco-friendly products, aligned with global and local trends

THREATHS

- USA-China geopolitical tensions may disrupt supply chains and international investments
- Rising competition from local and regional brands adapting quickly to consumer preferences
- Luxury market saturation and increased global competition may reduce profit margins for Italian brands
- Regulatory shifts and changing trade policies could affect businesses opportunities and market access

Answering the Research Question

The findings revealed that Italian MNCs operating in Singapore have exhibited significant adaptability and innovation in response to global megatrends and geopolitical shifts. However, their ability to maintain competitiveness will rely on their consistent efforts to evolve and innovate within a rapidly changing landscape. In addressing the central research question – *How have the internationalization strategies of big Italian companies in the Made in Italy sector evolved over the past decade in response to global megatrends and recent geopolitical shifts in the Singaporean market?* – the empirical analysis demonstrates that, while the strategies vary greatly depending on the sector, type of business, and specific corporate objectives, in general, Italian MNCs have successfully adapted their approaches in Singapore through a mix of localization and strategic partnerships. These companies have effectively leveraged foreign direct investment (FDI) by establishing subsidiaries and joint ventures with local partners to mitigate the risks associated with entering new markets (Benevolo, 2003). For example, in the fashion and luxury goods sectors, collaborations with local distributors and designers have allowed Italian companies to tailor their products and marketing strategies to suit the preferences of Singaporean and Southeast Asian consumers. Italian companies have not only localized their product offerings but also adapted their operational and marketing strategies to align with local consumer preferences. For instance, firms in the food & beverage sectors have partnered with local distributors, embraced digital platforms, and integrated sustainability into their business models. Furthermore, the research highlighted Singapore's strategic location as a springboard for expansion into the broader ASEAN region. By establishing a strong presence in Singapore, Italian firms have gained access to other rapidly growing markets in Southeast Asia, including Malaysia, Indonesia, and Vietnam. The findings indicate that Italian firms have recognized the importance of flexibility and agility in their internationalization strategies, particularly in response to global megatrends and volatile geopolitical dynamics.

Implications for the Research Topic and Related Fields of Study

The findings of this research contribute significantly to the understanding of Italian companies' internationalization strategies in Southeast Asia. Singapore serves as a strategic hub, but it is clear that success in the region requires viewing Southeast Asia as a collection of interconnected markets, rather than focusing solely on Singapore. Italian companies, especially SMEs, face limitations in scaling up their operations in the region due to high operational costs and lack of familiarity with local regulatory frameworks.

This highlights the importance of developing deeper regional knowledge and investing in more comprehensive strategies that go beyond exporting.
The machinery sector, in particular, represents a key area where Italy could play a more prominent role. The data indicates that Italian firms are well-positioned in the high-tech segment but are often outcompeted by Chinese and local producers due to price and proximity advantages. The ability of Italian companies to innovate through remote management of machinery is a significant advantage, but the lack of local production facilities limits their long-term market presence. This underscores the need for a shift in mindset towards a more integrated approach to internationalization—one that includes local production, joint ventures, and partnerships to better leverage the growth potential of the region.

From a broader international business perspective, the findings align with existing research on the role of institutional support and the importance of strategic hubs in global trade. Singapore's position as a gateway to Southeast Asia is well-established, but this study adds depth to the understanding of how companies from smaller economies, such as Italy, can use hubs like Singapore to expand into larger markets. The research also reinforces the concept of "critical mass" in internationalization, where SMEs, in particular, benefit from forming alliances or engaging in joint ventures to overcome barriers related to scale.

From a theoretical perspective, this study adds nuance to existing models of internationalization. The research supports the relevance of the OLI (Ownership, Location, Internalization) paradigm in explaining the internationalization strategies of Italian MNCs in Singapore. Italian firms have successfully leveraged their ownership advantages, such as brand equity and proprietary knowledge, while benefiting from Singapore's location advantages, including its stable political environment and robust infrastructure. However, the study also challenges the traditional Uppsala model of internationalization, which posits a gradual approach to foreign market entry. In contrast, findings suggest that Italian MNCs have adopted a more dynamic and aggressive strategy, driven by the need to quickly adapt to fast-changing global conditions.

4.5 Practical Implications, Limitations and Future Research

Practical Implications for Businesses

The practical implications of these findings are significant for companies planning to enter or expand in Southeast Asia, particularly Singapore. Italian MNCs Italian MNCs should invest in strategic partnerships with local distributors or other Italian companies with established knowledge of the market. The importance of establishing a local presence, whether through subsidiaries or joint ventures, is critical for navigating the rapidly changing political and economic landscape (Gulati & Singh, 1998). Italian firms also need to remain agile, especially in the face of growing competition from Asian companies, which are adept at balancing cost efficiency with innovation (Brook & McGrew, 2013).

Moreover, the study highlights the importance of responding to global megatrends, such as digitalization. Italian companies in sectors like fashion and luxury must embrace e-commerce and digital marketing strategies to reach younger, tech-savvy consumers in Singapore and across Southeast Asia (World Bank & World Trade Organization, 2019). Additionally, the ongoing geopolitical tensions, especially between the U.S. and China, necessitate a diversification of supply chains and markets to mitigate risks (Brook & McGrew, 2013).

Limitations and Future Research

The focus on Singapore as the primary case study limits the generalizability of the findings to other ASEAN countries, which may have different regulatory environments and market dynamics. While the study provides valuable insights into the role of Singapore as a strategic hub, future research should include a broader range of countries to offer a more comprehensive understanding of Italian companies' internationalization strategies in Southeast Asia. The second limitation of this research is its qualitative nature, which relied heavily on qualitative interviews. While providing in-depth insights, it may not capture the full complexity of the challenges and opportunities facing Italian companies in the region, limiting the generalizability of the findings.

A more quantitative approach, incorporating surveys or case studies from a wider range of companies, would help validate the findings and provide a more nuanced perspective. Future research could benefit from quantitative approaches offering a comparative perspective (Fontana & Caroli, 2017). Additionally, this study focused on large MNCs; future research could examine the internationalization strategies of small and medium-sized enterprises (SMEs), which may face different challenges in entering the Singaporean market (Šūmakaris et al., 2020).

CONCLUSION

This thesis has explored how Italian multinational corporations in Made in Italy sector have adapted their internationalization strategies to succeed in the Singaporean market, which serves as a strategic entry point to the broader Southeast Asian region. The primary goal of this research was to understand the driving forces behind Italian companies' decisions and the specific adjustments they have made to maintain competitiveness in one of the world's most competitive and fast-growing regions. The analysis highlighted the impact of key global megatrends such as digitalization, shifting geopolitical tensions, and the disruptions caused by the COVID-19 pandemic, all of which have influenced global supply chains and prompted firms to rethink their internationalization strategies.

The thesis began by grounding the discussion in theoretical frameworks that have traditionally guided the internationalization of firms. Notably, the Uppsala Model and the Eclectic Paradigm (OLI Model) were considered to analyze how companies penetrate and expand into foreign markets. The Uppsala Model, which considers internationalization as a gradual process, emphasizes the importance of knowledge acquisition and learning through experience going international. This model is particularly relevant for understanding the steps Italian companies have taken in Singapore, starting with exports and later increasing their commitment through foreign direct investment (FDI) and strategic partnerships. Conversely, the OLI Paradigm focuses on the competitive advantages that firms leverage when investing abroad, including ownership advantages (i.e., proprietary technologies or brands), location advantages (i.e., favorable market conditions or cost benefits), and internalization advantages (the ability to efficiently manage operations without relying on external partners).

Italian MNCs have applied these models to navigate the unique challenges and opportunities in Singapore. One of the main motivations for these companies to enter this market has been the need to diversify and reduce dependence on complex supply chains, particularly given recent economic uncertainties and trade disruptions. Moreover, with its strategic position, business-friendly environment, and modern infrastructure, Singapore offers Italian companies an ideal hub for accessing Southeast Asia's growing economies. However, entering the Singaporean market presents specific challenges. The geographic distance, high operational costs, competitive environment, and evolving consumer preferences required Italian companies to elaborate localized strategies to appeal to a diverse and sophisticated consumer base. Italian companies, known for their excellence in sectors such as luxury goods, fashion, and design, managed to maintain their brand identity while tailoring products and marketing strategies to the preferences of Singaporean consumers, who value both innovation and quality. This ability to adapt while maintaining a competitive advantage has been a critical factor in their success in the area.

The research further highlighted the importance of strategic alliances and partnerships in the internationalization process. In line with the OLI Paradigm, Italian MNCs have leveraged their ownership advantages, such as strong design capabilities and technological expertise, by forming joint ventures or partnerships with local distributors or with other Italian firms already established in the market. These alliances have helped Italian companies, especially SMEs, navigate market complexities more effectively, share knowledge and resources, and reduce risks. This strategy has also facilitated market entry and expansion, enabling Italian firms to access distribution channels and regulatory expertise, as well as gain insights into local market dynamics.

Additionally, digital transformation and technological advancements have significantly influenced how Italian MNCs approach the Singaporean market. The increasing role of e-commerce and the importance of data analytics have reshaped business strategies. Italian firms have responded by investing in digital capabilities, allowing them to optimize supply chains, enhance customer engagement, and optimize operations. Investing in digitalization has been particularly valuable during the COVID-19 pandemic, as firms sought ways to mitigate risks associated with global supply chain disruptions. The pandemic itself has been a disruptive phenomenon, accelerating trends toward regionalization and reshoring. Italian firms in Singapore have adjusted by developing more flexible and resilient supply chains, diversifying their supplier base, and exploring opportunities for local production when possible. This shift reflects a broader global trend toward regionalized supply chains, as companies seek to reduce dependence on vulnerable international supply chains while maintaining efficiency.

In conclusion, this thesis demonstrates that, for long-term success in Singapore, Italian companies must adopt a forward-looking strategic vision. This includes building a solid and structured market presence, prioritizing brand positioning and local perception, and fostering an innovative management approach. Experts stress that achieving critical mass is essential, particularly for smaller firms. This can be done through partnerships, strategic alliances, and collaborations, allowing Italian businesses to navigate the complexities of the Singaporean market more effectively. Overall, the findings revealed that Italian MNCs operating in Singapore have exhibited significant adaptability and innovation in response to global megatrends and geopolitical shifts. However, their ability to maintain competitiveness will rely on their consistent efforts to evolve and innovate within a rapidly changing landscape.

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