



Master's Degree Program in Strategic Management

Course of Corporate Law & Risk Management

M&A Strategies for Italian Luxury
Brands in China: Legal and Risk
management perspectives

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INTRODUCTION

Over the past two decades, the global luxury market has undergone significant transformation, shaped by shifting consumer behaviours, digitalization, and evolving geopolitical dynamics. Among the most notable changes is the increasing influence of China, which has emerged as a pivotal market for the luxury industry. According to Bain & Company¹ Chinese consumers are projected to represent between 35% and 40% of global luxury goods purchases by 2030, reaffirming their position as the dominant nationality in the sector. The growth trajectory of China's luxury market is strongly supported by the expansion of middle and upper-middle classes, ongoing urbanization, and a burgeoning appetite for high-end goods and premium experiences.

For Italian luxury brands, traditionally celebrated for their craftsmanship, heritage, and exclusivity encapsulated by the "Made in Italy" brand, the Chinese market represents an extraordinary strategic opportunity; as a proof of this we have Italian luxury companies such as Gucci, Prada, and Valentino who are aggressively expanding their presence into Tier 1 and Tier 2 cities, underscoring the importance of localized approaches in capturing the unique tastes and preferences of Chinese consumers (Baselice, 2021)². Nevertheless, alongside these notable opportunities, significant risks and critical challenges emerge that are often underestimated or overlooked by foreign investors.

Entry strategies into the Chinese market through mergers and acquisitions (M&A), joint ventures, or strategic partnerships are frequently shaped by the complex regulatory and institutional environment. Despite liberalization initiatives such as the *Foreign Investment Law* of 2020³, the Chinese regulatory landscape remains characterized by considerable opacity, unpredictability, and the voluntary discretion

¹ Bain & Company, *Long Live Luxury: Converge to Expand Through Turbulence*, 22nd edition of the Luxury Goods Worldwide Market Study, 2024, p. 23.

² C.A. Baselice, *Le operazioni di M&A nel settore del lusso*, 2021.

³ National People's Congress of the People's Republic of China, *Foreign Investment Law of the People's Republic of China* (《中华人民共和国外商投资法》), promulgated on 15 March 2019 by the 13th NPC, effective from 1 January 2020, available at: <http://www.npc.gov.cn/englishnpc/c23934/202012/5df25f1dbfc444c4b6d4e6e3cb4c3e30.shtml> [last accessed: 14 April 2025].

exercised by local authorities (Wu, 2019)⁴. These regulatory uncertainties raise important questions about the long-term viability and effectiveness of current strategies employed by Italian luxury brands; at this point a key critical reflection arises regarding whether M&A activities provide long-term strategic benefits or merely temporary competitive advantages in a highly volatile market.

M&A operations in the luxury sector uniquely emphasize the preservation of brand heritage, symbolic value alignment, and artistic vision alongside traditional financial criteria. Within the Chinese market context, acquiring or partnering with local entities presents opportunities to have a rapid access to the market research, distribution networks, and consumer insights. However, these strategic moves often involve giving up a certain level of control, increasing exposure to regulatory compliance risks, and vulnerability concerning the management of personal and intellectual property rights protection⁵. Thus, understanding and navigating these complexities become crucial components for achieving successful market penetration and long-term presence in the country.

In addition to internal regulatory complexities, recent geopolitical developments are introducing new external risk factors that cannot be overlooked by Italian luxury brands operating in or sourcing from China. As global trade dynamics evolve, the intersection of politics and commerce is once again reshaping strategic priorities. This is the case of the recent reintroduction of aggressive tariff policies by the United States administration, particularly targeting Chinese exports in the automotive and tech sectors (Tankersley, 2025⁶; Swanson, 2025⁷); Beijing has responded by imposing stricter regulations on strategic exports. While luxury goods have not yet been directly targeted, the indirect consequences are already visible: increased production costs,

⁴ Weiping Wu, *Prospects for Institutional Investors in China*, in *Institutional Investment in China's Infrastructure*, Lincoln Institute of Land Policy, 2019, available at: <http://www.jstor.com/stable/resrep22073.6> [last accessed: 10 April 2025]

⁵ G.C. Reghizzi, "Evoluzione del nuovo diritto commerciale cinese," *Il Politico*, vol. 71, 2006.

⁶ Jim Tankersley, "Trump Announces Sweeping Tariffs on Chinese Goods, Escalating Trade Fight," *The New York Times*, 26 March 2025, <https://www.nytimes.com/2025/03/26/us/trump-tariffs-auto-cars.html> (accessed 18 April 2025).

⁷ Ana Swanson, "How Trump's Tariffs Could Reshape the Global Economy," *The New York Times*, 16 April 2025, <https://www.nytimes.com/2025/04/16/business/economy/trump-tariffs-global-economy.html> (accessed 18 April 2025).

supply chain disruptions, and heightened uncertainty in logistics and customs clearance; this economic situation increases concerns about a return to protectionism and the fragmentation of global value chains.

For Italian luxury brands, whose competitiveness is rooted in the seamless coordination of global sourcing, manufacturing, and retail, a tariff-based escalation would pose a substantial threat. In particular, the risk of retaliatory measures affecting goods imported from China, for future barriers to goods exported into the Chinese market, demands a proactive strategic response. The China–Italy bilateral partnership, reaffirmed during recent high-level diplomatic visits, offers some institutional reassurance (Sky TG 24, 2025)⁸, but it does not immunize the sector from macroeconomic volatility. These developments reinforce the urgency of evaluating not only how brands enter the Chinese market, but also how resilient their operational models are in a rapidly evolving geopolitical context. As such, this research aims to explore not only the legal and strategic frameworks governing M&A in China, but also the broader global risks that influence their success and long-term stability.

Given this background, the primary aim of this research is to critically analyze and evaluate the effectiveness of M&A strategies employed by Italian luxury brands within the Chinese market. Specifically, this thesis seeks to address the following research questions:

1. *What M&A strategies have Italian luxury brands adopted to enter and operate in the Chinese market?*
2. *How do Italian luxury brands structure their M&A transactions (e.g., equity acquisitions, joint ventures, strategic alliances) to overcome the institutional and regulatory challenges inherent in the Chinese market?*
3. *How do Italian luxury brands manage the associated risks in their market entry and operational strategies? What are the future perspectives in this market?*

⁸ Redazione Sky TG24, “Italia e Cina, ecco cosa prevede il nuovo partenariato rafforzato,” *Sky TG24*, 18 April 2025, <https://tg24.sky.it/economia/2025/04/18/italia-cina-partenariato-cosa-prevede> [last accessed 18 April 2025].

To answer this questions, this research adopts a qualitative, exploratory methodology, consistent with the need to understand complex institutional dynamics and the strategic behaviours of firms within them. The goal is not to establish generalizable laws but to interpret strategic patterns and legal implications through rich, context-specific insights. Given the complexity of cross- border M&A transactions and the distinctive institutional features of the Chinese market, this thesis relies primarily on multiple case studies of Italian luxury brands that have undertaken M&A activities or strategic partnerships in China. These case studies will provide empirical grounding to assess both strategic choices and regulatory responses.

The data and materials used in the research include: Company documents and official reports (e.g., annual reports, M&A announcements, corporate governance disclosures); academic literature and case-based publications; Chinese legal texts, such as Foreign Investment Law, Company Law, and Data Security Law; Specialized reports and policy papers from consulting firms (e.g., Bain & Company, Deloitte, McKinsey).

Potential limitations of this research include restricted access to internal corporate data due to confidentiality agreements, potentially limiting the depth and precision of insights into specific managerial decisions and internal dynamics. Additionally, reliance on secondary sources could introduce biases related to the accuracy, timeliness, or perspective of the information used. Lastly, the qualitative nature of the study involves inherent subjectivity, which might affect the generalizability of findings to all Italian luxury brands or other international contexts.

Ultimately, this research aims not only to enrich academic understanding but also to equip industry practitioners with a nuanced, strategic perspective on navigating one of the world's most promising yet complex luxury markets.

Chapter 1 – The Chinese market and investment strategies of Italian luxury brands

1.1 M&A strategies in the luxury sector

1.1.1 *Characteristics of M&A operations in the luxury sector*

Mergers and acquisitions (M&A) in the luxury industry are deeply shaped by the distinctive nature of this sector, which is characterized not only by high margins and strong brand loyalty but also by elements that are largely intangible, such as symbolic value, heritage, and emotional resonance with consumers. Unlike M&A operations in other manufacturing or service sectors, where motivations are predominantly financial or operational, luxury transactions demand a careful balance between strategic expansion and preservation of brand identity. This dual objective introduces a set of unique characteristics that distinguish luxury M&A from other corporate consolidations and amplifies the importance of cultural, creative, and reputational considerations throughout the deal lifecycle.

In traditional M&A operations, especially in sectors such as industrial manufacturing, retail, or technology, transactions are typically pursued to achieve cost reductions, access new markets, or acquire innovation capabilities. While these motivations are not absent in the luxury industry, they are covered with a deeper strategic imperative, through the consolidation of brand portfolios to enhance symbolic dominance and market prestige. Acquiring a luxury brand often means acquiring a specific narrative, a design philosophy, and a historical legacy that must be protected, not altered. As emphasized in Deloitte's Global Fashion & Luxury Private Equity and Investors Survey (2023)⁹, more than 70% of luxury M&A deals explicitly consider the target's cultural fit and brand DNA as critical success factors.

Furthermore, the presence of family-owned firms remains significantly higher in the luxury sector, particularly in Italy. This structural element influences both

⁹ Deloitte, *Global Fashion & Luxury Private Equity and Investors Survey 2023: Stepping into the next decade*, Deloitte, Milano, 2023.

the transactional dynamics, as families often retain partial control or impose conditions on the deal, and the post-acquisition governance, which must preserve the founder's vision and the Maison's legacy. For example, the acquisition of Valentino by Mayhoola (Qatar's sovereign wealth fund) in 2012 included explicit commitments to maintain creative independence and Italian production sites (Altagamma, 2023)¹⁰, reinforcing the idea that luxury M&A is less about disruption and more about stewardship.

By analyzing the principals M&A cases in Italian luxury sector, we can easily notice that they can be categorized into three typologies, each with distinct strategic goals:

1. *Horizontal brand consolidation*: Acquisitions of other luxury brands within similar segments, aimed at enriching a group's portfolio while addressing different consumer segments. Notable examples include Kering's acquisition of Bottega Veneta and, more recently, its 2023 acquisition of a 30% stake in Valentino for €1.7 billion (Klasa, 2023)¹¹; or the new acquisition of Versace by the Italian Prada Group. These deals allow conglomerates to cover multiple aesthetics, generations, and price ranges under one corporate umbrella.
2. *Vertical integration*: This involves acquiring suppliers, manufacturers, or distributors, it is particularly prevalent in Italy, where craftsmanship is often outsourced to independent artisans or family-owned workshops. For instance, Chanel's acquisition of a 40% stake in Italian leather goods manufacturer Renato Corti, is emblematic of this strategy (Newbold, 2019)¹². Through such deals, companies gain greater control over quality, timelines, and costs, all while reinforcing the authenticity of their value proposition.

¹⁰ Altagamma – Boston Consulting Group, *Altagamma Consumer & Retail Insight 2023*, 9th edition, 5 July 2023, p. 38.

¹¹ Adrienne Klasa, "Kering Buys 30% Stake in Valentino," *Financial Times*, 27 July 2023, available at: <https://www.ft.com/content/8bcc67b8-4d21-414f-9731-f971f83c099a> (accessed: 18 April 2025).

¹² Alice Newbold, *Chanel's Latest Power Move Is Good News For The Future Of Its Craft*, *British Vogue*, 9 October 2019, available at: <https://www.vogue.co.uk/news/article/chanel-acquisitions-craft-ateliers> [last accessed: 14 April 2025].

3. *Digital and experiential innovation*: With the growing relevance of digital engagement and omnichannel retail, luxury firms increasingly target companies offering technological capabilities or customer experience innovations, especially in China. Richemont and Alibaba's joint investment in Farfetch—a \$600 million deal in 2020—is one of the most high-profile examples, aimed at leveraging Farfetch's technological infrastructure to enhance online presence in the Chinese market (Richemont, 2020)¹³.

Each of these strategies highlights a common underlying theme: luxury M&A is not merely a tool for expansion, but a mechanism to adapt to evolving consumer expectations while maintaining the aura of exclusivity and distinction that defines luxury.

One of the most delicate and defining aspects of M&A operations in the luxury industry is the post-acquisition integration phase, which significantly diverges from the standardized approaches typically observed in other sectors. In luxury, integration is not simply a matter of aligning financial systems or streamlining operations; rather, it is a highly customized process that must take into account the preservation of creative freedom, brand ethos, and artisanal practices. In this regard, luxury conglomerates such as LVMH, Kering, and Richemont have developed decentralized governance structures that allow acquired brands to operate with significant autonomy. As noted by Bain & Company (2023), preserving the “Maison spirit” is a key success factor post-acquisition, particularly for heritage-rich brands that have cultivated long-standing relationships with discerning consumers. The acquisition of Bulgari by LVMH in 2011 is a textbook case, the brand maintained its headquarters in Rome, its design team, and its core Italian identity, while benefiting from LVMH's global retail infrastructure and marketing resources (Bain & Company, 2023)¹⁴.

For Italian luxury firms, the need to protect craftsmanship and local production is especially pressing. In many deals, clauses are included to ensure that manufacturing

¹³ Richemont, *Richemont, Alibaba Group, and Farfetch form a global partnership to provide luxury experiences to Chinese consumers*, press release, 5 November 2020, available at: <https://www.richemont.com/media/fn5lxdmj/2020-11-05.pdf> [last accessed: 14 April 2025]

¹⁴ Bain & Company, *Report on the Global Luxury Market*, Bain & Company, 2023.

remains within Italy, particularly in districts such as Tuscany and Veneto, where leather goods, textiles, and footwear are produced at globally recognized standards. This sensitivity to territorial identity reflects the importance of the “*Made in Italy*” label, not only as a marketing claim but as a core pillar of competitive advantage (Altagamma, 2023)¹⁵.

Luxury M&A also carries reputational risks, given the industry’s exposure to public scrutiny, brand symbolism, and consumer emotional attachment. One of the most significant risks is brand dilution, the perception that an acquired brand has lost its originality, exclusivity, or creative leadership. This can happen when post-acquisition management interferes too heavily in design direction or alters the core identity of the Maison. A cautionary example is the backlash faced by Dolce & Gabbana in the Chinese market in 2018 due to a culturally insensitive campaign, which, although not M&A-related, illustrates how fragile brand perception can be in key markets (Li & Cadell, 2018)¹⁶.

Cultural misalignment between acquirer and target is another latent risk, especially in cross-border M&A. Differences in organizational culture, leadership style, and market orientation can generate tensions that compromise synergy realization. This is particularly relevant when European brands are acquired by non-European investors or private equity funds with a short-term performance orientation.

In parallel, the rise of Environmental, Social, and Governance (ESG) factors in consumer decision-making has forced luxury companies to consider sustainability not just as a compliance issue, but as a strategic risk. Acquisitions that result in outsourcing or in the reduction of craftsmanship in favour of industrial-scale production may lead to consumer distrust, particularly among Gen Z buyers, who value authenticity and ethics as much as aesthetics (Business of Fashion - McKinsey & Company, 2024)¹⁷.

¹⁵ Fondazione Altagamma, *Altagamma Consumer and Retail Insight 2023*, Milano, 2023

¹⁶ Pei Li and Cate Cadell, "Chinese online shopping sites ditch Dolce & Gabbana in ad backlash," *Reuters*, 22 November 2018, available at: <https://www.reuters.com/article/business/chinese-online-shopping-sites-ditch-dolce-gabbana-in-ad-backlash-idUSKCN1NR13I/> [last accessed: 12 April 2025].

¹⁷ Business of Fashion – McKinsey & Company, *The State of Fashion 2025: Challenges at Every Turn*, 11 November 2024, available at: <https://www.mckinsey.com/industries/retail/our-insights/state-of-fashion> (accessed: 13 April 2025).

As such, M&A due diligence in luxury must go beyond financial auditing, encompassing ESG benchmarking, social impact analysis, and stakeholder mapping. Leading firms now integrate ESG scoring into their target evaluation processes, and in some cases, they avoid deals that could raise questions regarding environmental degradation, labor exploitation, or cultural insensitivity.

Several high-profile cases illustrate how successful luxury M&A is achieved when strategic alignment, cultural integration, and respect for heritage coexist. For example:

- The acquisition of Stone Island by Moncler (2020) represents a rare Italian-to-Italian luxury M&A deal. It demonstrates how shared values around innovation, quality, and “urban elegance” can create a synergistic union without eroding brand uniqueness. Moncler CEO Remo Ruffini emphasized the importance of “respecting identities while creating value together”, a mantra that reflects a broader trend in the sector (Moncler Press Release, 2021)¹⁸.
- The ongoing stake acquisition of Valentino by Kering (2023), starting with a €1.7 billion investment for 30% of the company, was explicitly tied to Kering’s strategy to diversify and strengthen its offering in Asia, especially in China, through brands that resonate with local consumers. According to Kering’s financial filings, Valentino’s cultural capital as a Rome-based couture house was one of the major rationales for the deal (Financial Times, 2023)¹⁹.
- In contrast, the 2023 failure of Lanvin Group’s IPO in New York, despite its portfolio including Italian, French, and Chinese brands, highlights the risks of conglomerate strategies that lack operational coherence or clear brand

¹⁸ Moncler, *Moncler Acquires from Temasek Also the Remaining 30% of Stone Island*, Press Release, 23 February 2021, available at: <https://www.monclergroup.com/wp-content/uploads/2021/02/2021-02-23-MONCLER-ACQUIRES-FROM-TEMASEK-ALSO-THE-REMAINING-30-OF-STONE-ISLAND-1.pdf> (accessed: 18 April 2025).

¹⁹ Kering and Mayhoola, *Kering becomes a significant shareholder of Valentino as part of a broader strategic partnership*, press release, 27 July 2023, available at: <https://markets.ft.com/data/announce/detail?dockey=1330-1000831925en-1KKIAOBI7CRHGEV444C5GDGINN> [last accessed: 12 April 2025].

leadership (Law, 2022)²⁰. The market penalized the group for its disjointed vision and underperformance, showing that size alone does not guarantee success in luxury.

Beyond the acquisition of globally recognized brands, many luxury M&A transactions focus on acquiring strategic suppliers, artisanal workshops, or niche production firms. These “quiet deals,” although less visible, are often crucial for ensuring supply chain integrity, maintaining craftsmanship, and protecting competitive advantage.

French, American, and increasingly Chinese conglomerates have sought to consolidate control over Italian production through the acquisition of tanneries, embroidery houses, and fabric manufacturers. For example, LVMH has acquired multiple Italian suppliers in the past decade, including Conceria Masoni (leather) and Pietro Nucci (cashmere), with the dual purpose of safeguarding know-how and avoiding supply chain disruptions (Biondi, 2019)²¹.

These operations underline the strategic value of vertical integration in luxury. By internalizing production, firms not only ensure quality and exclusivity but also align with rising consumer expectations around traceability, sustainability, and ethical sourcing. Italian luxury brands, historically reliant on a diffuse network of subcontractors, are increasingly re-evaluating their supplier relationships, sometimes shifting from outsourcing to acquisition or long-term partnership models.

²⁰ Julianna Law, “A Challenging Road Awaits China’s Lanvin Group On Other Side Of IPO,” *Jing Daily*, 15 November 2022, available at: <https://jingdaily.com/posts/lanvin-group-us-ipo-challenges> [last accessed: 14 April 2025]

²¹ Silvia Pieraccini, “Risiko nel lusso, a Lvmh una quota della pregiata conceria Masoni,” *Il Sole 24 Ore*, 20 dicembre 2019, available at: <https://www.ilsole24ore.com/art/risiko-lusso-lvmh-quota-pregiata-conceria-masoni-AC6Nkk7> (accessed: 18 April 2025).

1.1.2 Importance of China for Italian luxury brands

Over the past two decades, the People's Republic of China has emerged as the most dynamic and strategically significant market for the global luxury industry. Its rise has reshaped the strategic outlook of virtually all major players in the sector, including those rooted in Italy's historic fashion and craftsmanship heritage. The profound and growing relevance of the Chinese market for Italian luxury brands reflects a combination of factors: explosive growth in domestic demand, increasing sophistication of Chinese consumers, high brand affinity for "Made in Italy" products, and the centrality of China in global supply chains and retail networks. Understanding this transformation is essential to contextualizing recent M&A strategies and evaluating the future trajectory of Italian luxury on the world stage.

As reported by Bain & Company (2023)²², Chinese consumers accounted for 35% of global personal luxury goods purchases in 2019 and are projected to represent up to 40% by 2030. This dominance is not only quantitative but also qualitative: Chinese consumers, particularly in urban centres such as Shanghai, Beijing, and Chengdu, have become trendsetters, influencing global product design, communication strategies, and even the timing of product launches.

The importance of China accelerated in the post-COVID era. While international travel paused, Chinese consumers redirected their luxury spending from overseas shopping trips to domestic boutiques and online channels. This phenomenon pushed luxury brands to restructure their retail presence in China, opening more directly operated stores, investing in digital platforms such as Tmall Luxury Pavilion, and adapting their marketing messages to local cultural references and holidays. For Italian luxury brands, this transformation required not only agility, but also structural change in market entry strategies and, in some cases, cross-border partnerships and acquisitions.

According to Altagamma (2023)²³, China is now the largest individual market for brands such as Prada, Ferragamo, and Moncler, often surpassing traditional

²² Bain & Company, Report on the Global Luxury Market, Bain & Company, 2023.

²³ Fondazione Altagamma, *Altagamma Consumer and Retail Insight 2023*, Milano, 2023.

strongholds like Western Europe and North America in terms of revenue contribution. For Gucci, consumers from Asia account for approximately 35% of global sales, a level of exposure that is among the highest in the industry (Statista, 2024)²⁴. This strategic centrality increases both the opportunities, and the risks associated with the Chinese market.



Figure 1: Global revenue share of Gucci in 2024, by region
Source: Statista, 2025

Among international luxury offerings, Italian brands hold a privileged position in the perception of Chinese consumers. Multiple studies (Business of Fashion - McKinsey & Company, 2023²⁵; Altagamma, 2023²⁶) confirm that Italian heritage brands are associated with values such as quality, authenticity, craftsmanship, and elegance. In the minds of affluent Chinese buyers, “Made in Italy” is not just a label of origin, it is a guarantee of excellence and lifestyle.

²⁴ Statista, *Gucci: revenue share by region worldwide 2024*, 2024, available at: <https://www.statista.com/statistics/267733/global-revenue-share-of-gucci-by-region/> [last accessed: 14 April 2025].

²⁵ Business of Fashion – McKinsey & Company, *The State of Fashion 2025: Challenges at Every Turn*, 11 November 2024, available at: <https://www.mckinsey.com/industries/retail/our-insights/state-of-fashion> (accessed: 13 April 2025).

²⁶ Fondazione Altagamma, *Altagamma Consumer and Retail Insight 2023*, Milano, 2023.

This positive perception has deep historical and cultural roots. Italian fashion gained prestige in China in the early 2000s through the presence of pioneering brands such as Armani, Prada, and Gucci, and was further solidified by the role of Italian fashion weeks, exhibitions, and trade missions promoted by the Italian Trade Agency (ICE). Furthermore, Chinese consumers often exhibit a strong aspirational link to European style, and Italian design, considered less rigid than French couture and more refined than American fashion, strikes a desirable balance between classic and contemporary. In practical terms, this affinity translates into higher conversion rates for Italian luxury brands in China, stronger performance on local e-commerce platforms, and significant social media traction through Chinese channels such as Weibo, Xiaohongshu (Little Red Book), and Douyin. As a result, Italy has become not only a supplier of luxury goods, but also a strategic point of reference for fashion culture and innovation in China.

The growing weight of China in the luxury sector has reshaped not only marketing and sales approaches but also corporate strategy, particularly in terms of mergers and acquisitions. Italian brands have increasingly pursued partnerships, joint ventures, and in some cases targeted acquisitions or divestments designed to optimize their positioning in China. One illustrative case is the 2023 acquisition of a 30% stake in Valentino by Kering, a move driven in part by the brand's robust performance in Asian markets. According to statements by Kering's CEO, this investment aligns with the group's goal to enhance its exposure in China through diversified brand propositions (Kering, 2023)²⁷.

Similarly, the acquisition of Stone Island by Moncler (2020) was interpreted by analysts as a strategic manoeuvre to consolidate appeal among younger, style-conscious consumers in China and South Korea. On the other hand, Chinese investors have also expressed increasing interest in Italian brands, especially in the mid-luxury and heritage segments. For example, Fosun Group, one of China's most active foreign investors, has explored acquisition opportunities involving Italian fashion houses and

²⁷ Kering, "Kering and Mayhoola announce that Kering becomes a significant shareholder of Valentino as part of a broader strategic partnership," press release, 27 July 2023, available at: <https://www.kering.com/en/news/kering-and-mayhoola-announce-that-kering-becomes-a-significant-a-shareholder-of-valentino-as-part-of-a-broader-strategic-partnership/> [last accessed: 14 April 2025].

production sites. Although not all deals have materialized or succeeded, this bidirectional interest underscores the strategic importance of Italy-China relations in the luxury domain.

While the Chinese market presents immense potential, it also entails specific risks that Italian brands must address strategically. Among these are:

- *Regulatory unpredictability*, especially regarding data privacy, foreign investment restrictions, and advertising content;
- *IP infringement and counterfeiting*, which disproportionately affect luxury goods;
- *Consumer nationalism*, which may cyclically impact the performance of Western brands;
- *Cultural misalignment*, as seen in past controversies involving Dolce & Gabbana and others.

As a response, Italian firms are increasingly investing in local legal counsel, in-market content teams, and diversified retail strategies that blend flagship stores, online presence, and experiential events tailored to Chinese preferences. In this context, M&A transactions, whether aimed at acquiring local tech partners, entering new market segments, or securing distribution channels, represent a crucial component of risk management and strategic positioning. They allow Italian luxury brands not only to penetrate the Chinese market but also to adapt more swiftly to its complex, fast-evolving ecosystem.

1.2 Entry modes in the Chinese market

1.2.1 Direct investment vs local partnerships

When approaching a complex and strategically significant market such as China, foreign companies must select an appropriate entry mode that balances the need for market access with the preservation of operational control, legal certainty, and brand identity. For Italian luxury brands whose, global appeal is rooted in artisanal excellence, design integrity, and narrative consistency, the entry strategy adopted in China can significantly influence both short-term commercial outcomes and long-term brand equity. In this complex context, the entry mode decision is further complicated by the evolution of the country's legal and regulatory framework for foreign investment. Prior to 2020, China maintained a fragmented legal architecture that distinguished between Equity Joint Ventures (EJVs), Cooperative Joint Ventures (CJVs), and Wholly Foreign-Owned Enterprises (WFOEs), each governed by specific legislative instruments. However, with the promulgation of the Foreign Investment Law²⁸ (FIL) of the People's Republic of China, effective from January 1, 2020, China initiated a substantial renovation of its foreign investment regime. The new legal framework, consolidated under the FIL and harmonized with the Company Law of the People's Republic of China²⁹, aims to simplify administrative procedures, remove discriminatory provisions, and provide national treatment to foreign investors. In theory, this reform placed foreign-invested enterprises (FIEs) on equal footing with domestic companies, abolishing the legal distinction between WFOEs and joint ventures in terms of corporate form. Nevertheless, as Wu (2019)³⁰ points out, the

²⁸ National People's Congress of the People's Republic of China, *Foreign Investment Law of the People's Republic of China* (《中华人民共和国外商投资法》), promulgated on 15 March 2019 by the 13th NPC, effective from 1 January 2020, available at: <http://www.npc.gov.cn/englishnpc/c23934/202012/5df25f1dbfc444c4b6d4e6e3cb4c3e30.shtml> [last accessed: 14 April 2025].

²⁹ National People's Congress of the People's Republic of China, *Company Law of the People's Republic of China* (《中华人民共和国公司法》) – 2023 Revision, adopted on 27 December 2023 by the Standing Committee of the 14th NPC, effective from 1 July 2024, available at: <http://www.npc.gov.cn/englishnpc/c23934/202401/efab8a6e3f354a1b8e4f1dbf6dbecf0c.shtml> [last accessed: 14 April 2025].

³⁰ Weiping Wu, *Prospects for Institutional Investors in China*, in *Institutional Investment in China's Infrastructure*, Lincoln Institute of Land Policy, 2019, available at: <http://www.jstor.com/stable/resrep22073.6> [last accessed: 10 April 2025]

effectiveness of this legislative reform is contingent upon local-level implementation, which often remains uneven due to regional protectionism, administrative opacity, and discretionary enforcement practices.

The Catalogue of Encouraged Industries for Foreign Investment³¹, jointly issued by the National Development and Reform Commission (NDRC) and the Ministry of Commerce (MOFCOM), continues to play a pivotal role in guiding market entry decisions. While certain sectors—such as advanced manufacturing, sustainable technologies, and high-end consumer goods—are encouraged, others, including parts of e-commerce, publishing, and retail involving sensitive data, remain restricted or prohibited. The luxury fashion and lifestyle sector are generally open to foreign investment, but establishing operations in strategic cities or expanding into online retail may still involve sectoral approvals and local licensing. Within this evolving regulatory environment, Italian luxury firms have historically relied on two primary models to enter the Chinese market: direct investment, typically through WFOEs, and local partnerships, often in the form of joint ventures or licensing arrangements. Each entry mode entails not only economic trade-offs but also legal and cultural consequences.

According to Beamish (1993)³², the choice between ownership and partnership in China is intrinsically shaped by risk perception, desire for control, and the extent of local market knowledge. In his foundational study on foreign ventures in China, he argues that while joint ventures facilitate easier entry and access to local networks, they tend to involve significant compromises in governance and brand strategy—an issue particularly critical in image-driven industries such as luxury fashion. Wu (2019)³³ reinforces this view by noting that, even after the FIL, foreign enterprises still

³¹ National Development and Reform Commission (NDRC) and Ministry of Commerce (MOFCOM), *Catalogue of Encouraged Industries for Foreign Investment (2022 Version)*, issued on 28 October 2022, available at: https://www.gov.cn/zhengce/zhengceku/2022-10/28/content_5722417.htm [last accessed: 14 April 2025].

³² Paul W. Beamish, *The Characteristics of Joint Ventures in the People's Republic of China*, in *Journal of International Marketing*, vol. 1, no. 2 (1993), pp. 29–48, published by Sage Publications for the American Marketing Association, available at: <https://www.jstor.org/stable/25048493> [last accessed: 10 April 2025].

³³ Weiping Wu, *Prospects for Institutional Investors in China*, in *Institutional Investment in China's Infrastructure*, Lincoln Institute of Land Policy, 2019, available at: <http://www.jstor.com/stable/resrep22073.6> [last accessed: 10 April 2025]

encounter informal barriers when opting for wholly owned structures, including longer approval processes, limited access to distribution platforms, and operational constraints tied to local government preferences. Moreover, the Chinese legal system, although increasingly aligned with international standards, retains a strong component of administrative law and state guidance (Reghizzi, 2006)³⁴. This means that legal certainty in contract enforcement and dispute resolution may vary significantly between provinces or municipalities, often making the support of a local partner valuable in navigating the system. However, for luxury brands that depend heavily on creative freedom, brand exclusivity, and control over customer experience, any dilution of control, either through shared ownership or delegated management, can pose substantial risks. Thus, the entry mode decision is not merely a matter of legal form but a strategic act of brand governance. Italian luxury houses such as Gucci, Prada, and Moncler, which have opted for full ownership of their operations in China, demonstrate a preference for direct investment to safeguard the integrity of their brand and ensure alignment with global positioning strategies. Conversely, other players, especially in the automotive luxury or mid-luxury segments, have leveraged joint ventures to capitalize on existing market infrastructure, political connections, and localized consumer insights, as seen in the Silk-FAW partnership for the Hongqi S9 luxury sports car.

Table 1 – Comparison of entry modes in the Chinese market

Criteria	Direct Investment (WFOE)	Local Partnership (JV)
Ownership control	100% foreign-owned	Shared with local partner
Strategic autonomy	High	Moderate to low

³⁴ Gabriele Crespi Reghizzi, *Evoluzioni del nuovo diritto commerciale cinese*, in *Il Politico*, vol. 71, no. 3 (Settembre–Dicembre 2006), pp. 142–171, Rubbettino Editore, available at: <https://www.jstor.org/stable/24005427> [last accessed: 10 April 2025].

Market access	Requires time and infrastructure	Immediate via local partner's network
Cost structure	High initial investment	Shared financial burden
Regulatory navigation	Self-managed, complex	Facilitated through local partner
IP protection	Strong	Medium to weak
Speed to market	Slower	Faster
Brand identity risk	Low	Higher
Example	Gucci, Prada (WFOEs)	Silk-FAW JV for Hongqi S9

From a strategic and operational perspective, Direct investment, typically through wholly foreign-owned enterprises (WFOEs), offers a range of advantages that are particularly valuable for Italian luxury brands seeking to preserve their brand integrity in a foreign context. The most significant benefit is the complete control over all aspects of the business, from supply chain management to pricing, marketing, and customer experience. This autonomy enables firms to maintain a high degree of consistency with their global brand positioning and to avoid compromising their creative vision. Moreover, by operating without a local partner, foreign companies reduce the risk of intellectual property (IP) leakage, a concern that remains particularly acute in the Chinese market, especially for sectors such as fashion, design, and high-end manufacturing. However, the advantages of direct investment come with notable challenges. Establishing a WFOE in China typically entails higher initial capital requirements and ongoing compliance costs related to legal registration, taxation, labor regulations, and supply chain logistics. Furthermore, the absence of a local partner can slow the company's integration into the local market, as foreign firms must

independently build relationships with local distributors, real estate agents, government offices, and consumers. In regions where local government discretion remains high, foreign investors may face administrative delays or informal barriers that hinder the speed of market entry (Wu, 2019)³⁵.

In contrast, entering the Chinese market through local partnerships, such as joint ventures or strategic alliances, can significantly reduce entry barriers and accelerate time-to-market. Partnering with a local firm grants access to established distribution networks, government relations, and cultural insights, which are all crucial for navigating a market as vast and diverse as China. These arrangements also allow for a sharing of operational and financial risks, making them particularly attractive to medium-sized Italian firms that may not have the resources to independently support a large-scale market entry. Nevertheless, local partnerships involve trade-offs that must be carefully evaluated. Sharing ownership and governance with a local partner inevitably leads to a reduction in strategic and operational autonomy, disagreements may arise over branding, pricing, expansion strategies, or reinvestment policies, particularly when the goals of the local partner diverge from those of the foreign investor. Furthermore, the exposure of proprietary know-how and design practices in a shared venture increases the vulnerability to imitation or misuse of IP, a long-standing issue in Sino-foreign business relations (Beamish, 1993³⁶; Reghizzi, 2006³⁷).

Comparing these options, while direct investment provides greater control, brand protection, and long-term strategic independence, it requires significant resources and the ability to navigate the regulatory system independently. On the other hand, local partnerships offer speed, access, and reduced risk, but often at the expense of brand sovereignty and IP security. For Italian luxury brands, which place a premium on

³⁵ Weiping Wu, *Prospects for Institutional Investors in China*, in *Institutional Investment in China's Infrastructure*, Lincoln Institute of Land Policy, 2019, available at: <http://www.jstor.com/stable/resrep22073.6> [last accessed: 10 April 2025]

³⁶ Paul W. Beamish, *The Characteristics of Joint Ventures in the People's Republic of China*, in *Journal of International Marketing*, vol. 1, no. 2 (1993), pp. 29–48, published by Sage Publications for the American Marketing Association, available at: <https://www.jstor.org/stable/25048493> [last accessed: 10 April 2025].

³⁷ Gabriele Crespi Reghizzi, *Evoluzioni del nuovo diritto commerciale cinese*, in *Il Politico*, vol. 71, no. 3 (Settembre–Dicembre 2006), pp. 142–171, Rubbettino Editore, available at: <https://www.jstor.org/stable/24005427> [last accessed: 10 April 2025].

maintaining their image and product excellence, the choice of entry mode must be carefully tailored to the brand's values, its internationalization objectives, and the specific market segment it seeks to address in China.

1.2.2 *Acquisitions, Joint Ventures and Variable interest entities*

In the context of the Chinese market, foreign companies, including Italian luxury brands, have historically relied on three main legal mechanisms to establish a commercial presence: *Acquisitions*, *Joint Ventures (JVs)*, and *Variable Interest Entities (VIEs)*. Each of these structures offers distinct opportunities and challenges in terms of regulatory compliance, market access, and risk management. While joint ventures and acquisitions are formally regulated under China's commercial law framework, VIEs have emerged as contractual arrangements designed to by-pass regulatory restrictions in sectors where foreign ownership is limited or prohibited.

Starting with acquisitions and JVs, these entry modes are clearly delineated by Chinese corporate and foreign investment law. Acquisitions, whether conducted through share purchase or asset transfer, are governed primarily by the Company Law of the PRC³⁸ and the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (2006, revised)³⁹. These regulations outline procedures for state approval, antitrust reviews, and, in certain cases, national security screening, especially where the target company operates in sensitive or strategic sectors. The Foreign Investment Law (2020) complements this framework by unifying the treatment of foreign-invested entities under a single system and reinforcing the principle of national

³⁸ National People's Congress of the People's Republic of China, *Company Law of the People's Republic of China (中华人民共和国公司法) – 2023 Revision*, adopted on 27 December 2023 by the Standing Committee of the 14th NPC, effective from 1 July 2024, available at: <http://www.npc.gov.cn/englishnpc/c23934/202401/efab8a6e3f354a1b8e4f1dbf6dbecf0c.shtml> [last accessed: 14 April 2025].

³⁹ Ministry of Commerce of the People's Republic of China (MOFCOM), *Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors*, promulgated on 8 August 2006, entered into force on 8 September 2006, available at: <https://english.mofcom.gov.cn/article/policyrelease/buwei/200801/20080105336798.shtml> [last accessed: 14 April 2025].

treatment, while still subjecting acquisitions in restricted industries to negative list constraints.

Italian luxury companies pursuing acquisition strategies in China, particularly those aimed at consolidating production networks or acquiring niche creative firms, must therefore undergo a thorough legal review process. As Reghizzi (2006)⁴⁰ notes, one of the key legal barriers for M&A in China remains the state's discretionary power in approval procedures, especially where local governments or state-owned assets are involved. Moreover, as specified in the Catalogue of Encouraged Industries for Foreign Investment, foreign participation in areas such as luxury retail, online distribution, and brand management may still require alignment with industrial policy goals to receive favourable treatment or avoid delays.

Joint ventures, by contrast, are typically structured under the now-phased-out Sino-Foreign Equity Joint Venture Law, which has been integrated into the broader Company Law and Foreign Investment Law framework. In substance, however, many of the legacy governance structures of JVs remain in force, especially for agreements signed before 2020. According to Beamish (1993)⁴¹, joint ventures in China serve not only as business vehicles but also as “cultural bridges” that facilitate knowledge exchange and regulatory navigation. For luxury brands, joint ventures have historically offered quicker access to local distribution channels, real estate, and marketing ecosystems. Yet the limitations of JVs are significant. Shared ownership implies shared control and often introduces challenges in areas such as profit repatriation, IP protection, and brand positioning. Wu (2019)⁴² emphasizes that these issues are particularly acute in industries, like luxury goods, where brand narrative, product integrity, and consumer experience are central to value creation. In some cases, joint

⁴⁰ Gabriele Crespi Reghizzi, *Evoluzioni del nuovo diritto commerciale cinese*, in *Il Politico*, vol. 71, no. 3 (Settembre–Dicembre 2006), pp. 142–171, Rubbettino Editore, available at: <https://www.jstor.org/stable/24005427> [last accessed: 10 April 2025].

⁴¹ Paul W. Beamish, *The Characteristics of Joint Ventures in the People's Republic of China*, in *Journal of International Marketing*, vol. 1, no. 2 (1993), pp. 29–48, published by Sage Publications for the American Marketing Association, available at: <https://www.jstor.org/stable/25048493> [last accessed: 10 April 2025].

⁴² Weiping Wu, *Prospects for Institutional Investors in China*, in *Institutional Investment in China's Infrastructure*, Lincoln Institute of Land Policy, 2019, available at: <http://www.jstor.com/stable/resrep22073.6> [last accessed: 10 April 2025]

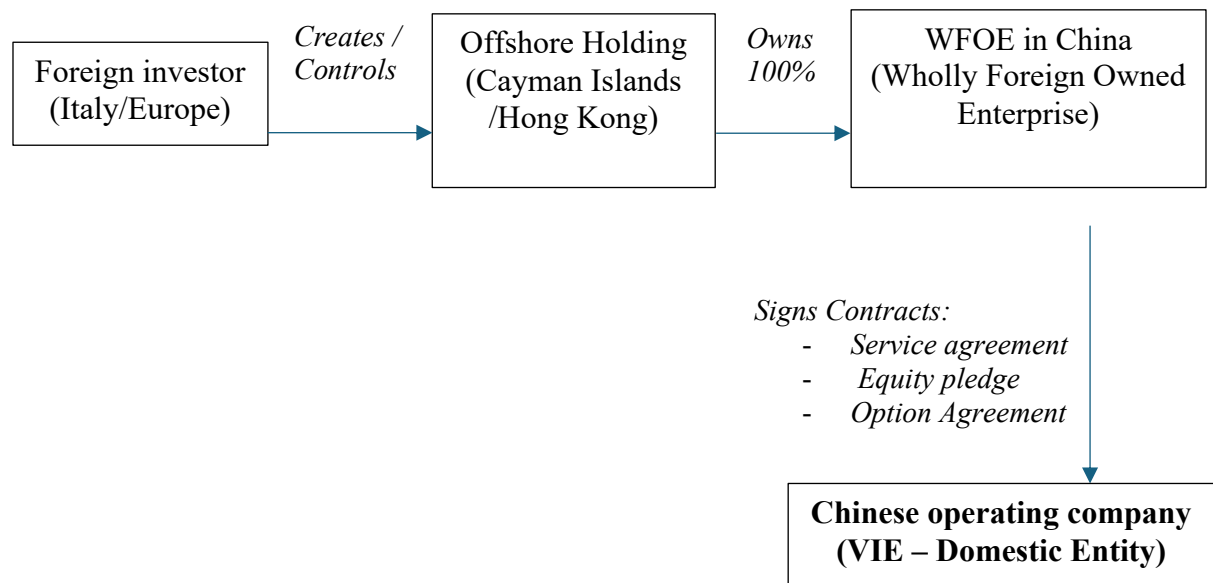
ventures may lead to dilution of brand identity or strategic misalignment, especially if the Chinese partner prioritizes short-term commercial gains over long-term brand building.

Finally, among the most controversial legal mechanisms employed by foreign investors in China, the Variable Interest Entity (VIE) structure represents a creative but legally ambiguous workaround used to by-pass restrictions in sectors where foreign ownership is prohibited or heavily restricted—such as education, media, telecommunications, and e-commerce. Though not specific to the luxury industry, VIEs have become a widespread entry strategy in sectors involving digital platforms and intellectual property-based assets, areas increasingly relevant to luxury brands operating in China’s omnichannel environment.

The basic architecture of a VIE involves the establishment of two entities: a foreign-owned company, typically incorporated offshore (e.g., in the Cayman Islands), and a Chinese domestic operating company. Through a series of contracts—rather than direct equity ownership—the foreign company gains effective control over the Chinese entity’s operations, revenues, and decision-making. These contracts may include exclusive service agreements, call option agreements, equity pledge agreements, and powers of attorney that allow the foreign party to consolidate the VIE’s financial results into its own accounts (Man, 2015)⁴³.

⁴³ Thomas Y. Man, *Policy Above Law: VIE and Foreign Investment Regulation in China*, 3 Peking University Transnational Law Review, no. 1 (2015): 215–222.

Graph 1 – Structure of a VIE



From a legal standpoint, however, VIEs inhabit a grey zone. They are not explicitly prohibited by Chinese law, but neither are they formally recognized as a legitimate form of foreign investment. The use of VIEs is tolerated largely due to regulatory pragmatism, especially when they involve publicly listed companies or generate significant tax revenues (Man, 2015)⁴⁴. Nevertheless, the legal enforceability of the contractual arrangements underlying VIEs remains uncertain, particularly in cases of dispute or regulatory tightening, so it is easy to understand that the risks associated with VIEs are considerable. First and foremost is the lack of ownership protection: since the foreign investor does not hold any equity in the domestic operating entity, it has no shareholder rights under Chinese law. In the event of a conflict, a Chinese court may refuse to enforce contracts deemed to be attempts to by-pass foreign investment restrictions. This risk materialized in cases such as *Alibaba's* early disputes over *Alipay* and *TAL Education Group*, both of which exposed the vulnerabilities of relying on VIEs for operational control (Gillis & Lowry, 2014)⁴⁵. Moreover, the Chinese

⁴⁴ Thomas Y. Man, *Policy Above Law: VIE and Foreign Investment Regulation in China*, 3 Peking University Transnational Law Review, no. 1 (2015): 215–222.

⁴⁵ Paul Gillis and Michelle René Lowry, *Son of Enron: Investors Weigh the Risks of Chinese Variable Interest Entities*, in *Journal of Applied Corporate Finance*, vol. 26, no. 3 (Summer 2014), pp. 61–66, available at: <https://doi.org/10.1111/jacf.12080> [last accessed: 14 April 2025].

government retains the discretion to invalidate or restrict the use of VIEs at any time. Although reforms under the Foreign Investment Law (2020) aimed to standardize the treatment of foreign investors and introduce a “negative list” approach, VIEs remain outside the formal scope of the law, creating a regulatory limbo. This is particularly problematic considering recent moves by authorities to tighten data security, impose antitrust regulations, and strengthen national security screening of foreign investments, factors that increase uncertainty for foreign entities using opaque legal constructs.

Despite these concerns, many investors continue to rely on VIEs due to their flexibility and speed in entering restricted sectors. However, legal scholars such as Wu (2019)⁴⁶ and Chen (2020)⁴⁷ caution that the long-term sustainability of this model is questionable. For Italian luxury brands seeking stable, long-term presence in the Chinese market, the use of VIEs may therefore be incompatible with the values of transparency, brand protection, and legal certainty that support the luxury business model.

Table 2 – Comparison of entry structures in China

Criteria	Acquisitions	Joint Ventures	VIEs
Legal Ownership	Full legal ownership of the target company or its assets	Shared ownership with local partner	No legal ownership-control via contracts
Operational control	High – full control after acquisition	Medium – depends on contractual terms and equity ratio	High operational influence but no legal rights
Regulatory risk	Moderate – subject to review and national security screening	Moderate – aligned with FIL but legacy rules may apply	High – VIEs are not officially recognized

⁴⁶ Weiping Wu, *Prospects for Institutional Investors in China*, in *Institutional Investment in China's Infrastructure*, Lincoln Institute of Land Policy, 2019, available at: <http://www.jstor.com/stable/resrep22073.6> [last accessed: 10 April 2025]

⁴⁷ Fa Chen, *Variable Interest Entity Structures in China: Are Legal Uncertainties and Risks to Foreign Investors Part of China's Regulatory Policy?*, in *Asia Pacific Law Review*, vol. 29, no. 1 (2021), pp. 1–24, available at: <https://doi.org/10.1080/10192557.2021.1995229> [last accessed: 14 April 2025].

IP protection	Strong, especially post-integration	Medium – partial exposure depending on partner cooperation	Low – no shareholders rights in Chinese courts
Speed of market entry	Moderate – subject to lengthy approval process	Fat – leverage partner’s infrastructure	Very fast – used to bypass ownership restrictions
Strategic autonomy	High – decisions remain in hands of acquirer	Medium – decisions require consensus	Low – subject to revocation and enforcement risks
Sustainability for luxury sector	High – fits well with brand control priorities	Medium – may dilute brand control	Low – risk of instability undermines brand equity

In summary, the legal and strategic pathways available to Italian luxury brands seeking to establish or consolidate their presence in China each present distinctive advantages and risks.

Acquisitions undoubtedly offer the highest level of strategic control, legal clarity, and alignment with the brand protection imperatives that define the luxury sector. They are particularly suitable for long-term brand positioning and for preserving the symbolic and operational independence that characterizes “Made in Italy” excellence (Reghizzi, 2006⁴⁸; Wu, 2019⁴⁹). However, they demand considerable capital, time, and legal effort, elements that may discourage smaller firms or those lacking robust international legal support.

Joint ventures, on the other hand, provide immediate market access and risk-sharing advantages, but often at the cost of diluted control and potential brand misalignment

⁴⁸ Gabriele Crespi Reghizzi, *Evoluzioni del nuovo diritto commerciale cinese*, in *Il Politico*, vol. 71, no. 3 (Settembre–Dicembre 2006), pp. 142–171, Rubbettino Editore, available at: <https://www.jstor.org/stable/24005427> [last accessed: 15 April 2025].

⁴⁹ Weiping Wu, *Prospects for Institutional Investors in China*, in *Institutional Investment in China’s Infrastructure*, Lincoln Institute of Land Policy, 2019, available at: <http://www.jstor.com/stable/resrep22073.6> [last accessed: 10 April 2025]

(Beamish, 1993⁵⁰; Wu, 2019⁵¹). In a context such as China, where local partners may prioritize rapid growth and cost efficiency over heritage preservation and global consistency, this model risks compromising the core values of Italian luxury. From a personal perspective, I believe joint ventures can still serve as transitional tools—but only if they are framed as temporary, learning-oriented arrangements rather than permanent governance structures.

The case of VIEs deserves scrutiny. While innovative in design, these structures exist in a legal grey zone that should raise immediate red flags for luxury brands (Man, 2015; Gillis & Lowry⁵², 2014; Chen, 2020⁵³). VIEs may allow fast entry into restricted sectors, especially those involving digital infrastructure and data, but this agility comes at the price of legal uncertainty and potentially irreparable damage to brand credibility. The fundamental misalignment between the opacity of VIE structures and the transparency, trust, and authenticity that underpin the luxury business model cannot be overlooked. For Italian luxury firms, whose value propositions are built on craftsmanship, traceability, and integrity, using VIEs is not only legally precarious but strategically incoherent. I argue that any short-term advantage gained through a VIE would be outweighed by the reputational risk, operational fragility, and lack of legal recourse in the event of dispute or regulatory crackdown.

In conclusion, the choice of entry structure must be driven not only by legal feasibility or speed to market, but by a deeper reflection on brand identity, long-term control, and alignment with the values that sustain competitive advantage in luxury. From this perspective, acquisitions and high-control investment models appear more coherent

⁵⁰ Paul W. Beamish, *The Characteristics of Joint Ventures in the People's Republic of China*, in *Journal of International Marketing*, vol. 1, no. 2 (1993), pp. 29–48, published by Sage Publications for the American Marketing Association, available at: <https://www.jstor.org/stable/25048493> [last accessed: 10 April 2025].

⁵¹ Weiping Wu, *Prospects for Institutional Investors in China*, in *Institutional Investment in China's Infrastructure*, Lincoln Institute of Land Policy, 2019, available at: <http://www.jstor.com/stable/resrep22073.6> [last accessed: 10 April 2025]

⁵² Thomas Y. Man, *Policy Above Law: VIE and Foreign Investment Regulation in China*, 3 *Peking University Transnational Law Review*, no. 1 (2015): 215–222.

⁵³ Fa Chen, *Variable Interest Entity Structures in China: Are Legal Uncertainties and Risks to Foreign Investors Part of China's Regulatory Policy?*, in *Asia Pacific Law Review*, vol. 29, no. 1 (2021), pp. 1–24, available at: <https://doi.org/10.1080/10192557.2021.1995229> [last accessed: 14 April 2025].

with the strategic DNA of Italian brands operating in China's complex but opportunity-rich environment.

1.2.3 Examples of strategies adopted by luxury brands

Example 1: Gucci – from joint venture to full control

Although Gucci is universally recognized as one of the most iconic Italian luxury brands, its strategic decisions in the Chinese market must be understood within the broader framework of the French luxury conglomerate *Kering*, to which it belongs. While the brand retains its Italian heritage, design philosophy, and manufacturing base, its market entry choices—particularly regarding governance, investment structure, and digital expansion—are shaped by the centralized strategic vision of its parent company. This alignment with French corporate practices, including a strong emphasis on full control, vertical integration, and early investment in digital retail channels, positions Gucci's trajectory closer to that of other French-led entities such as Louis Vuitton and Hermès, rather than independently operated Italian brands like Prada or Moncler.

Gucci's trajectory in China exemplifies the strategic transformation of an iconic luxury brand adapting to regulatory shifts and evolving consumer expectations. Originally part of a joint venture with Li & Fung, a prominent Hong Kong-based retail and logistics group, Gucci's early strategy in the Chinese market was shaped by necessity: foreign ownership limitations and the complexities of local distribution systems led many global brands to rely on experienced regional partners. Through this partnership, Gucci was able to establish a physical presence in Tier 1 cities and benefit from the infrastructure, regulatory familiarity, and operational networks of Li & Fung. However, as the legal environment evolved, particularly with the liberalization of retail sectors and the strengthening of foreign investor rights under the Company Law and Foreign Investment Law, Gucci strategically moved to take direct control of its Chinese operations. In 2018, it terminated its joint venture and transformed the business into a Wholly Foreign-Owned Enterprise (WFOE). This transition allowed Gucci to

internalize decision-making, from pricing and merchandising to digital marketing and CRM systems, ensuring full alignment with its global brand standards.

This strategic realignment also responded to the shifting preferences of Chinese luxury consumers, who increasingly value brand authenticity, personalized experiences, and digital integration. By removing the intermediary, Gucci accelerated investments in its omnichannel capabilities, including a mobile-first approach, integration with local platforms such as WeChat Mini Programs, and enhanced in-store technology. Gucci's full control over its retail and digital ecosystem has contributed to a strong brand resonance in China, particularly among Gen Z consumers. Moreover, this restructuring enabled Gucci to retain a higher share of revenue, optimize margins, and exercise full IP protection. In a market where brand narrative and exclusivity are crucial, this level of control has proven indispensable. From a legal risk management perspective, operating as a WFOE also reduces exposure to joint venture disputes, governance clashes, and unauthorized brand interpretations—concerns often noted in academic literature on Sino-foreign business relations (Wu, 2019⁵⁴; Beamish, 1993⁵⁵).

Example 2 : Prada – Full ownership and controlled expansion

In contrast to Gucci, Prada remains a fully independent Italian luxury company, publicly listed but still under the strategic leadership of the founding family. This independence has allowed Prada to maintain a high degree of managerial and creative autonomy, which is clearly reflected in its approach to the Chinese market. Unlike brands incorporated into larger international groups, Prada's entry strategy has been shaped by a strong desire to retain control over brand positioning, store aesthetics, and customer experience, without relying on local partners or external investors. This approach illustrates a distinctly Italian model of luxury brand management

⁵⁴ Weiping Wu, *Prospects for Institutional Investors in China*, in *Institutional Investment in China's Infrastructure*, Lincoln Institute of Land Policy, 2019, available at: <http://www.jstor.com/stable/resrep22073.6> [last accessed: 10 April 2025]

⁵⁵ Paul W. Beamish, *The Characteristics of Joint Ventures in the People's Republic of China*, in *Journal of International Marketing*, vol. 1, no. 2 (1993), pp. 29–48, published by Sage Publications for the American Marketing Association, available at: <https://www.jstor.org/stable/25048493> [last accessed: 10 April 2025].

characterized by gradual expansion, high-control structures such as wholly foreign-owned enterprises (WFOEs), and a cautious but deliberate integration into digital ecosystems. It also reflects a broader trend among independent Italian brands to prioritize brand integrity and artisanal identity over rapid market penetration.

Prada's entry into the Chinese market stands out for its consistency and deliberate avoidance of local partnerships. From the outset, Prada chose a direct investment strategy, establishing its Chinese subsidiary in Shanghai in 2004 and operating exclusively through wholly owned stores. This approach was rooted in the brand's commitment to preserving its unique aesthetic, artisanal positioning, and narrative independence across markets. While this path required significant upfront investment and a slower rollout compared to JV-based expansions, it provided Prada with unmatched control over the retail environment, store design, product assortment, and customer interaction. Every store opening was meticulously planned to reflect the brand's architectural and cultural values, reinforcing its identity as a symbol of Milanese sophistication and contemporary luxury. From a governance and legal perspective, Prada's strategy aligns with the model of "high-control, high-commitment" entry often recommended for brand-centric sectors. The WFOE structure allowed the company to maintain full oversight of human resources, logistics, marketing, and compliance, reducing legal uncertainty associated with shared ventures. This legal model provides stronger protection of intangible assets such as trademarks, trade secrets, and customer data—elements that are central to value creation in luxury retail (Yang, Huang & You 2016)⁵⁶.

Although Prada's approach limited its early reach into second- and third-tier cities, this was a conscious trade-off. By focusing on flagship stores in high-end malls and luxury districts, the brand prioritized quality over quantity, aiming to build desirability rather than mere accessibility. In recent years, Prada has complemented its physical strategy with a growing emphasis on digital channels, leveraging partnerships with Tmall Luxury Pavilion and livestreaming campaigns tailored to local digital behaviour.

⁵⁶ Yang Dong, Huang Dingquan, and You Jiahui, *Cross-Border Merger and Acquisition of Chinese Domestic Listed Companies*, in *Frontiers of Law in China*, vol. 11, no. 2 (June 2016), pp. 370–400, available at: <https://heinonline.org/HOL/P?h=hein.journals/frolch11&i=370> [last accessed: 10 April 2025].

From a risk management standpoint, Prada's model demonstrates how full ownership can act as a shield against the uncertainties of the Chinese legal environment, offering clarity in liability, IP enforcement, and strategic adaptation.

Example 3 : Moncler – From joint venture to full ownership

Moncler represents a hybrid evolution within the Italian luxury landscape, combining a cautious entry strategy with a strong long-term commitment to full operational control. Initially, Moncler entered the Chinese market in partnership with Yagi Tsusho, a Japanese trading company with operations in Asia, through a joint venture. This arrangement allowed Moncler to gain fast access to the Chinese market while leveraging the partner's local expertise in logistics, distribution, and regulatory compliance. However, in 2013, just a few years after the brand began its Chinese operations, Moncler acquired full ownership of the joint venture and transitioned to a Wholly Foreign-Owned Enterprise (WFOE) model.

This strategic shift illustrates Moncler's intention to consolidate its brand equity and gain greater control over its distribution network, pricing policies, and marketing strategies. By assuming full ownership, the company was able to align its Chinese operations with global standards in terms of store design, customer experience, and digital integration. From a legal and managerial perspective, the move reflects the broader Italian tendency to use joint ventures as transitional tools, rather than permanent structures, especially in sectors where brand perception and exclusivity are paramount. Moncler's experience demonstrates how a phased entry strategy can serve as both a learning platform and a way to mitigate early-stage market risks, while ultimately converging on a model of direct ownership consistent with the core values of Italian luxury.

The cases of Gucci, Prada, and Moncler highlight the diversity of strategic approaches adopted by Italian and French luxury brands entering the Chinese market, each shaped by the specific identity, ownership structure, and long-term vision of the brand. While

all three ultimately converged toward a model of full control via wholly foreign-owned enterprises, their paths diverged in timing, motivation, and execution.

Gucci's transformation from a joint venture to a fully owned subsidiary reflects a broader shift within the Kering Group, aligned with the strategic tendencies of French luxury conglomerates to centralize operations and maximize digital responsiveness. Prada's decision to establish direct control from the outset reveals a philosophy deeply rooted in the Italian tradition of brand sovereignty, where authenticity and narrative coherence outweigh speed of expansion. Moncler's phased approach, starting with a joint venture and evolving into full ownership, illustrates how hybrid models can serve as effective risk management tools, enabling learning and adaptation before full commitment.

These examples do more than illustrate different trajectories, they reveal deeper strategic identities and national business cultures within the luxury sector. Gucci's transition from a joint venture to full control mirrors the centralized, assertive expansion model typical of French conglomerates like Kering. It reflects a willingness to act swiftly and decisively to align operations with global standards and maximize responsiveness to digital shifts. While highly effective, this approach is also top-down and scale-driven, relying on organizational muscle and financial capacity.

In contrast, Prada's decision to establish full ownership from the outset exemplifies the independent, heritage-driven Italian model. This choice signals a clear refusal to compromise on brand governance, visual identity, or store aesthetics, even at the cost of slower expansion. From my perspective, this model is more coherent with the long-term values of Italian luxury, where narrative consistency, artisanal quality, and cultural integrity take precedence over rapid growth. Prada's case demonstrates that sustainability in the Chinese market may require patience and precision rather than aggressive market share tactics. Moncler's phased approach, initially entering through a partnership, then evolving into full ownership, offers a pragmatic middle ground. It balances the need for initial risk mitigation with the ultimate goal of strategic independence. This model can be particularly effective for younger or niche brands

that need time to understand the complexities of the Chinese market before committing to full control.

However, it also requires careful timing and the foresight to exit joint structures before they compromise strategic flexibility. Ultimately, while all three brands converged toward wholly foreign-owned models, their paths reflect different strategic mindsets. In my view, the Prada model stands out for its long-term coherence with the symbolic capital of “Made in Italy,” particularly in a market where authenticity and brand storytelling resonate deeply with consumers. By preserving full sovereignty over operations, Italian brands can safeguard not only legal and commercial interests, but also the intangible values that make luxury desirable in the first place.

1.3 The Chinese regulatory framework

1.3.1 Chinese regulations on foreign investments

The legal regulation of foreign investments in China has undergone a significant transformation over the past decades, shifting from a fragmented and sector-specific framework to a more unified, codified, and transparent system. A pivotal moment in this evolution was the adoption of the Foreign Investment Law of the People's Republic of China (FIL)⁵⁷, which came into effect on January 1st, 2020. This law replaced three previous foundational statutes: the *Sino-Foreign Equity Joint Venture*

⁵⁷ National People's Congress of the People's Republic of China, *Foreign Investment Law of the People's Republic of China* (《中华人民共和国外商投资法》), promulgated on 15 March 2019 by the 13th NPC, effective from 1 January 2020, available at: <http://www.npc.gov.cn/englishnpc/c23934/202012/5df25f1dbfc444c4b6d4e6e3cb4c3e30.shtml> [last accessed: 14 April 2025].

*Law*⁵⁸, the *Wholly Foreign-Owned Enterprise Law*⁵⁹, and the *Sino-Foreign Cooperative Joint Venture Law*⁶⁰.

The aim of the Foreign Investment Law (2020) is clearly stated in **Article 1**:

“This Law is enacted in order to further expand opening-up, vigorously promote foreign investment, protect the legitimate rights and interests of foreign investors, regulate the administration of foreign investment, and promote the formation of a new pattern of comprehensive opening-up in the new era.”

This preambular statement frames foreign investment as an instrument of national development, while emphasizing state control and legal harmonization. The FIL adopts a "national treatment plus negative list" approach, meaning that foreign investors are, in principle, to be treated no differently than domestic Chinese investors, except in sectors explicitly restricted or prohibited by a national “negative list.”

As established in **Article 4**:

“The State implements the management system of pre-establishment national treatment plus a negative list for foreign investment.”

This provision implies that foreign investment in most sectors is now legally unrestricted, unless the industry is included in the Negative List for Market Access,

⁵⁸ National People’s Congress of the People’s Republic of China, *Law of the People’s Republic of China on Sino-Foreign Equity Joint Ventures* (中华人民共和国中外合资经营企业法), adopted on 1 July 1979, last amended on 15 March 2001 (now repealed), available at: http://www.npc.gov.cn/englishnpc/Law/2007-12/13/content_1384090.htm [last accessed: 14 April 2025].

⁵⁹ National People’s Congress of the People’s Republic of China, *Law of the People’s Republic of China on Wholly Foreign-Owned Enterprises* (中华人民共和国外资企业法), adopted on 12 April 1986, last amended on 3 September 2016 (now repealed), available at: http://www.npc.gov.cn/englishnpc/Law/2007-12/12/content_1383925.htm [last accessed: 14 April 2025].

⁶⁰ National People’s Congress of the People’s Republic of China, *Law of the People’s Republic of China on Sino-Foreign Cooperative Joint Ventures* (中华人民共和国中外合作经营企业法), adopted on 13 April 1988, last amended on 3 September 2016 (now repealed), available at: http://www.npc.gov.cn/englishnpc/Law/2007-12/12/content_1383922.htm [last accessed: 14 April 2025].

jointly issued by the National Development and Reform Commission (NDRC) and the Ministry of Commerce (MOFCOM). This means that foreign investors have formal access to a vast majority of economic sectors—a significant shift compared to the pre-2020 regime. However, actual market entry depends not only on national policy but also on local implementation, which may introduce informal barriers (Wu, 2019)⁶¹.

One of the pillars of the Foreign Investment Law (FIL) is the establishment of a comprehensive framework for the protection of the legitimate rights and interests of foreign investors, aimed at increasing legal certainty and confidence in the Chinese market. The law formalizes several key guarantees, including protection against expropriation, free repatriation of capital, safeguarding of intellectual property rights, and the right to access fair administrative procedures.

In **Article 20**, the FIL explicitly states:

“The State shall not expropriate foreign investments. Under special circumstances, the State may expropriate or requisition a foreign investment for public interest purposes in accordance with the law. Such expropriation or requisition shall be conducted in accordance with legal procedures and fair and reasonable compensation shall be given in a timely manner.”

This clause aligns Chinese law with international standards of legal predictability and compensation in the event of expropriation. The article not only requires a lawful and public interest-based justification, but also guarantees timely and fair compensation, a provision often scrutinized in the context of emerging markets. However, scholars have noted that the lack of an independent judiciary and the broad interpretation of "public interest" may limit the enforceability of this right in practice.

⁶¹ Weiping Wu, *Prospects for Institutional Investors in China*, in *Institutional Investment in China's Infrastructure*, Lincoln Institute of Land Policy, 2019, available at: <http://www.jstor.com/stable/resrep22073.6> [last accessed: 10 April 2025]

In addition, **Article 21** reinforces the freedom to remit capital and profits:

“Foreign investors may freely remit, in and out of China, their contributions, profits, capital gains, income from asset disposal, intellectual property royalties, indemnity payments, and proceeds from liquidation, in accordance with the law.”

This provision is particularly relevant to the luxury sector, where repatriation of revenue and royalties is central to the profitability of wholly foreign-owned retail subsidiaries. It mitigates one of the key risks associated with operating in China—capital controls and administrative delays in fund transfers—even if, in practice, such remittances may still be subject to tax and foreign exchange compliance.

Intellectual property protection is addressed in **Article 22**, which states:

“The State shall protect the intellectual property rights of foreign investors and foreign-invested enterprises; the legitimate rights and interests of intellectual property rights holders shall be protected in accordance with the law.”

Moreover, the same article explicitly prohibits forced technology transfer:

“No administrative department or its staff member shall force the transfer of technology by administrative means.”

These clauses represent a response to long-standing international criticisms about China’s approach to foreign technology and IP, particularly in sectors involving design and innovation that are the two pillars of Italian luxury. However, the practical effectiveness of these protections often depends on local enforcement and the capacity of foreign firms to pursue civil or administrative litigation, which remains a complex issue under Chinese procedural law.

As mentioned before, another core feature of China’s foreign investment regulatory framework is the application of a “negative list” system, which delineates the sectors in which foreign investment is either restricted or prohibited. This model is codified in

Article 4 of the Foreign Investment Law:

“The State implements the management system of pre-establishment national treatment plus a negative list for foreign investment.”

This means that, outside the industries explicitly listed as restricted or prohibited, foreign investors are granted national treatment—in other words, they are treated the same as domestic Chinese companies in terms of access, registration, and governance.

The content of the negative list is updated regularly and published by the National Development and Reform Commission (NDRC) and the Ministry of Commerce (MOFCOM). It typically covers sectors such as publishing, internet content services, education, and certain high-tech industries, particularly where national security, cultural values, or information control are at stake.

In parallel, China also issues the *Catalogue of Encouraged Industries for Foreign Investment*, which identifies sectors that benefit from preferential policies, such as tax incentives, simplified procedures, and land-use rights. The 2022 edition of the Catalogue (NDRC & MOFCOM) highlights sectors including:

- High-end manufacturing and green technologies
- Smart retail and logistics infrastructure
- R&D-intensive industries
- Fashion design and high-end consumer goods in specific regions (e.g., Hainan Free Trade Port)

This dual mechanism composed of encouragement catalogue vs. negative list, constitutes the legal backbone of China’s sectoral entry model. For Italian luxury brands, this distinction is vital, especially because retail and fashion are not on the prohibited list, but the use of digital platforms, e-commerce, livestreaming, and data management may fall within regulated or sensitive areas, particularly due to overlapping rules with the Cybersecurity Law and Data Security Law.

Furthermore, **Article 30** of the FIL establishes the obligation of foreign investors to file information with the competent commerce department:

“Foreign investors or foreign-invested enterprises shall submit investment information to the competent department for commerce through the enterprise registration system and the enterprise credit information publicity system.”

This indicates that even if prior approval is not required in encouraged sectors, post-filing and transparency obligations remain. In practice, the registration process involves interactions with multiple government departments and may still reflect regional variations, depending on the local interpretation of national laws.

An essential component of China’s foreign investment environment lies in the mechanisms available to resolve disputes and enforce the legal protections granted under national law. Although the Foreign Investment Law ⁶² (FIL) outlines a framework of guarantees, the actual effectiveness of these rights often depends on the strength and reliability of legal recourse channels.

Article 26 of the FIL establishes a formal complaint mechanism:

“The State shall establish and improve a complaint mechanism for foreign-invested enterprises, timely solve problems raised by foreign-invested enterprises, and coordinate and improve relevant policies and measures.”

This mechanism, often implemented through local-level “foreign investment complaint centres,” provides a non-judicial path for resolving disputes with government authorities. However, the effectiveness and independence of these local mechanisms remain variable, as they depend on the responsiveness of local commerce departments and administrative discretion. In civil and commercial disputes, foreign investors retain the right to bring claims before Chinese courts or seek resolution

⁶² National People’s Congress of the People’s Republic of China, *Foreign Investment Law of the People’s Republic of China* (《中华人民共和国外商投资法》), promulgated on 15 March 2019 by the 13th NPC, effective from 1 January 2020, available at: <http://www.npc.gov.cn/englishnpc/c23934/202012/5df25f1dbfc444c4b6d4e6e3cb4c3e30.shtml> [last accessed: 14 April 2025].

through arbitration. The Law of the People's Republic of China on Arbitration (1994, revised)⁶³ provides a legal basis for international arbitration, provided that:

- The dispute involves a foreign element (e.g. one of the parties is foreign, the contract was signed abroad, or foreign law is applicable);
- The parties have agreed in writing to arbitration and have designated a recognized arbitral body (e.g. CIETAC, HKIAC, or an international institution).

The Arbitration Law further permits parties to choose ad hoc arbitration outside of China, provided the award does not contravene Chinese public policy. While China is a signatory to the New York Convention (1958) and formally recognizes foreign arbitral awards, the enforcement of such decisions can encounter challenges, particularly in politically sensitive sectors such as media, technology, or data processing.

Moreover, the structure of Chinese law remains highly administrative and discretionary. Local governments and courts may interpret national laws in divergent ways, creating uncertainty for foreign investors, particularly in less economically developed regions. For this reason, many foreign luxury brands prefer to rely on arbitration clauses, bilateral investment treaties (BITs), and diplomatic channels to ensure legal security.

Ultimately, while China's foreign investment regime formally provides avenues for protection and dispute resolution, the practical effectiveness of these tools is influenced by institutional factors, enforcement mechanisms, and the strategic choices made by foreign enterprises in structuring their entry.

⁶³ National People's Congress of the People's Republic of China, *Arbitration Law of the People's Republic of China* (《中华人民共和国仲裁法》), adopted on 31 August 1994, effective from 1 September 1995, available at: <https://www.lawinfochina.com/display.aspx?lib=law&id=710> [last accessed: 14 April 2025].

1.3.2 Regulations concerning acquisitions of Chinese companies by foreign enterprises

Foreign acquisitions in China are governed by a complex set of laws and administrative regulations that reflect the country's dual priorities: attracting high-quality foreign capital while safeguarding national economic security and industrial sovereignty. The key legal texts regulating this area include the Company Law of the People's Republic of China, the Foreign Investment Law (2020)⁶⁴, and the Provisions on the Merger and Acquisition of Domestic Enterprises by Foreign Investors (2006, revised).

Under the current legal regime, foreign investors may acquire equity in, or merge with, a Chinese company through several channels, including:

- *Equity acquisition* (purchase of shares from existing shareholders)
- *Asset acquisition* (purchase of business assets and assumption of liabilities)
- *Merger* between a foreign company and a Chinese domestic company
- *Indirect acquisition* via offshore restructuring or special purpose vehicles (SPVs)

According to **Article 2** of the *M&A Provisions*, the law applies to:

“the acquisition of a domestic enterprise by a foreign investor, including the purchase of equity interests or assets, or the establishment of a foreign-invested enterprise (FIE) that absorbs the business of a domestic company.”

This framework provides a formal legal basis for foreign M&A activity, but approval procedures and sectoral restrictions vary depending on the nature of the acquisition and the industry involved. For instance, if the enterprise being acquired operates in a “restricted” or “prohibited” sector under the Special Administrative Measures

⁶⁴ National People's Congress of the People's Republic of China, *Foreign Investment Law of the People's Republic of China* (《中华人民共和国外商投资法》), promulgated on 15 March 2019 by the 13th NPC, effective from 1 January 2020, available at: <http://www.npc.gov.cn/englishnpc/c23934/202012/5df25f1dbfc444c4b6d4e6e3cb4c3e30.shtml> [last accessed: 14 April 2025].

(Negative List)⁶⁵, then prior government approval is mandatory. This includes review by both MOFCOM and the State Administration for Market Regulation (SAMR).

Moreover, **Article 11** of the Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (2006)⁶⁶ establishes that any acquisition “*that results in the foreign investor gaining actual control over a key domestic enterprise in a sensitive sector must be subject to a national security review.*”

This clause is particularly important in luxury and lifestyle sectors that involve data management, digital commerce platforms, and consumer analytics, which may overlap with regulated domains under the Data Security Law or involve broader industrial policy goals.

The Company Law of the PRC⁶⁷ also outlines the internal governance requirements for mergers and share transfers. Specifically, **Article 173** stipulates that any “*merger of a limited liability company must be approved by two-thirds of the shareholders*” and must comply with registration requirements set by the competent local authority.

Finally, while the Foreign Investment Law promotes equal treatment of foreign investors, it does not automatically override the approval and filing obligations set forth in the M&A provisions. This means that foreign luxury brands seeking to acquire local companies in China must navigate multiple legal layers, including:

- Corporate law requirements (Company Law)
- Industrial policy (Negative List, Catalogue of Encouraged Industries)

⁶⁵ National Development and Reform Commission and Ministry of Commerce of the People’s Republic of China, *Special Administrative Measures (Negative List) for Foreign Investment Access (2024 Edition)*, issued on 8 September 2024, effective from 1 November 2024, available at: <https://www.allbrightlaw.com/EN/10531/89bd3d17255fe5a2.aspx> [last accessed: 14 April 2025].

⁶⁶ Ministry of Commerce of the People’s Republic of China (MOFCOM) et al., *Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (外国投资者并购境内企业规定)*, promulgated on 8 August 2006, effective from 8 September 2006, available at: https://english.mofcom.gov.cn/Policies/LawsRegulations/art/2013/art_0475c7bd0c184b87885d5bd32697e016.html [last accessed: 14 April 2025].

⁶⁷ National People’s Congress of the People’s Republic of China, *Company Law of the People’s Republic of China (中华人民共和国公司法) – 2023 Revision*, adopted on 27 December 2023 by the Standing Committee of the 14th NPC, effective from 1 July 2024, available at: <http://www.npc.gov.cn/englishnpc/c23934/202401/efab8a6e3f354a1b8e4f1dbf6dbecf0c.shtml> [last accessed: 14 April 2025].

- Administrative review (MOFCOM, SAMR)
- Potential national security screening

Despite the formal legal framework supporting foreign acquisitions, the practical implementation of M&A transactions in China often involves navigating a series of bureaucratic steps and regulatory ambiguities, especially for foreign investors seeking to acquire domestic enterprises in full.

Once a deal is proposed, the acquisition must be registered with the local Administration for Market Regulation (AMR), and MOFCOM filing is required for all foreign M&A cases, even when the acquisition involves a non-restricted sector. In some cases, especially those involving large-scale acquisitions or cross-border components, approval from the State Council or the NDRC may also be required.

As outlined in **Article 10** of the M&A Provisions⁶⁸, foreign investors are also obliged to submit detailed documentation, including:

- The acquisition agreement
- Corporate approval resolutions
- Due diligence reports
- Valuation documents
- Legal opinions

Any failure to provide full and accurate disclosures can result in delays, sanctions, or rejection of the application.

Furthermore, China's Anti-Monopoly Law requires a separate merger control review by the SAMR, particularly when the acquisition may lead to market concentration or dominance. This is increasingly relevant in the luxury and lifestyle sectors, where digital integration (e.g., through e-commerce platforms or influencer networks) may

⁶⁸ Ministry of Commerce of the People's Republic of China (MOFCOM) et al., *Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors* (外国投资者并购境内企业规定), promulgated on 8 August 2006, effective from 8 September 2006, art. 10, available at: https://english.mofcom.gov.cn/Policies/LawsRegulations/art/2013/art_0475c7bd0c184b87885d5bd32697e016.html [last accessed: 14 April 2025].

create new types of market power not immediately visible through traditional retail channels.

Another legal risk involves the post-acquisition integration phase. Many foreign investors face difficulties in aligning the target company's governance practices, accounting standards, and employment structures with international compliance norms. Differences in corporate culture, combined with local protectionism, may also lead to resistance from existing management or stakeholders.

In terms of risk mitigation and legal strategy, Italian luxury brands should consider the following best practices:

- Conduct thorough legal and cultural due diligence, with particular attention to local political ties, IP assets, and regulatory compliance history.
- Structure the transaction to include earn-out clauses, management retention plans, and post-closing adjustments to ensure smoother integration.
- Consider using Hong Kong-based holding entities or offshore SPVs to benefit from bilateral tax treaties and legal flexibility.
- Engage in pre-transaction consultations with MOFCOM and SAMR, especially if the transaction involves sensitive sectors or regions (e.g., Hainan, Guangdong FTZ).

For brand-centric industries like luxury fashion and accessories, the risks associated with partial control or lack of legal enforceability can severely impact brand value. Therefore, acquisitions should prioritize legal clarity, operational control, and long-term strategic alignment over short-term market access.

1.3.3 Government approval requirements for M&A transactions

The Chinese legal system imposes a multi-tiered approval process for mergers and acquisitions (M&A) involving foreign investors. These procedures are designed to protect national economic security, ensure compliance with industrial policy, and maintain control over sensitive sectors. As such, foreign M&A transactions must navigate a complex regulatory architecture involving both substantive criteria and procedural clearances across several administrative bodies.

The key legal reference in this context is the Provisions on the Merger and Acquisition of Domestic Enterprises by Foreign Investors⁶⁹ (MOFCOM, 2006, revised), which define in **Article 3** the scope of the law:

“These provisions apply to the acquisition of a domestic enterprise by a foreign investor, including equity and asset acquisitions, as well as the establishment of new foreign-invested enterprises through mergers.”

The approval system for M&A transactions depends primarily on whether the target enterprise operates in a restricted, prohibited, or encouraged sector, as defined by the most recent Special Administrative Measures for Foreign Investment Access (Negative List).

According to **Article 6** of the M&A Provisions⁷⁰, if the enterprise to be acquired operates in a restricted sector:

⁶⁹ Ministry of Commerce of the People’s Republic of China (MOFCOM) et al., *Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors* (外国投资者并购境内企业规定), promulgated on 8 August 2006, effective from 8 September 2006, art. 3, available at: https://english.mofcom.gov.cn/Policies/LawsRegulations/art/2013/art_0475c7bd0c184b87885d5bd32697e016.html [last accessed: 14 April 2025].

⁷⁰ Ministry of Commerce of the People’s Republic of China (MOFCOM) et al., *Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors* (外国投资者并购境内企业规定), promulgated on 8 August 2006, effective from 8 September 2006, art. 6, available at: https://english.mofcom.gov.cn/Policies/LawsRegulations/art/2013/art_0475c7bd0c184b87885d5bd32697e016.html [last accessed: 14 April 2025].

“The transaction must be submitted for examination and approval by the Ministry of Commerce, in addition to registration with the relevant Administration for Market Regulation (AMR).”

Even when the sector is classified as "encouraged", foreign investors are still subject to a record-filing process with local MOFCOM offices, in accordance with the Foreign Investment Law (2020)⁷¹, **Article 30**:

“Foreign investors or foreign-invested enterprises shall submit investment information to the competent department for commerce through the enterprise registration system and the enterprise credit information publicity system.”

This dual system of approval vs. filing reflects the PRC’s differentiated approach to market entry, whereby foreign capital is welcomed in principle but selectively filtered in practice.

In addition to MOFCOM and AMR approvals, certain M&A transactions involving foreign investors are subject to a national security review, especially when they concern sensitive sectors or may result in foreign control over key enterprises.

This mechanism is formally established under **Article 11** of the M&A Provisions⁷²:

“Foreign investors that acquire actual control over a domestic enterprise engaged in an industry affecting national economic security or with significant influence on national security shall undergo a national security examination.”

⁷¹ National People’s Congress of the People’s Republic of China, *Foreign Investment Law of the People’s Republic of China* (《中华人民共和国外商投资法》), promulgated on 15 March 2019 by the 13th NPC, effective from 1 January 2020, available at: <http://www.npc.gov.cn/englishnpc/c23934/202012/5df25f1dbfc444c4b6d4e6c3cb4c3e30.shtml> [last accessed: 14 April 2025].

⁷² Ministry of Commerce of the People’s Republic of China (MOFCOM) et al., *Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors* (《外国投资者并购境内企业规定》), promulgated on 8 August 2006, effective from 8 September 2006, art. 11, available at: https://english.mofcom.gov.cn/Policies/LawsRegulations/art/2013/art_0475c7bd0c184b87885d5bd32697e016.html [last accessed: 14 April 2025].

While the law does not precisely define what constitutes "significant influence on national security", in practice, industries such as media, telecommunications, information services, artificial intelligence, data analytics, and platform retail ecosystems are considered sensitive.

This aspect is particularly relevant for luxury brands that engage in:

- *Smart retail innovation*
- *E-commerce with integrated payment solutions*
- *Customer data processing* (e.g., loyalty programs, CRM tools)

These models may trigger regulatory concern when foreign entities gain access to consumer behavioural data, especially in connection with national digital sovereignty.

In parallel, transactions that could lead to market concentration fall under the purview of the Anti-Monopoly Law of the People's Republic of China. If a proposed M&A deal meets the turnover thresholds stipulated by the State Administration for Market Regulation (SAMR), a merger control filing is required. This process can delay or, in rare cases, block transactions that would impair fair competition or enable excessive pricing power.

For example, the consolidation of high-end fashion distribution channels or vertical integration with local logistics providers may be flagged by regulators for review. Although the luxury sector is typically fragmented, the increasing digital convergence between fashion brands, platforms, and influencer networks can create new forms of indirect market dominance.

The Chinese government's approval requirements for foreign-led M&A transactions form a multilayered and often discretionary system. While the legislative framework presents itself as increasingly open and rule-based, especially following the enactment of the Foreign Investment Law in 2020, the actual practice of implementing M&A approvals remains marked by sectoral protectionism, administrative opacity, and political sensitivity.

From a procedural perspective, foreign acquirers must coordinate with multiple agencies—MOFCOM, SAMR, AMR, NDRC, and, in some cases, State Council-level authorities. Each of these entities operates under different evaluation logics: MOFCOM assesses policy alignment, SAMR monitors competition risk, while national security reviews introduce broader strategic considerations that may fall outside of purely economic reasoning. This fragmentation increases the time, cost, and legal uncertainty associated with completing a transaction.

In the luxury sector, this complexity is amplified by the hybrid nature of the industry, which spans tangible goods, cultural production, lifestyle services, and increasingly, digital ecosystems. For instance, an Italian fashion house acquiring a Chinese e-commerce brand may inadvertently fall within a sector deemed sensitive—not because of the clothes themselves, but due to the underlying data infrastructure, content regulation, or influence over consumer behaviour. These regulatory grey zones significantly elevate legal and reputational risks for foreign investors.

Another layer of complexity arises from the local vs. national divide. While central government policies may encourage foreign participation in sectors such as high-end retail, smart manufacturing, or sustainable fashion (see: *Catalogue of Encouraged Industries for Foreign Investment*, 2022), local enforcement can be inconsistent or unpredictable. Local governments may interpret regulatory thresholds differently, apply filing requirements unevenly, or delay approvals to protect domestic incumbents. This unevenness forces foreign investors to rely heavily on local legal counsel, negotiation networks, and adaptive compliance strategies.

For Italian luxury brands, which place a premium on brand consistency, customer experience, and IP protection, the implications are twofold. First, any M&A transaction must be evaluated not only on financial and commercial grounds, but also on legal feasibility and strategic compatibility with Chinese industrial policy. Second, acquiring a Chinese entity entails significant challenges in terms of post-merger integration, including:

- Aligning governance standards and audit requirements;
- Reconciling cultural expectations around hierarchy, creativity, and decision-making;
- Managing dual legal exposure across Chinese and international jurisdictions;
- Ensuring full compliance with data localization and consumer protection laws.

In this regard, risk management becomes a core element of transaction design. Some companies choose to pursue minority investments, multi-step acquisitions, or offshore structuring (e.g., via Hong Kong or Singapore holding companies) to reduce initial exposure and build regulatory familiarity over time. Others may opt for strategic alliances or brand licensing, which offer market access without the regulatory burden of full acquisition.

What emerges from this analysis is that legal compliance in China is not just a procedural hurdle but a strategic determinant. The ability to anticipate regulatory reactions, interpret vague thresholds (e.g., “significant market influence” or “public interest”), and proactively manage stakeholder relationships often determines the success or failure of an M&A deal in the luxury space. Thus, the intersection of legal, political, and commercial considerations must be understood not as a constraint, but as an essential dimension of foreign investment strategy in China, particularly for industries, like luxury fashion, that operate at the confluence of image, identity, and innovation.

Chapter 2 – Critical analysis of M&A strategies and existing regulations

2.1 M&A strategies in the luxury sector

2.1.1 *Regulatory ambiguities and their use as Chinese economic strategy*

The deliberate persistence of regulatory ambiguities within China's economic governance can be critically assessed as a strategic choice rather than merely a systemic flaw. This approach not only grants significant discretionary powers to local and central authorities but also positions regulatory uncertainty as an effective policy tool leveraged to control and direct foreign investments according to shifting political and economic priorities. Unlike transparent, rules-based regulatory environments typical of Western democracies, China's administrative discretion reflects a unique form of statecraft whereby economic openness and market liberalization coexist with strategic state interventionism (Man, 2015)⁷³. At first glance, the ambiguity of China's regulatory framework, particularly with regard to the implementation of the Foreign Investment Law (FIL) and the Negative List, may seem paradoxical. The FIL, which we recall was enacted in 2020, explicitly promises national treatment and greater predictability to foreign investors. However, its practical application remains uneven, reflecting broader political considerations rather than purely legal criteria (Wu, 2019)⁷⁴. This ambiguity serves a dual purpose: it attracts foreign capital by presenting an image of openness, while maintaining sufficient flexibility to allow the Chinese state to intervene selectively, supporting strategic sectors or protecting local firms.

From a critical perspective, we can note that this strategic ambiguity is most evident in the sectors defined by the Negative List, where regulatory vagueness often translates into interpretative discretion at the local administrative level. Local authorities, strengthened by this ambiguity, can effectively adapt the application of the regulation

⁷³ Thomas Y. Man, *Policy Above Law: VIE and Foreign Investment Regulation in China*, 3 Peking University Transnational Law Review, no. 1 (2015): 215–222.

⁷⁴ Weiping Wu, *Prospects for Institutional Investors in China*, in *Institutional Investment in China's Infrastructure*, Lincoln Institute of Land Policy, 2019, available at: <http://www.jstor.com/stable/resrep22073.6> [last accessed: 24 April 2025]

in response to evolving economic or geopolitical conditions, which creates a considerable strategic advantage for Chinese companies over foreign competitors. This discretionary power allows the state apparatus to modulate competitive dynamics and market structures, to the advantage in particular of sectors considered strategic, such as technology, digital platforms and, increasingly, luxury and consumer goods (Chen, 2021)⁷⁵. Evaluating this practice, one might argue that the strategic benefits of regulatory ambiguity are significant but not without serious drawbacks. On the positive side, it provides China with the ability to swiftly adapt regulatory frameworks to emerging economic threats or opportunities.

Recent geopolitical tensions, particularly the escalating trade frictions with the United States culminating in renewed tariff impositions in these first months of 2025, illustrate this point vividly. China's capability to modify administrative interpretations rapidly allows for nuanced and responsive economic strategies, countering external shocks without the lengthy processes typical of more rigid regulatory systems. However, from an investor's viewpoint, particularly European and specifically Italian luxury brands that prize stability and predictability, this approach raises significant concerns.

Such a regulatory climate engenders pervasive uncertainty, deterring stable, long-term investments and complicating strategic planning, Italian luxury firms, which rely heavily on meticulous brand positioning, heritage conservation, and precise market entry strategies, face heightened risks in this environment. The discretionary enforcement of intellectual property protections, frequent changes in data and digital regulations, and unpredictable policy shifts can severely undermine brand integrity and operational coherence. Indeed, this practice may inadvertently discourage premium investments precisely in sectors that require higher levels of transparency and confidence to thrive.

It is evident that the strategic use of regulatory ambiguity reflects China's deliberate policy of maintaining economic sovereignty and strategic flexibility at the expense of

⁷⁵ Fa Chen, *Variable Interest Entity Structures in China: Are Legal Uncertainties and Risks to Foreign Investors Part of China's Regulatory Policy?*, in *Asia Pacific Law Review*, vol. 29, no. 1 (2021), pp. 1–24, available at: <https://doi.org/10.1080/10192557.2021.1995229> [last accessed: 24 April 2025].

legal certainty. While understandable as a geopolitical and economic tactic, the reliance on ambiguity also highlights vulnerabilities in China's international economic engagement. In an era increasingly defined by regulatory competition, transparency, and governance standards, China's ambiguous approach could become progressively unsustainable. Over the long term, sustained economic relationships with key international partners, particularly those anchored in sectors reliant on trust and reputational stability such as luxury, might be jeopardized by continued regulatory unpredictability. In fact, while China's regulatory ambiguity undeniably serves immediate strategic objectives, its broader implications are deeply problematic from a governance and investor confidence standpoint. Therefore, a shift towards greater transparency and predictability, without necessarily sacrificing strategic discretion entirely, could foster more sustainable economic partnerships, particularly in sectors that demand long-term strategic alignment and stability.

2.1.2 Regulatory barriers for Italian and foreign companies

Despite significant legislative efforts such as the promulgation of the Foreign Investment Law (2020), China's regulatory environment continues to present a variety of technical and procedural barriers for foreign entities, particularly impacting Italian luxury firms characterized by complex operational structures and stringent brand protection requirements.

Firstly, the implementation of the FIL and related regulations remains inconsistent at the local administrative level. Specifically, the FIL promised national treatment and simplified market entry through a "Negative List" approach, clearly outlined in the *Special Administrative Measures for Foreign Investment Access* (Negative List, 2024 Edition)⁷⁶. While theoretically streamlined, the practical reality is still troubled with complexity, regional discrepancies in the interpretation and enforcement of these rules

⁷⁶ National Development and Reform Commission and Ministry of Commerce of the People's Republic of China, *Special Administrative Measures (Negative List) for Foreign Investment Access (2024 Edition)*, issued on 8 September 2024, effective from 1 November 2024, available at: <https://www.allbrightlaw.com/EN/10531/89bd3d17255fe5a2.aspx> [last accessed: 23 April 2025].

significantly prolong approval procedures for foreign investments, often requiring extensive documentation, prolonged negotiations, and informal bureaucratic negotiations to expedite processes (Wu, 2019)⁷⁷. Moreover, another major regulatory barrier stems from the Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors⁷⁸ (2006, revised). According to **article 11** of these Provisions, foreign acquisitions involving enterprises deemed to impact “national economic security” must undergo a comprehensive national security review. This provision lacks precise technical definitions, allowing extensive discretionary powers to the authorities, thus generating uncertainty and potential operational disruptions. This ambiguity particularly impacts Italian luxury brands looking to acquire strategic local companies, such as manufacturers or digital platforms, vital for market penetration and operational efficiency (Beamish & Wang, 1989)⁷⁹.

Additionally, intellectual property rights (IPR) enforcement, despite explicit guarantees provided by articles 22-23 of the FIL, continues to be problematic. Technical limitations in the enforcement mechanisms and inconsistencies in the judicial processes, particularly outside major cities, result in persistent challenges related to counterfeiting and brand dilution (Chen, 2021)⁸⁰. The Chinese IP regime, governed by the Trademark Law (revised in 2019)⁸¹ and the Patent Law (revised in

⁷⁷ Weiping Wu, *Prospects for Institutional Investors in China*, in *Institutional Investment in China's Infrastructure*, Lincoln Institute of Land Policy, 2019, available at:

<http://www.jstor.com/stable/resrep22073.6> [last accessed: 24 April 2025]

⁷⁸ Ministry of Commerce of the People's Republic of China (MOFCOM) et al., *Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors* (外国投资者并购境内企业规定), promulgated on 8 August 2006, effective from 8 September 2006, available at:

https://english.mofcom.gov.cn/Policies/LawsRegulations/art/2013/art_0475c7bd0c184b87885d5bd32697e016.html [last accessed: 14 April 2025].

⁷⁹ Paul W. Beamish and Hui Y. Wang, “Investing in China via Joint Ventures,” *Management International Review*, Vol. 29, No. 1 (1st Quarter, 1989), pp. 57–64, published by Springer, available at: <https://www.jstor.org/stable/40227915> [last accessed 15 April 2025].

⁸⁰ Fa Chen, *Variable Interest Entity Structures in China: Are Legal Uncertainties and Risks to Foreign Investors Part of China's Regulatory Policy?*, in *Asia Pacific Law Review*, vol. 29, no. 1 (2021), pp. 1–24, available at: <https://doi.org/10.1080/10192557.2021.1995229> [last accessed: 14 April 2025].

⁸¹ Standing Committee of the National People's Congress of the People's Republic of China, *Trademark Law of the People's Republic of China*, adopted on August 23, 1982, effective from March 1, 1983, as amended up to April 23, 2019, available at: <https://www.wipo.int/wipolex/en/legislation/details/19559> [last accessed 15 April 2025].

2021)⁸², theoretically aligns with international standards, yet in practice, enforcement remains uneven and resource-intensive. For Italian brands, an inadequate IP protection constitutes a critical operational and strategic risk. Lastly, regulatory complexities also extend into data protection under the Data Security Law (DSL, 2021)⁸³ and Personal Information Protection Law (PIPL, 2021)⁸⁴. These laws impose stringent compliance obligations related to data localization, privacy management, and digital marketing activities, severely restricting operational flexibility for Italian luxury firms, especially in their digital and omnichannel strategies. Compliance necessitates considerable investment in local IT infrastructure, ongoing training, and specialized legal counsel, further raising operational costs and entry barriers.

Parallel to these regulatory barriers, the recent escalation of trade tensions between the United States and China presents another layer of complexity. In early 2025, the United States administration significantly intensified its protectionist stance, increasing tariffs on critical Chinese exports, particularly in automotive, electronics, and advanced technology sectors, as widely reported by leading financial sources such as the *Financial Times* and *Il Sole 24 Ore*. China's immediate retaliatory measures included stricter customs checks, increased tariffs on selected US products, and enhanced regulatory scrutiny on foreign enterprises operating within its territory. Critically, even though luxury goods have not yet been directly subjected to increased tariffs, the broader economic repercussions of this trade war are significant and immediate. The escalation signals a definitive shift towards economic nationalism and fragmentation of global value chains, potentially leading to prolonged geopolitical uncertainty. The indirect impacts on Italian luxury firms, deeply integrated within

⁸² Standing Committee of the National People's Congress of the People's Republic of China, *Patent Law of the People's Republic of China*, adopted on March 12, 1984, effective from April 1, 1985, as amended up to October 17, 2020, available at: <https://www.wipo.int/wipolex/en/legislation/details/21027> [last accessed 15 April 2025].

⁸³ Standing Committee of the 13th National People's Congress of the People's Republic of China, *Data Security Law of the People's Republic of China*, adopted on June 10, 2021, effective from September 1, 2021, available at: http://www.npc.gov.cn/englishnpc/c2759/c23934/202112/t20211209_385109.html [last accessed 16 April 2025].

⁸⁴ Standing Committee of the 13th National People's Congress of the People's Republic of China, *Personal Information Protection Law of the People's Republic of China*, adopted on August 20, 2021, effective from November 1, 2021, available at: <https://personalinformationprotectionlaw.com/> [last accessed 16 April 2025].

global supply chains, could be severe, including disruptions in sourcing high-quality materials, increased logistic complexity, and heightened costs for customs and trade compliance.

From a global economic perspective, this resurgence in protectionism risks initiating a cascading effect: increased tariffs typically raise consumer prices, reduce trade volumes, and negatively impact global economic growth. Luxury consumption, inherently sensitive to consumer confidence and disposable income levels, may face a dampening effect due to increased economic volatility. Further, disruptions in supply chains and logistics may compel luxury companies to reconsider their operational footprint, potentially reversing decades of globalization that have significantly benefited Italian luxury brands through optimized production costs and efficient global distribution networks.

At a strategic level, the potential indirect effects on Italian luxury firms could be multifaceted and profound:

Cost structure	Increased tariffs indirectly impact operational costs through increased supply chain complexity and the need for additional compliance measures.
Consumer sentiment	Rising geopolitical tensions could amplify consumer nationalism in China, potentially leading to consumer preference shifts towards local or non-Western luxury alternatives, negatively affecting market share for Italian luxury goods.
Operational realignment	Continued uncertainty may force Italian firms to diversify production and supply chains away from China towards other Asian or even reshored European manufacturing locations, fundamentally altering the strategic calculus underpinning market entry and operational planning.

From a critical personal perspective, although the immediate consequences appear largely negative, the ongoing trade dispute could also create selective strategic opportunities. For example, the disruption of established trade flows could incentivize Italian luxury companies to accelerate investments in digital innovation and management systems for customer relationship consolidation, reducing dependence on physical supply chains. Furthermore, geopolitical uncertainty could push European policymakers and luxury industry organizations to proactively promote the strengthening of EU-China dialogues to secure preferential conditions and greater regulatory transparency for European luxury brands.

In conclusion, the combination of complex regulatory barriers within China and rising geopolitical tensions, highlighted by the recent US-China tariff disputes, presents both immediate operational challenges and long-term strategic threats for Italian luxury companies. A thorough understanding of these technical regulatory nuances and proactive engagement in geopolitical dynamics will be essential to successfully navigate this evolving landscape. Italian luxury brands will need to demonstrate operational flexibility, regulatory adaptability and strategic resilience to mitigate these risks, while capitalizing on emerging opportunities in an increasingly uncertain global context.

2.2 Corporate structures and regulatory challenge

2.2.1 Joint Ventures: governance issues and management difficulties for foreign investors

The choice to enter the Chinese market through Joint Ventures (JVs) has historically represented both an opportunity and a strategic compromise for foreign companies. For Italian luxury brands in particular, this entry mode, while facilitating market access and enabling immediate interaction with local institutions, often generates significant governance challenges and long-term risks to brand integrity. Understanding these

dynamics is essential for critically evaluating whether JVs remain a viable option in the current regulatory and strategic context.

Originally, JVs were among the few permissible entry structures for foreign entities, especially before the 2020 Foreign Investment Law (FIL) consolidated and simplified foreign access to many sectors. Although formal restrictions have been removed in the luxury and fashion industries, JVs remain widespread due to their perceived advantages in navigating complex local bureaucracies and securing distribution channels (Wu, 2019)⁸⁵. However, for brands built on autonomy and narrative control, shared ownership structures introduce a core contradiction between operational pragmatism and strategic sovereignty. From a governance perspective, the key vulnerability of JVs lies in the necessity for shared decision-making. In contrast to wholly foreign-owned enterprises (WFOEs), where control is centralized, JVs require constant negotiation with local partners. According to Beamish (1989)⁸⁶, foreign entities are frequently disadvantaged due to the need for joint approval on matters such as capital allocation, marketing, and brand positioning. This structure may be manageable in sectors focused on scale and logistics, but is far more dangerous for luxury brands, where intangibles like aesthetic coherence, exclusivity, and storytelling define competitive advantage.

One of the most recurrent problems in this context is the strategic misalignment between the foreign investor and the local partner. Italian firms tend to prioritize brand preservation, artisanal integrity, and long-term value, while local entities may pursue short-term growth, aggressive localization, or opportunistic market exploitation. The result is often friction in day-to-day operations and an erosion of brand consistency, one of the pillars of luxury credibility. As Beamish (1989)⁸⁷ further notes, this

⁸⁵ Weiping Wu, *Prospects for Institutional Investors in China*, in *Institutional Investment in China's Infrastructure*, Lincoln Institute of Land Policy, 2019, available at: <http://www.jstor.com/stable/resrep22073.6> [last accessed: 27 April 2025]

⁸⁶ Paul W. Beamish and Hui Y. Wang, "Investing in China via Joint Ventures," *Management International Review*, Vol. 29, No. 1 (1st Quarter, 1989), pp. 57–64, published by Springer, available at: <https://www.jstor.org/stable/40227915> [last accessed 28 April 2025).

⁸⁷ Paul W. Beamish and Hui Y. Wang, "Investing in China via Joint Ventures," *Management International Review*, Vol. 29, No. 1 (1st Quarter, 1989), pp. 57–64, published by Springer, available at: <https://www.jstor.org/stable/40227915> [last accessed 28 April 2025).

divergence is frequently underestimated during deal negotiation, but becomes evident once operational control is contested.

Italian investors also face persistent challenges linked to information asymmetry. In many JVs, foreign partners lack full access to financial records, supplier data, and operational metrics, thereby undermining both strategic oversight and internal compliance. This problem is particularly severe in China, where informal networks (*guanxi* 关系) and local discretion still shape many managerial processes. The lack of transparency not only increases the risk of inefficiencies or opportunistic behavior, but also jeopardizes compliance with international standards in areas such as accounting, anti-corruption, and data governance, all of which are essential in the high-scrutiny environment of luxury.

Equally problematic are the exit conditions embedded in JV agreements. Under Chinese corporate law, withdrawal or sale of equity stakes by foreign investors is subject to approval by both the local partner and, in many cases, government authorities (Reghizzi, 2006)⁸⁸. Even with buyout clauses or preemption rights, execution remains highly discretionary and legally uncertain. These mechanisms, often celebrated in theoretical terms, rarely offer robust protection in practice. As a result, Italian luxury brands may find themselves structurally trapped in partnerships that no longer serve their strategic interests but cannot be exited without reputational or financial cost. In this light, the very rationale for relying on JVs becomes increasingly fragile. While they once offered the only legal path into the Chinese market, today they persist more by inertia than necessity. The underlying assumption, that market access justifies shared control, was perhaps tolerable during the early stages of China's liberalization. But in a landscape where WFOEs are increasingly viable and consumer-facing sectors have been liberalized, this assumption deserves to be challenged.

⁸⁸ Gabriele Crespi Reghizzi, *Evoluzioni del nuovo diritto commerciale cinese*, in *Il Politico*, vol. 71, no. 3 (Settembre–Dicembre 2006), pp. 142–171, Rubbettino Editore, available at: <https://www.jstor.org/stable/24005427> [last accessed: 15 April 2025].

From a critical perspective, Joint Ventures are no longer compatible with the strategic needs of Italian luxury brands. Their long-term success depends not on fast entry or shared risk, but on uncompromised control over brand message, quality, and consumer experience. Unless imposed by regulatory constraints, JVs represent a fragile foundation on which to build a brand whose very value lies in its ability to remain coherent and unique across geographies. For this reason, governance tools, exit clauses, and arbitration mechanisms, though useful, cannot compensate for a structurally flawed alignment of interests.

2.2.2 *The Variable Interest Entities model: advantages and risks*

The Variable Interest Entity (VIE) structure has attracted considerable attention from foreign investors operating in China, particularly in sectors where direct ownership is restricted or prohibited. While the technical workings of this model have already been outlined in Chapter 1, it is important to revisit the VIE from a critical and legal perspective, as its implications go far beyond contractual ingenuity. In essence, the VIE is not merely a workaround; it is a structure that challenges the very boundaries of legality. As Chen (2021)⁸⁹ and Man (2015)⁹⁰ point out, VIEs rely on a web of contractual arrangements, rather than equity ownership, to allow foreign firms to exercise control over Chinese companies. This strategy, tolerated but not explicitly sanctioned by Chinese law, has created a parallel regime where enforcement is fragile, investor rights are contingent, and the entire model is exposed to sudden regulatory reversal. What makes the VIE model especially problematic is that its legal ambiguity is not accidental. On the contrary, it reflects a deliberate policy choice: by allowing limited foreign participation without formally liberalizing sensitive sectors, the Chinese state retains strategic control while absorbing foreign capital and expertise

⁸⁹ Fa Chen, *Variable Interest Entity Structures in China: Are Legal Uncertainties and Risks to Foreign Investors Part of China's Regulatory Policy?*, in *Asia Pacific Law Review*, vol. 29, no. 1 (2021), pp. 1–24, available at: <https://doi.org/10.1080/10192557.2021.1995229> [last accessed: 14 April 2025].

⁹⁰ Thomas Y. Man, *Policy Above Law: VIE and Foreign Investment Regulation in China*, 3 *Peking University Transnational Law Review*, no. 1 (2015): 215–222.

(Man, 2015)⁹¹. This position of “policy above law” creates a structural misalignment for companies that rely on legal certainty and corporate transparency, two foundational pillars for any luxury brand seeking to preserve its global reputation and internal governance standards.

From my perspective, the very architecture of the VIE model—opaque, precarious, and politically exposed—makes it fundamentally incompatible with the business philosophy and legal expectations of Italian luxury brands. In an industry where trust, identity, and exclusivity are non-negotiable assets, committing to a legally fragile framework is not just a financial risk, it is a strategic contradiction. One of the core legal weaknesses of the VIE structure lies in its lack of explicit recognition under Chinese law. While tolerated in practice, VIE arrangements remain in a grey area, neither fully legal nor entirely prohibited. This “zone of legal ambiguity” generates a precarious foundation for foreign investors, particularly in industries where long-term capital allocation, brand management, and data governance require a predictable and enforceable legal environment (Chen, 2021)⁹². The risk is not hypothetical. The Chinese government has, on several occasions, reasserted its sovereign right to regulate or even dismantle VIE structures, especially in sectors tied to national security or data protection. The 2021 crackdown on tech companies, such as Didi Global, demonstrated how quickly the state can intervene when VIEs are perceived as circumventing political priorities. For Italian luxury brands, which may not operate in sensitive technological domains, the precedent is nonetheless alarming: the model itself is unstable, and its legality is conditional on state tolerance, not legal codification. Furthermore, foreign investors operating through VIEs have limited recourse in case of disputes. Contractual control over a Chinese company does not equate to ownership rights, and courts may be reluctant to enforce contracts that indirectly violate national foreign investment restrictions. As Gillis and Lowry (2014)⁹³ argue, the structure

⁹¹ Thomas Y. Man, *Policy Above Law: VIE and Foreign Investment Regulation in China*, 3 Peking University Transnational Law Review, no. 1 (2015): 215–222.

⁹² Fa Chen, *Variable Interest Entity Structures in China: Are Legal Uncertainties and Risks to Foreign Investors Part of China's Regulatory Policy?*, in *Asia Pacific Law Review*, vol. 29, no. 1 (2021), pp. 1–24, available at: <https://doi.org/10.1080/10192557.2021.1995229> [last accessed: 14 April 2025].

⁹³ Paul Gillis and Michelle René Lowry, *Son of Enron: Investors Weigh the Risks of Chinese Variable Interest Entities*, in *Journal of Applied Corporate Finance*, vol. 26, no. 3 (Summer 2014), pp. 61–66, available at: <https://doi.org/10.1111/jacf.12080> [last accessed: 24 April 2025].

depends on the ongoing cooperation of the Chinese partner company, and any breakdown in that relationship can render the VIE inoperable. For an Italian brand, this means losing not only legal leverage, but also market access, operational continuity, and control over brand representation.

From a corporate law perspective, this absence of enforceable rights in case of conflict creates a serious asymmetry. Unlike Joint Ventures, which are at least grounded in formal equity relationships, the VIE offers no shareholder status and therefore no claim to residual rights or governance participation. This erodes the fundamental principle of corporate personhood on which Western corporate law is built. In my view, this disconnect represents more than a regulatory risk, it is a structural incompatibility that undermines the very concept of legal security on which Italian businesses are accustomed to rely.

Beyond legal fragility, the VIE structure presents a deeper misalignment with the identity and governance philosophy of Italian luxury brands. These companies are not simply market operators; they are cultural institutions, rooted in heritage, craftsmanship, and brand narrative. The ability to maintain absolute control over visual language, consumer experience, and retail operations is not a luxury, it is a necessity. In this context, the contractual control offered by a VIE, which depends on opaque and contestable legal instruments, is fundamentally insufficient. Moreover, the reputational risks associated with VIEs are particularly acute in the luxury sector. Consumers of high-end goods expect transparency, authenticity, and traceability, not only in product materials, but also in brand values and governance. The use of a structure widely perceived as a legal loophole can undermine consumer trust, especially in an era where corporate conduct is under constant global scrutiny. From a brand positioning standpoint, reliance on a VIE sends the wrong message: that short-term access to market share is worth more than institutional coherence and ethical consistency. Unlike technology startups or digital service platforms, whose assets are scalable and often intangible, luxury brands depend on symbolic capital and aura. These are not easily replicable or protectable through contracts alone. A disruption in the relationship with the local VIE-controlled entity, be it over profit repatriation, brand messaging, or operational decisions, can have irreversible consequences for a

brand's image. For a sector that thrives on timelessness and global unity, this kind of fragility is unacceptable.

To conclude, while the VIE model may appear attractive from a tactical standpoint, especially for foreign firms seeking rapid market access in sensitive sectors, it proves to be a deeply flawed option for Italian luxury brands when examined through legal, strategic, and reputational lenses. The lack of legal certainty, combined with structural exposure to unilateral state intervention and unenforceable contractual rights, creates a landscape in which long-term brand management becomes a gamble rather than a strategy. From a corporate governance perspective, VIEs offer neither the shareholder rights typical of equity investments nor the operational guarantees required to uphold brand identity and managerial independence. Their entire effectiveness depends on a fragile equilibrium of informal toleration, which can shift overnight with changes in policy or political priorities. In a sector defined by exclusivity, longevity, and trust, such volatility is fundamentally incompatible with sustainable value creation. I would also like to point out that the VIE structure, despite its legal creativity and temporary utility, is unsuitable for Italian luxury brands. Not only does it undermine legal predictability, but it contradicts the very essence of Italian brand strategy, which relies on long-term control, symbolic capital, and institutional integrity. Any short-term advantage gained through this structure would likely be eclipsed by the strategic, legal, and reputational costs. For this reason, Italian firms should decisively reject the VIE model, not as a legal impossibility, but as a conscious affirmation of brand sovereignty and business coherence.

2.2.3 Case analysis of successes and failures in VIE and JV structures

Alibaba: Variable Interest Entity model

Alibaba Group Holding Limited, founded in 1999, is the most prominent example of a Chinese corporation utilizing the Variable Interest Entity (VIE) model to facilitate foreign investment in sectors formally prohibited under Chinese law, such as e-commerce and internet services. Rather than holding direct equity ownership in its

Chinese operating entities, Alibaba operates through a complex web of contracts between its Cayman Islands-registered holding company and domestic firms located in China. These contracts, encompassing service agreements, exclusive option agreements, equity pledge agreements, and loan agreements, allow Alibaba to exercise control over its Chinese operations without formal ownership, in technical compliance with China's Negative List for Foreign Investment. This arrangement is a textbook example of policy circumvention tolerated by Chinese regulators, but never formally recognized in law.

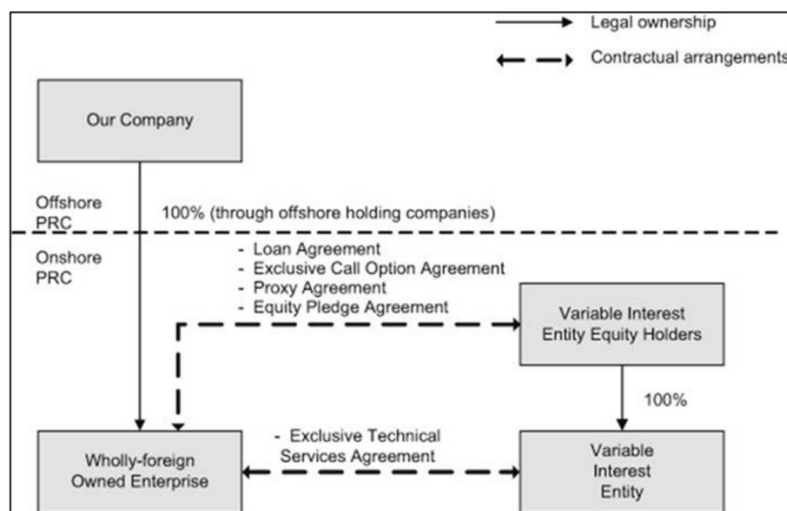


Figure 2: Alibaba's simplified VIE structure
Source: Wang, 2015⁹⁴

In 2014, Alibaba executed what was then the largest IPO in financial history, raising over USD 25 billion on the New York Stock Exchange. The success of this listing demonstrated the power of the VIE structure to access global capital markets while remaining legally invisible inside China. Alibaba's valuation soared in subsequent years. As of 2020, its market capitalization peaked at USD 850 billion, driven by

⁹⁴ Jane Wang, *An analysis of the variable interest entity structure of Chinese listed companies*, ResearchGate, 2015, fig. 1. Available at: <https://www.researchgate.net/publication/283568266> [last accessed 28 April 2025].

explosive growth in online commerce, cloud computing, and fintech. However, this upward trajectory began to reverse following increased scrutiny from Chinese regulators and geopolitical tensions surrounding U.S.-listed Chinese firms.

Between 2018 and 2022, Alibaba's profitability declined significantly across all key financial metrics:

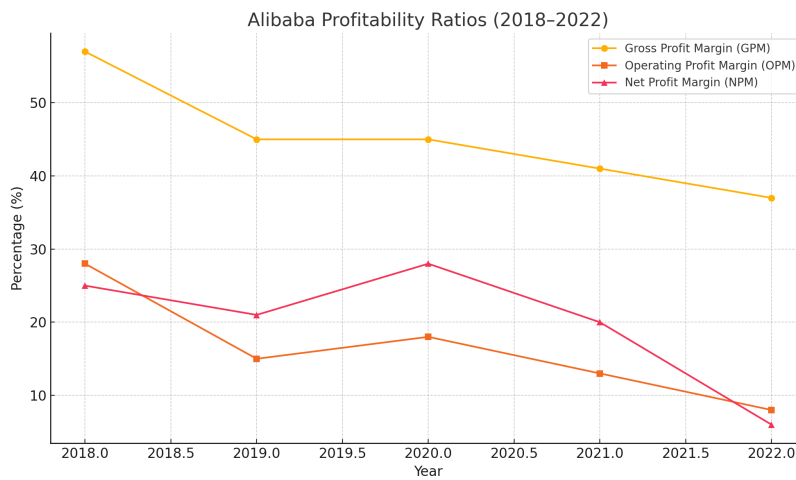


Figure 3: Alibaba profitability ratio (2018-2022)
Source: Ettaiebi, 2024⁹⁵

- Gross Profit Margin (GPM) fell from 57% to 37%, indicating a loss of pricing power or rising cost of goods sold.
- Operating Profit Margin (OPM) decreased from 28% to 8%, suggesting reduced efficiency and rising administrative burdens.
- Net Profit Margin (NPM) dropped from 25% to just 6%, reflecting both operational pressure and regulatory costs.

⁹⁵ Ahmed Ettaiebi, *Financial Statement Analysis of Alibaba and Jingdong: A Comparative Study*, Open Access Library Journal, Vol. 11, 2024, p. 5.

This decline coincides with the Chinese government's increasing regulation of big tech platforms, data privacy laws, and antitrust actions, all of which eroded Alibaba's margins and growth prospects (Ettaiebi, 2024)⁹⁶.

In late 2020, Chinese authorities abruptly suspended the USD 34 billion IPO of Ant Group, Alibaba's fintech affiliate. The move followed public criticisms made by Jack Ma about China's regulatory system. This political retaliation not only derailed what was set to be the largest IPO in history but also sent a chilling signal about the fragility of investor protection within VIE-based structures. Foreign investors in Alibaba quickly realized that, under a VIE framework, they do not legally own the operating assets in China, they only hold contractual rights, which can be rendered ineffective at the discretion of regulators. The market response was immediate: Alibaba's share price declined sharply, and its valuation dropped by over USD 300 billion in less than a year.

From a critical strategic standpoint, the Alibaba case highlights the perils of relying on legal engineering to access protected markets. While the VIE model enabled Alibaba to scale and attract foreign capital, it came at the cost of governance opacity, legal uncertainty, and political risk. These vulnerabilities are particularly dangerous for foreign investors, who lack legal recourse in the Chinese system should the VIE be challenged. For Italian luxury brands, the lessons are clear. Unlike tech companies, luxury firms thrive not on scale, but on control, heritage, and consistency. Any structure that compromises legal ownership or exposes the firm to unilateral regulatory shifts contradicts the fundamental principles of luxury brand management. It is worth remembering that the luxury sector is not restricted under the current 2024 Negative List, meaning that Wholly Foreign-Owned Enterprises (WFOEs) are permissible. Italian firms should therefore reject the VIE route entirely and opt for direct, legally recognized ownership structures that align with their long-term brand strategy.

⁹⁶ Ahmed Ettaiebi, *Financial Statement Analysis of Alibaba and Jingdong: A Comparative Study*, Open Access Library Journal, Vol. 11, 2024, p. 5.

Prada & Shanghai Phoenix: Joint Venture model

While Alibaba exemplifies the scale and risks associated with contractual control in VIE models, the case of Prada's early joint venture (JV) in China offers a powerful counter-example rooted in traditional equity-based cooperation and its limitations. In the early 2000s, Prada entered the Chinese market through a 50:50 joint venture with Shanghai Phoenix, a local state-owned enterprise. This structure aimed to combine Prada's brand prestige with Phoenix's local market knowledge and regulatory connections. On paper, the partnership seemed promising: Prada would benefit from a faster market rollout, local supply chain integration, and reduced bureaucratic hurdles, while Phoenix would gain access to European luxury know-how. However, within a few years, the collaboration collapsed.

By 2004, Prada had formally exited the joint venture and restructured its China strategy around wholly owned subsidiaries. At the heart of this failure lay a misalignment in strategic priorities. Prada's global strategy was rooted in exclusivity, brand consistency, and centralized control. Shanghai Phoenix, by contrast, pushed for rapid expansion, wider product accessibility, and price-point adjustments to appeal to middle-tier Chinese consumers. This divergence undermined Prada's brand equity and diluted the perceived luxury status of its products in the Chinese market. Furthermore, Prada faced severe operational inefficiencies stemming from shared governance. Decision-making processes were slow and bureaucratic. Disputes over location choices, store design, and product selection created friction that directly affected customer experience. Additionally, cultural differences in management philosophy, particularly in areas such as HR, customer service, and retail standards, further exacerbated tensions.

Critically, Prada encountered limited visibility and financial transparency, as Phoenix controlled much of the domestic supply chain and accounting systems. By 2004, Prada had opted to terminate the JV and rebuild its China operations under a Wholly Foreign-Owned Enterprise (WFOE) model. This move required higher upfront costs and more regulatory navigation but ultimately restored full strategic and operational control to the company. In the following years, Prada re-entered the market through flagship

boutiques in Shanghai and Beijing, directly owned and managed. This decision coincided with broader regulatory liberalization under China's WTO commitments, which allowed greater foreign ownership in the retail and luxury sectors. By the time of Prada's IPO in Hong Kong in 2011, the company had firmly re-established its brand identity and operational integrity across key Chinese cities.

The Prada–Phoenix case illustrates a fundamental tension: the perceived short-term convenience of JVs versus the long-term strategic need for control and brand consistency. While joint ventures may offer initial market access, they often come at the cost of internal coherence and governance efficiency, factors that are essential for luxury brands operating in culturally and legally distant markets. From a strategic standpoint, this case reinforces the idea that “partnerships of necessity” can quickly become “partnerships of compromise.” Italian firms should be wary of joint structures that dilute their ability to enforce retail standards, product exclusivity, and customer experience—three pillars upon which luxury value is built. Importantly, the Chinese regulatory environment today no longer requires JVs for entry into the luxury retail sector. Under the 2024 edition of the Negative List, these sectors are fully open to foreign capital. As such, Italian brands should leverage this legal openness and pursue ownership structures that maximize control and minimize local dependence, particularly as geopolitical and consumer dynamics grow more complex.

The failure of Prada's joint venture with Shanghai Phoenix offers a cautionary tale about the governance challenges and strategic trade-offs inherent in shared control models. For Italian luxury brands, the lesson is clear: in markets where brand identity is the core asset, governance control is not optional, it is fundamental. As China continues to evolve both as a market and a regulatory environment, strategic discipline in ownership structure will remain a critical determinant of success.

Tesla: Wholly Foreign Ownership

In contrast to the contractual ambiguity of Alibaba's VIE structure and the governance conflict experienced by Prada's joint venture, Tesla's entry into the Chinese market represents a rare instance of strategic autonomy achieved through full legal ownership. In 2018, Tesla became the first foreign automotive company to receive permission from the Chinese government to establish a wholly foreign-owned manufacturing subsidiary. The result was the creation of Gigafactory Shanghai, operational since 2019, fully owned and controlled by Tesla Inc. (U.S.). This landmark decision followed a major policy shift: the 2018 revision of China's foreign investment regulations in the automotive sector, which removed the 50% equity cap for foreign manufacturers of electric vehicles. The change was part of a broader plan by the National Development and Reform Commission (NDRC) to open key sectors to global innovation while maintaining Chinese leadership in strategic technologies like battery supply chains and mobility infrastructure.

Tesla's Wholly Foreign-Owned Enterprise (WFOE) in Shanghai allowed the company to:

- Retain full control over intellectual property and manufacturing standards;
- Avoid the profit-sharing and decision-making constraints of joint ventures;
- Reinforce its global brand identity without compromise;
- Rapidly scale local production while maintaining alignment with its global strategy.

Tesla's WFOE structure translated into exceptional operational agility. Within just one year of construction, Gigafactory Shanghai was producing over 200,000 vehicles annually, serving both domestic and export markets. As of 2023, Tesla sold over 600,000 vehicles in China, accounting for approximately 33% of its global deliveries, making it the company's second-largest market after the United States (Tesla, 2024)⁹⁷.

⁹⁷ Tesla, Inc. (2024). *Tesla Vehicle Production & Deliveries and Date for Financial Results & Webcast for Fourth Quarter 2023*. U.S. Securities and Exchange Commission. Available at: <https://ir.tesla.com/press-release/tesla-vehicle-production-deliveries-and-date-financial-results-webcast-fourth-quarter-2023> [last accessed: 3 May 2025].

Tesla also benefited from favorable local policies, including tax exemptions, fast-track construction permits, and support in navigating China's supply ecosystem. These advantages were balanced by strategic concessions, such as a commitment to reinvest profits locally and to support the development of Chinese battery manufacturers like CATL.

Tesla's case may seem exceptional, and in many ways, it is. The regulatory exception granted to Tesla was a calculated political move by China, intended to attract advanced technology while demonstrating market openness amidst growing U.S.-China trade tensions. However, it illustrates the strategic value of full ownership and brand control in a sensitive and competitive market like China. For Italian luxury brands, this case provides an aspirational benchmark. While the luxury sector does not require regulatory exemptions (as it is already open to full foreign ownership under the 2024 Negative List), Tesla's approach validates the long-term benefits of a WFOE strategy: control over quality, protection of intangible assets, and freedom to scale operations without local interference. Moreover, Tesla's success underscores a key point: China will reward foreign firms that align with national priorities while maintaining global standards. For luxury brands, this could mean combining a WFOE model with commitments to local innovation, ESG practices, or digital retail strategies tailored to Chinese consumers. Tesla's full-ownership success in China stands as a compelling case of strategic alignment, legal clarity, and operational excellence. Although the regulatory path it followed may not be replicable for every industry, the underlying lesson remains highly relevant: in markets where reputation, brand equity, and innovation are critical, full control through compliant ownership structures is a strategic imperative. Italian luxury brands, unlike Tesla, do not need regulatory exceptions to operate freely in China. They must simply have the vision and discipline to use the tools already available.

The comparative analysis of Alibaba, Tesla and Prada offers valuable insight into the strategic, legal and cultural viability of different entry structures in China. Alibaba exemplifies the legal and political volatility surrounding VIEs: despite being one of

the most emblematic and globally visible cases, its experience underscores the vulnerability of operating through a structure that lacks formal legal recognition and rests on state tolerance. Tesla, in contrast, benefited from exceptional regulatory conditions, confirming that fully foreign-owned structures are viable but only when aligned with state priorities, making them difficult to generalize or replicate. Prada, meanwhile, presents a more balanced and realistic approach: by opting for full control through a WFOE model, it preserved brand integrity and legal sovereignty without over-relying on uncertain policy incentives or unstable contractual schemes. These cases collectively reinforce a critical point: for Italian luxury brands, legal form is not a secondary technicality, but a fundamental strategic choice. VIEs may offer initial access, but at the cost of legal opacity and reputational risk. JVs can mitigate entry barriers but often at the expense of governance coherence. In contrast, high-control structures, although more demanding, ensure alignment between legal security and brand strategy. In my view, the Prada case is particularly instructive, as it demonstrates that long-term success in China does not require structural compromise, only clarity of purpose, regulatory intelligence, and unwavering commitment to brand values.

2.3 Pre-acquisition risk mitigation strategies

2.3.1 Contractual instruments for corporate control in Joint Ventures

Despite recent regulatory reforms significantly liberalizing China's foreign investment environment, joint ventures (JVs) continue to represent a critical entry mode for foreign firms in specific strategic contexts. Certain sectors, including telecommunications, media, healthcare, and infrastructure projects, still enforce mandatory partnership requirements as explicitly stated by the latest "Negative List for Foreign Investment Access (2024)" issued by the Chinese Ministry of Commerce. Moreover, even when direct foreign ownership is legally permissible, JV structures may still offer strategic advantages in terms of local market access, political support,

distribution networks, and culturally-specific marketing expertise. However, while the strategic benefits are clear, joint ventures inherently introduce significant governance challenges, particularly related to the divergence of interests between foreign investors and local partners. Consequently, careful contractual governance becomes essential to secure adequate corporate control, safeguard brand reputation, and protect financial interests.

Among contractual governance tools, *shareholder agreements* represent the cornerstone for protecting foreign investors' interests in joint ventures. These agreements define critical decision-making mechanisms, governance structures, and dispute resolution procedures. Specifically, the use of reserved matters clauses can strategically empower foreign investors by requiring unanimous consent on critical decisions, including budget approval, capital expenditures, brand licensing agreements, management appointments, and significant transactions. As illustrated by international arbitration cases administered by the International Chamber of Commerce (ICC), disputes frequently arise over interpretations of reserved matter clauses; hence, clarity, specificity, and enforceability under neutral jurisdictions are vital considerations for drafting these agreements (ICC, 2024)⁹⁸. Additionally, establishing clear voting thresholds is crucial for mitigating the risks of governance deadlocks or minority shareholder oppression.

Foreign partners often benefit strategically from clauses stipulating supermajority voting requirements (e.g., a 75% approval threshold) for decisions that materially affect their investment's value, such as dividend distributions, asset disposals, or significant market expansions. Furthermore, ensuring parity or even majority representation on the board of directors through carefully drafted board composition clauses significantly enhances foreign partners' ability to monitor operations, influence strategic direction, and maintain brand consistency. Such clauses must be carefully negotiated to be consistent with Chinese Corporate Law provisions (Company Law of

⁹⁸ International Chamber of Commerce (ICC), *ICC Dispute Resolution 2023 Statistics*, ICC Publication No. DRS991E, 2024, available at [jusmundi.com](https://www.jusmundi.com) [last accessed 3 May 2025].

the People's Republic of China, 2018)⁹⁹, as non-compliant provisions may risk enforceability in local courts.

Beyond board-level governance, operational control within joint ventures must be protected through contractual instruments explicitly addressing daily managerial authority. Common practices include clauses mandating foreign party control over key executive positions such as the General Manager, Chief Financial Officer (CFO), or Marketing Director. This arrangement ensures adherence to international quality standards, facilitates effective brand positioning, and guarantees compliance with global strategic objectives. Moreover, a dual-signatory approval mechanism for financial transactions above predefined thresholds significantly reduces financial mismanagement or fraud risks, a concern frequently reported in Sino-foreign joint ventures (Beamish, 1993¹⁰⁰; Beamish & Wang, 1989¹⁰¹).

Another critical issue often encountered in joint ventures involves conflicts over financial transparency and accounting practices. To address this, contractual provisions mandating periodic independent audits conducted by internationally recognized auditing firms (e.g., Deloitte, EY, PwC) become indispensable. According to research published by the Organisation for Economic Cooperation and Development (OECD), enforcing such clauses significantly reduces disputes related to financial transparency and asset misappropriation, both common sources of conflict in JVs in China.

Given the volatile regulatory and market environment, joint venture contracts must incorporate clear exit mechanisms to facilitate strategic agility and financial protection. Pre-emption rights, giving one partner the first right to purchase shares offered by the

⁹⁹ National People's Congress of the People's Republic of China, *Company Law of the People's Republic of China (中华人民共和国公司法) – 2023 Revision*, adopted on 27 December 2023 by the Standing Committee of the 14th NPC, effective from 1 July 2024, available at: <http://www.npc.gov.cn/englishnpc/c23934/202401/efab8a6e3f354a1b8e4f1dbf6dbecf0c.shtml> [last accessed: 3 May 2025].

¹⁰⁰ Paul W. Beamish, *The Characteristics of Joint Ventures in the People's Republic of China*, in *Journal of International Marketing*, vol. 1, no. 2 (1993), pp. 29–48, published by Sage Publications for the American Marketing Association, available at: <https://www.jstor.org/stable/25048493> [last accessed: 29 April 2025].

¹⁰¹ Paul W. Beamish and Hui Y. Wang, "Investing in China via Joint Ventures," *Management International Review*, Vol. 29, No. 1 (1st Quarter, 1989), pp. 57–64, published by Springer, available at: <https://www.jstor.org/stable/40227915> [last accessed 28 April 2025].

other, are commonly used contractual tools that ensure investors can protect their strategic positions if partnership dynamics deteriorate. Put-and-call options offer additional strategic flexibility, allowing either partner to trigger buyout procedures at predefined valuations, minimizing lengthy negotiations or litigation in case of irreconcilable differences. Drag-along and tag-along rights further ensure minority shareholders' interests are adequately safeguarded in situations of ownership transfer, maintaining investment value and avoiding hostile takeovers or enforced divestments at unfavorable conditions.

Table 3 – Key contractual clauses in Sino-Foreign Joint Venture agreements

Clause	Purpose
<i>Reserved matters</i>	Require unanimous consent for critical decisions (e.g., budget, IP use).
<i>Supermajority voting</i>	Prevent decisions without foreign partner's consent on sensitive matters.
<i>Board composition</i>	Ensure parity or majority representation to influence strategy.
<i>Executive appointment</i>	Foreign control over key roles (GM, CFO, Marketing Director).
<i>Dual signatory rule</i>	Prevent fraud in financial transactions through joint approval.
<i>Audit clauses</i>	Mandate third-party audits to ensure transparency and accountability.
<i>Pre-emption rights</i>	Allow a partner first refusal in share transfer to maintain control.
<i>Put/Call options</i>	Enable structured buyout procedures in case of conflict.
<i>Drag/Tag-along rights</i>	Protect minority interests in ownership transfer scenarios.

These provisions are not merely theoretical. According to a report by the Hong Kong International Arbitration Centre (HKIAC, 2022)¹⁰², the absence of clearly defined and enforceable exit provisions ranks among the primary causes of disputes and litigation in Sino-foreign joint ventures. This reinforces the importance of drafting robust contractual frameworks that anticipate potential breakdowns in partnership alignment, particularly in sensitive sectors such as luxury goods.

However, even well-drafted contracts may face enforcement challenges in the Chinese context. Given persistent concerns regarding judicial independence and enforceability in local jurisdictions, selecting an internationally recognized arbitration venue and neutral governing law represents a fundamental contractual safeguard. Arbitration clauses specifying institutions such as the ICC, Hong Kong International Arbitration Centre (HKIAC), or Singapore International Arbitration Centre (SIAC) significantly improve the predictability, fairness, and enforceability of dispute resolution outcomes. China's ratification of the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (1958) facilitates the recognition and execution of international arbitration awards within China. Consequently, foreign investors should strategically prioritize neutral arbitration forums and jurisdictions when negotiating JV agreements.

While the contractual instruments described above offer considerable strategic protection, critical limitations persist, primarily related to enforcement feasibility within China's legal and institutional context. Judicial or administrative bias in favor of local entities, difficulties in enforcing international arbitral awards locally, and practical challenges associated with operational oversight significantly limit these instruments' practical effectiveness. Empirical data from ICC and HKIAC arbitration cases reveal recurring difficulties in executing awards against politically connected

¹⁰² Hong Kong International Arbitration Centre, "HKIAC Releases Statistics for 2022," *HKIAC*, January 20, 2023, available at: <https://www.hkiac.org/news/hkiac-releases-statistics-2022> [last accessed April 28, 2025].

Chinese entities, highlighting structural power imbalances inherent to joint ventures with local partners (ICC Arbitration Report, 2024¹⁰³; HKIAC Report, 2022¹⁰⁴).

In our case, for Italian luxury brands, joint ventures inherently pose higher risks. Therefore, the adoption of contractual governance tools becomes particularly critical when JVs are unavoidable. Maintaining rigorous contractual protections, especially around brand management, marketing decisions, and financial transparency, ensures long-term market positioning and brand equity protection. Nevertheless, given the limitations outlined, JVs should again remain a secondary choice for luxury firms. Where regulation allows, wholly foreign-owned enterprises (WFOEs) represent structurally superior alternatives, significantly reducing governance complexity and operational vulnerability.

While the contractual tools discussed—such as detailed exit clauses, brand protection provisions, and international arbitration mechanisms are essential elements of risk management, they should not be overestimated. Their effectiveness in the Chinese context is conditional: it depends not only on their formal validity, but also on local authorities' willingness to enforce them, particularly when they conflict with domestic political or economic priorities. For Italian luxury brands, this creates a strategic paradox. On paper, these provisions are strong; in practice, they are fragile, especially when enforcement requires cooperation from a partner whose interests may no longer align. These instruments should be treated as complementary safeguards, not as substitutes for direct legal control and equity-based governance.

¹⁰³ International Chamber of Commerce (ICC), *ICC Dispute Resolution 2023 Statistics*, ICC Publication No. DRS991E, 2024, available at [jusmundi.com](https://www.jusmundi.com) [last accessed 3 May 2025].

¹⁰⁴ Hong Kong International Arbitration Centre, "HKIAC Releases Statistics for 2022," *HKIAC*, January 20, 2023, available at: <https://www.hkiac.org/news/hkiac-releases-statistics-2022> [last accessed April 28, 2025].

2.3.2 Compliance strategies to reduce regulatory risk

In an increasingly regulated global market, compliance has transitioned from a mere administrative function to a core strategic pillar, particularly in China, where the regulatory environment is marked by volatility, complexity, and frequent policy adjustments. Compliance refers to the systematic adherence to laws, regulations, industry standards, and ethical practices, and it has become particularly critical in the context of China's rapidly evolving commercial and legal landscape. For foreign companies, non-compliance can result not only in severe financial penalties but also in irreparable reputational damage, and in our case, the damage could be even more serious. Therefore, establishing rigorous compliance programs tailored specifically to China's regulatory framework represents an indispensable strategic investment.

Foreign enterprises in China frequently face several regulatory challenges, including but not limited to: ambiguous intellectual property (IP) rights enforcement, evolving consumer data protection legislation, anti-corruption compliance, and increasingly stringent product quality and labeling requirements. Recent developments, such as the implementation of the Personal Information Protection Law (PIPL, 2021)¹⁰⁵, the Data Security Law (DSL, 2021)¹⁰⁶, and tightened enforcement under China's Anti-Unfair Competition Law (amended in 2019), exemplify how the regulatory environment has intensified compliance obligations, increasing both complexity and potential exposure to risk.

For instance, under the PIPL, foreign luxury brands operating in China now face stringent requirements regarding customer data collection, consent protocols, data transfer abroad, and transparency obligations towards consumers. Failure to comply can result in severe administrative fines up to RMB 50 million or 5% of annual

¹⁰⁵ Standing Committee of the 13th National People's Congress of the People's Republic of China, *Personal Information Protection Law of the People's Republic of China*, adopted on August 20, 2021, effective from November 1, 2021, available at: <https://personalinformationprotectionlaw.com/> [last accessed 2 May 2025].

¹⁰⁶ Standing Committee of the 13th National People's Congress of the People's Republic of China, *Data Security Law of the People's Republic of China*, adopted on June 10, 2021, effective from September 1, 2021, available at: http://www.npc.gov.cn/englishnpc/c2759/c23934/202112/t20211209_385109.html [last accessed 2 May 2025].

turnover, potentially crippling financial stability and damaging brand credibility in the Chinese market.

To effectively mitigate these regulatory risks, foreign companies operating in China should establish comprehensive compliance programs structured around several core pillars:

1. Internal compliance structures and policies

Firstly, the establishment of robust internal compliance frameworks is paramount. This includes clearly defined policies, regular risk assessments, and well-documented procedures specifically tailored to China's regulatory nuances. It is essential for luxury brands to develop explicit protocols governing sensitive areas such as data handling, consumer privacy, intellectual property management, product safety, and anti-corruption measures. For example, many European luxury firms, such as LVMH and Gucci, have established dedicated compliance teams within their Chinese subsidiaries to proactively manage regulatory risks, conduct regular compliance audits, and respond rapidly to legislative changes (OECD, 2022)¹⁰⁷.

2. Regular compliance training and awareness programs

Ensuring comprehensive employee training and fostering a strong compliance culture is another vital component. Empirical studies indicate that companies implementing regular compliance training programs often experience a significant reduction in regulatory infractions and internal violations, highlighting the critical role of continuous education in effective compliance strategies. Training should focus specifically on recent legislative developments such as the PIPL, DSL, and sector-specific regulations impacting retail and e-commerce. For Italian luxury firms, whose frontline employees heavily interact with high-value clients, ensuring personnel are aware of data handling and customer interaction protocols under the latest data privacy legislation is particularly critical.

¹⁰⁷ Organisation for Economic Co-operation and Development (OECD), *OECD Economic Surveys: China 2022*, OECD Publishing, Paris, 2022, available at: https://www.oecd.org/en/publications/oecd-economic-surveys-china-2022_b0e499cf-en.html [last accessed 28 April 2025].

3. Strategic use of compliance technology

Adopting technology-based compliance tools (e.g. RegTech) provides significant advantages in navigating China's regulatory complexity. Advanced software solutions capable of monitoring real-time compliance metrics, automating data privacy management, and flagging potential regulatory breaches can significantly reduce operational risks. For instance, advanced AI-driven compliance software increasingly utilized by global retail firms can automate data governance under PIPL regulations, reducing the likelihood of inadvertent breaches and enhancing customer trust through greater transparency (McKinsey, 2021)¹⁰⁸.

4. Regulatory intelligence and proactive engagement

Proactive engagement with Chinese regulatory bodies and ongoing regulatory intelligence is another crucial compliance strategy. By maintaining open and proactive communication channels with key regulatory institutions (such as China's Ministry of Commerce, the Cyberspace Administration of China, and local market authorities), firms can anticipate regulatory changes, receive early warnings, and adjust compliance measures pre-emptively. Industry-specific associations and chambers of commerce, such as the EU-China Chamber of Commerce and the Italian Chamber of Commerce in China, provide valuable platforms for regulatory intelligence and advocacy, enabling Italian brands to voice concerns and influence regulatory policymaking proactively.

¹⁰⁸ Lambert Bu, Violet Chung, Nick Leung, Kevin Wei Wang, Bruce Xia, and Chenan Xia, *The Future of Digital Innovation in China: Megatrends Shaping One of the World's Fastest Evolving Digital Ecosystems*, McKinsey & Company, October 2021, available at: <https://www.mckinsey.com/~media/mckinsey/featured%20insights/china/the%20future%20of%20digital%20innovation%20in%20china%20megatrends%20shaping%20one%20of%20the%20worlds%20fastest%20evolving%20digital%20ecosystems/future-of-digital-innovation-in-china.pdf> [last accessed 29 April 2025].

According to recent OECD reports (2022)¹⁰⁹, approximately 45% of multinational enterprises in China still report substantial difficulties interpreting regulatory obligations due to lack of clarity, inconsistency between local and national regulatory frameworks, and rapid policy shifts driven by political considerations. Therefore, compliance strategies must incorporate flexibility, agility, and robust risk management frameworks capable of adapting swiftly to unforeseen regulatory shifts. The necessity of rigorous compliance strategies is exemplified by recent cases involving global fashion and luxury brands. For example, H&M's experience in 2021, when inadequate compliance with local regulatory expectations on consumer data and political sensitivities led to consumer boycotts and loss of significant market share, highlights the strategic imperative of compliance adherence and proactive risk management in China's volatile market (Bloomberg, 2021)¹¹⁰. Conversely, Gucci's recent investment in compliance and transparency initiatives, including blockchain-based product authenticity and comprehensive compliance training, illustrates how proactive compliance can strengthen consumer trust, improve market positioning, and create strategic differentiation (KPMG, 2023)¹¹¹. Italian luxury firms, renowned globally for their heritage, quality, and integrity, have an even greater reputational stake in compliance excellence. As such, investment in robust compliance infrastructure should be seen not merely as a regulatory necessity but as a long-term strategic asset, capable of delivering substantial returns in brand equity, consumer trust, and market resilience.

In conclusion, compliance represents an indispensable strategic priority for Italian luxury brands in China, critical not only for risk mitigation but also for long-term brand protection and market success. To achieve sustainable competitive advantage, compliance efforts must be proactive, strategically embedded within corporate

¹⁰⁹ Organisation for Economic Co-operation and Development (OECD), *OECD Economic Surveys: China 2022*, OECD Publishing, Paris, 2022, available at: https://www.oecd.org/en/publications/oecd-economic-surveys-china-2022_b0e499cf-en.html [last accessed 28 April 2025].

¹¹⁰ Bloomberg News, "H&M Stores Shuttered in China as Backlash Over Xinjiang Grows," *Bloomberg*, March 27, 2021, available at: <https://www.bloomberg.com/news/articles/2021-03-27/h-m-stores-shuttered-in-china-as-backlash-over-xinjiang-grows> [last accessed 3 May 2025].

¹¹¹ KPMG Advisors Single Member S.A., *The Future of Consumer Goods: The Market of Luxury Goods*, KPMG in Greece, Athens, January 2024, available at: <https://assets.kpmg.com/content/dam/kpmg/gr/pdf/2024/02/gr-kpmg-future-of-consumer-goods-the-market-of-luxury-goods.pdf> [last accessed 2 May 2025].

governance structures, technologically supported, and culturally internalized across all organizational levels. Given China's ongoing regulatory evolution and its strategic importance in global luxury markets, these firms must prioritize compliance excellence as a core competitive differentiator.

2.3.3 *Structural diversification and collaboration with local investors*

Another strategy to reduce exposure to regulatory and operational risk is to adopt structural diversification strategies and carefully curated collaborations with local investors as tools. Structural diversification refers to the strategic deployment of multiple legal entities, business models, or operational structures within the same market, allowing companies to segment risk, optimize responsiveness, and ensure business continuity in the face of external shocks (OECD, 2022)¹¹². One key form of structural diversification involves maintaining a dual-market presence, for instance, by operating through a Wholly Foreign-Owned Enterprise for flagship retail and brand representation, while simultaneously engaging in licensing or franchising models in second-tier cities. This allows firms to retain control over their core brand and operations while leveraging local networks to penetrate markets where direct presence may be less cost-effective or strategically viable. In the luxury fashion sector, this hybrid model has increasingly been adopted by brands such as Armani and Ferragamo, which operate their main stores directly but rely on licensed local partners for geographic expansion (Lannes & Xing, 2023)¹¹³.

Another diversification strategy involves creating specialized subsidiaries for distinct regulatory domains, for example, establishing a separate entity for e-commerce

¹¹² Organisation for Economic Co-operation and Development (OECD), *OECD Economic Surveys: China 2022*, OECD Publishing, Paris, 2022, available at: https://www.oecd.org/en/publications/oecd-economic-surveys-china-2022_b0e499cf-en.html [last accessed 28 April 2025].

¹¹³ Bruno Lannes and Weiwei Xing, 2023 *China Luxury Goods Market: A Year of Recovery and Transition*, Bain & Company, March 8, 2024, available at: <https://www.bain.com/insights/2023-china-luxury-goods-market/> (accessed April 28, 2025).

activities governed by China's E-Commerce Law (2019)¹¹⁴, and another for physical retail subject to traditional commercial licensing. This legal segmentation isolates regulatory risk and simplifies also compliance management (OECD, 2022)¹¹⁵. Furthermore, firms often separate entities by function (manufacturing, marketing, distribution) to comply with specific local regulations, especially when different types of permits, tax schemes, or data-handling protocols apply.

In parallel, collaboration with local investors, distinct from full joint ventures, can serve as a useful tool to navigate informal regulatory hurdles and build political or commercial legitimacy. Rather than relinquishing control, these partnerships often take the form of minority equity participation, strategic alliances, or real estate co-investments. For instance, leasing flagship locations from state-affiliated real estate groups, partnering with local logistics firms, or co-developing cultural initiatives with Chinese creative institutions are all examples of low-risk collaboration that foster goodwill and local embeddedness. In a market where “guanxi” (关系), the relational currency of trust and access, plays a critical role, such collaborations can offer significant strategic leverage without compromising ownership or brand governance.

Nevertheless, these diversification strategies are not without limitations. Multiplying legal entities increases administrative costs and compliance complexity, requiring strong internal governance and legal oversight. Moreover, indirect collaborations with local stakeholders may still expose foreign firms to reputational or political risk, particularly if local partners are subject to investigation or regulatory sanctions. Therefore, diversification must be pursued in a deliberate and analytically grounded manner, balancing flexibility with strategic coherence.

Returning to the perspective of Italian luxury brands, structural diversification offers a pragmatic path to mitigate exposure while preserving strategic control. Given the

¹¹⁴ E-commerce Law of the People's Republic of China, adopted at the 5th Session of the Standing Committee of the 13th National People's Congress on 31 August 2018, effective from 1st January, 2019, English translation available at: <https://faolex.fao.org/docs/pdf/chn215050.pdf> [last accessed: 1 May 2025].

¹¹⁵ Organisation for Economic Co-operation and Development (OECD), *OECD Economic Surveys: China 2022*, OECD Publishing, Paris, 2022, available at: https://www.oecd.org/en/publications/oecd-economic-surveys-china-2022_b0e499cf-en.html [last accessed 28 April 2025].

premium nature of their offering, brand equity must remain protected above all hence, diversification should be used to expand operational resilience, not to dilute core brand management. For example, establishing wholly owned structures for high-value activities (flagship stores, VIP customer services, local marketing) while outsourcing peripheral operations (logistics, warehousing, regional distribution) can increase efficiency without undermining brand standards. In conclusion, structural diversification and local collaboration, when implemented judiciously, can serve as effective tools for managing regulatory risk and achieving strategic flexibility in China. However, they require a deep understanding of the local legal and institutional environment, strong compliance infrastructure, and a disciplined focus on preserving the brand's strategic core.

2.4 Post-acquisition risk management

2.4.1 Impact of regulatory restrictions on post-acquisition operations

While pre-acquisition strategies focus on structuring legally sound and flexible entry vehicles, the real complexity often emerges after the transaction is completed. In fact, post-acquisition integration represents one of the most challenging and strategically critical phases within the mergers and acquisitions (M&A) lifecycle, particularly in complex regulatory environments such as China. While the initial approval of cross-border M&A transactions attracts significant attention due to the high-profile negotiations involved, it is often the operational phase following deal closure that determines the long-term success or failure of acquisitions. Regulatory constraints in China extend well beyond initial market entry approvals and frequently manifest through stringent and often evolving operational oversight by various regulatory

bodies (Wang & van der Leest, 2021)¹¹⁶, significantly influencing strategic planning, operational efficiency, and profitability of foreign-invested enterprises post-acquisition.

One of the most impactful regulatory domains affecting post-acquisition integration in China involves *data privacy* and *cybersecurity*. Over recent years, China's regulatory framework has dramatically intensified, particularly following the introduction of three landmark pieces of legislation:

- Cybersecurity Law (CSL, 2017)¹¹⁷;
- Data Security Law (DSL, 2021)¹¹⁸, and
- Personal Information Protection Law (PIPL, 2021)¹¹⁹.

Collectively, these laws impose severe restrictions on cross-border data transfers, mandate stringent data localization requirements, and enforce strict compliance protocols regarding the handling and processing of consumer data. For luxury brands, the significance of data privacy compliance is particularly pronounced. High-end consumers demand stringent data protection, particularly around personal and financial information captured via customer relationship management (CRM) systems, e-commerce platforms, and loyalty programs. Consequently, post-acquisition integration efforts must contend with comprehensive regulatory audits and operational adjustments to IT infrastructures to meet Chinese regulatory standards. Furthermore,

¹¹⁶ Oscar Wang and Yuri van der Leest, "China Cybersecurity and Data Regulation: What Multinationals Should Know," *Teneo Insights*, October 25, 2021, available at: <https://www.teneo.com/insights/articles/china-cybersecurity-and-data-regulation-what-multinationals-should-know/> [last accessed 30 April 2025].

¹¹⁷ Standing Committee of the National People's Congress of the People's Republic of China, *Cybersecurity Law of the People's Republic of China*, adopted on November 7, 2016, effective from June 1, 2017, English translation by Rogier Creemers, Paul Triolo, and Graham Webster, DigiChina, June 29, 2018, available at: <https://digichina.stanford.edu/work/translation-cybersecurity-law-of-the-peoples-republic-of-china-effective-june-1-2017/> [last accessed 3 May 2025].

¹¹⁸ Standing Committee of the 13th National People's Congress of the People's Republic of China, *Data Security Law of the People's Republic of China*, adopted on June 10, 2021, effective from September 1, 2021, available at: http://www.npc.gov.cn/englishnpc/c2759/c23934/202112/t20211209_385109.html [last accessed 2 May 2025].

¹¹⁹ Standing Committee of the 13th National People's Congress of the People's Republic of China, *Personal Information Protection Law of the People's Republic of China*, adopted on August 20, 2021, effective from November 1, 2021, available at: <https://personalinformationprotectionlaw.com/> [last accessed 2 May 2025].

China's regulatory authorities, specifically the Cyberspace Administration of China (CAC), regularly conduct proactive compliance inspections on foreign enterprises post-acquisition, necessitating that firms establish robust internal compliance frameworks promptly following deal closure. Empirical studies and industry reports reveal that foreign firms which fail to establish comprehensive data governance and cybersecurity systems, immediately after acquisition, frequently experience operational disruptions, compliance violations, and loss of consumer confidence.

A further critical regulatory constraint affecting post-M&A operations is China's increasingly stringent anti-monopoly enforcement regime. The revised Anti-Monopoly Law (AML, 2022) significantly enhanced the investigative and enforcement powers of the *State Administration for Market Regulation* (SAMR), the regulatory body responsible for overseeing competition law compliance. Foreign companies acquiring Chinese enterprises are subject to intense scrutiny not only at the approval stage but especially during post-acquisition integration and market operation (SAMR, 2023)¹²⁰. Post-acquisition operational practices such as pricing strategies, market positioning, supply chain agreements, and exclusivity contracts fall under rigorous regulatory surveillance.

According to SAMR's 2023 Annual Report, enforcement activities have significantly increased, highlighting the necessity for sustained compliance vigilance in post-acquisition operational management (SAMR, 2023)¹²¹. So, for luxury brands operating in China, stringent antitrust regulations necessitate rigorous review and continuous monitoring of their market practices following any M&A transaction. Non-compliant

¹²⁰ State Administration for Market Regulation (SAMR), *Annual Report on China's Anti-Monopoly Enforcement* (2023), June 18, 2024, available at: https://www.concurrences.com/IMG/pdf/the_state_administration_for_market_regulation_national_anti-monopoly_bureau_released_the_annual_report_on_china_s_anti-monopoly_enforcement_2023_.pdf [last accessed 3 May 2025].

¹²¹ State Administration for Market Regulation (SAMR), *Annual Report on China's Anti-Monopoly Enforcement* (2023), June 18, 2024, available at: https://www.concurrences.com/IMG/pdf/the_state_administration_for_market_regulation_national_anti-monopoly_bureau_released_the_annual_report_on_china_s_anti-monopoly_enforcement_2023_.pdf [last accessed 3 May 2025].

behaviors, even if inadvertent, can negatively impact brand perception and market share.

Another dimension of regulatory complexity post-M&A arises from China's highly protective labor law framework, notably governed by the Labor Contract Law (2008)¹²². The Chinese labor regime, recognized internationally as highly employee-protective, presents significant operational challenges during post-acquisition integration processes. Foreign firms frequently encounter regulatory obstacles regarding workforce restructuring, dismissal of redundant positions, harmonization of compensation policies, and integration of employee benefits schemes. For instance, employee restructuring often requires prior approval from local labor authorities and extensive consultations with trade unions, a requirement frequently underestimated by foreign investors unfamiliar with China's procedural rigor. Failure to comply with these legal requirements can result in costly labor disputes, administrative sanctions, and serious operational delays. These challenges highlight the necessity for foreign acquirers to plan human resource integration carefully and to seek local legal guidance early in the post-M&A phase to avoid disruption and reputational risk.

Given these regulatory complexities, successful post-acquisition operational management in China requires, also in this case, proactive and highly sophisticated compliance strategies embedded directly within firms' integration plans. Italian luxury brands must adopt rigorous post-acquisition compliance measures and carefully calibrated integration timelines. Specifically, these firms must prioritize rapid establishment of integrated compliance functions, early investment in dedicated compliance personnel familiar with China's regulatory nuances, and strategic alignment between global compliance practices and local regulatory requirements. Additionally, employing external regulatory specialists for continuous regulatory intelligence and maintaining active communication channels with local regulatory authorities can further mitigate operational risks and ensure regulatory alignment.

¹²² Standing Committee of the National People's Congress of the People's Republic of China, *Labor Contract Law of the People's Republic of China*, adopted on June 29, 2007, effective from January 1, 2008, available at: http://www.npc.gov.cn/zgrdw/englishnpc/Law/2009-02/20/content_1471106.htm [last accessed 3 May 2025].

2.4.2 Governance issues in companies acquired by Chinese groups

When a luxury brand is acquired by a foreign investor, especially one operating within a significantly different political, economic, and cultural context, governance becomes the central mechanism for preserving strategic continuity, brand equity, and operational integrity. In the specific case of Chinese acquisitions of Italian firms, governance is not merely an administrative question, it is in fact a matter of identity preservation and risk containment. Italian luxury brands are not just producers of goods; they are custodians of symbolic capital built over decades, often generations. Their value resides in the intangible: artisanal craftsmanship, narrative coherence, and the aura of exclusivity that differentiates them from mass-market alternatives. Governance, in this sense, serves as the interface between two very different corporate logics: one rooted in tradition and brand stewardship, the other in scale, acceleration, and market responsiveness.

In the last two decades, the Chinese state has explicitly encouraged outbound M&A activity as a means to gain access to global consumer markets, design capabilities, and brand reputations (OECD, 2021)¹²³. However, many of these transactions, especially in the fashion and lifestyle sectors, have exposed structural mismatches in how control is exercised post-acquisition. Governance misalignment has, in several cases, led to managerial turnover, brand dilution, and even bankruptcy. It is therefore essential to understand the governance dynamics not just as a post-deal technicality, but as a space where conflicting logics of value creation are negotiated, often unsuccessfully. The Italian luxury sector is especially vulnerable to misaligned governance models, particularly when decision-making is centralized in a foreign context not attuned to the brand's cultural specificity.

The first and most immediate governance issue to emerge in post-acquisition scenarios involving Chinese investors is the cultural and managerial misalignment between the acquiring and the acquired firms. Italian luxury brands are often deeply rooted in

¹²³ Organisation for Economic Co-operation and Development (OECD), *Ownership and Governance of State-Owned Enterprises: A Compendium of National Practices 2021*, OECD Publishing, Paris, 2021, available at: https://www.oecd.org/en/publications/ownership-and-governance-of-state-owned-enterprises-2021_581de09d-en.html [last accessed 30 April 2025].

founder-led governance, where decision-making is centralized in a small group of visionaries, typically family members or long-standing executives with intimate knowledge of the brand's identity. These firms tend to emphasize intuitive judgment, aesthetic consistency, and slow, deliberate growth. Corporate governance here is relational, informal, and closely intertwined with creative direction. By contrast, Chinese conglomerates, particularly state-influenced groups, tend to adopt a bureaucratic and hierarchical governance model (OECD, 2021)¹²⁴. Strategic decisions are often filtered through multiple layers of approval and are typically informed by financial metrics, short-term return expectations, and an ambition for rapid market penetration, particularly in the domestic Chinese market. This creates a clash of tempo and logic: where Italian brands seek to maintain their mystique through scarcity and curated distribution, Chinese acquirers may push for immediate expansion across digital channels, price-tier diversification, or celebrity-driven marketing—all of which can dilute brand value if not executed with coherence and restraint (Williamson & Raman, 2011)¹²⁵.

These cultural tensions are not superficial as they influence fundamental corporate functions such as budgeting, product development, hiring, and marketing. For example, the concept of “face” (面子) and hierarchical deference prevalent in Chinese business culture can make open disagreement or bottom-up critique difficult to implement in mixed governance teams, especially when Italian managers are accustomed to more horizontal communication and direct confrontation. This creates misunderstanding not only in interpersonal relations but also in how strategic feedback is interpreted or silenced. Furthermore, the different attitudes toward risk and control often become visible in innovation cycles. While Italian firms may be hesitant to launch new product lines that deviate from their historical identity, Chinese boards may pressure subsidiaries to align with domestic consumer trends, resulting in faster product turnover and experimentation that conflicts with brand tradition. This divergence in

¹²⁴ Organisation for Economic Co-operation and Development (OECD), *Ownership and Governance of State-Owned Enterprises: A Compendium of National Practices 2021*, OECD Publishing, Paris, 2021, available at: https://www.oecd.org/en/publications/ownership-and-governance-of-state-owned-enterprises-2021_581de09d-en.html [last accessed 30 April 2025].

¹²⁵ Peter J. Williamson and Anand Raman, “The Globe: How China Reset Its Global Acquisition Agenda,” *Harvard Business Review*, April 2011, available at: <https://hbr.org/2011/04/the-globe-how-china-reset-its-global-acquisition-agenda> [last accessed 30 April 2025].

governance philosophy can lead to inertia on one side and overreach on the other, with neither satisfying the long-term strategic needs of the brand. In this context, the board of directors becomes a contested arena: its composition, voting rights, and decision thresholds are all instruments through which control is asserted or resisted. If these are not carefully negotiated at the acquisition stage, through governance clauses, minority protections, and operational autonomy agreements, Italian luxury firms risk becoming mere brand shells, with no strategic agency over their own future.

One of the most sensitive governance challenges following the acquisition of Italian luxury brands by Chinese groups lies in the attempted reconfiguration of the supply chain, particularly when there is pressure to partially shift production, sourcing, or logistics to China or Southeast Asia. While from a cost-efficiency standpoint this may seem rational, such strategies often fail to account for the symbolic and economic value embedded in the “Made in Italy” designation. In the luxury sector, place of origin is not a logistical detail; it is a core component of brand authenticity, perceived quality, and international market positioning. Several Chinese acquirers have tried to capitalize on the brand power of Italian labels while introducing changes aimed at scaling operations and reducing costs. This typically includes integrating Chinese subcontractors into the production chain, relocating part of the manufacturing processes, or accelerating output to meet rising demand in domestic markets. However, these changes often provoke resistance within the acquired firms, especially when artisanal control, quality assurance, and sourcing transparency are at risk.

Empirical research confirms that luxury consumers, especially in mature markets such as Europe, Japan, and the United States, closely associate value with origin and craftsmanship. A shift in production that diminishes these characteristics can result in perceptible brand erosion, even if price and availability improve. Moreover, in the Chinese market itself, the allure of Italian luxury often rests on its foreignness and artisanal mystique; thus, a move to localize production may actually reduce desirability among aspirational consumers.

From a governance standpoint, these operational tensions raise critical questions about decision-making authority. *Who has the final say over supplier selection, factory*

location, and production standards? In many cases, Chinese parent companies insert operational executives into the acquired firm's leadership, expecting alignment with group-level cost targets. But this can create deep friction with original managers, designers, and production heads, whose priorities are brand coherence, heritage preservation, and product quality.

An emblematic example is the case of Shandong Ruyi, once dubbed the “LVMH of China,” which acquired the Italian menswear label Cerruti 1881. After a promising start, internal tensions emerged over investment timelines, control of operations, and the strategic use of Italian manufacturing versus Asian subcontractors. Ruyi's highly leveraged structure and aggressive expansionism ultimately led to cash flow problems, delayed payments, and operational instability, culminating in a financial collapse that forced the Italian unit into insolvency proceedings by 2021 (Arnett, 2020)¹²⁶. The failure was not purely financial, but rooted in a deeper governance failure to align priorities and preserve the operational foundations of a heritage brand.

This case illustrates that the challenge is not the acquisition itself, but the post-deal governance mechanisms. Without enforceable agreements ensuring supply chain integrity, production standards, and location-based authenticity, even well-intentioned investments can undermine the very value they were meant to enhance. To mitigate these risks, some Italian firms have negotiated governance clauses explicitly protecting production sites and brand integrity. These include pre-approved sourcing lists, veto rights on supply chain shifts, and brand guardianship boards with binding input over operations. While not always sufficient, such mechanisms at least create a formalized space for defending the brand's DNA.

A particularly underexplored yet critical dimension of post-acquisition governance in Chinese-controlled firms is the indirect role of the State. While not always formally acknowledged in ownership documents, many of the large conglomerates acquiring luxury brands abroad—such as Fosun International, CITIC Capital, or previously Shandong Ruyi—operate within ecosystems that are either partially state-owned or

¹²⁶ George Arnett, “The LVMH of China? Shandong Ruyi's Debt Crisis,” *Vogue Business*, January 3, 2020, available at: <https://www.voguebusiness.com/companies/the-lvmh-of-china-shandong-ruyi-debt> [last accessed 3 May 2025].

closely aligned with state development objectives. These include soft power expansion, industrial upgrading (as seen in the "Made in China 2025" strategy), and increased global cultural influence. The presence of the State behind the scenes introduces a layer of complexity that goes beyond ordinary corporate governance concerns. It affects decision-making autonomy, capital allocation, and long-term brand strategy in ways that are difficult for foreign managers to predict or contest. Opacity in the governance structure is one of the most common issues reported by executives of acquired firms. In many cases, decision-making power is concentrated in a small circle of politically connected executives whose objectives are not always aligned with those of the brand or the market. For example, capital may be diverted to support unrelated domestic projects or used as collateral to secure loans for the parent company's other industrial arms. When these financial engineering strategies collapse, as happened in the case of Shandong Ruyi, the risk is not only economic but reputational: luxury brands associated with chaos, default, or mismanagement see their value erode rapidly in the eyes of both consumers and investors.

State affiliation can also limit the strategic agility of the acquired firm. In some cases, participation in politically sensitive discussions, such as those involving human rights, labor sourcing, or trade policy, may be restricted or censored at the group level. If the brand takes no position, it may alienate Western consumers; if it does, it may provoke retaliation from Chinese regulators or consumers. These tensions are not hypothetical: international firms including H&M, Nike, and Burberry have faced boycotts or market access difficulties in China following statements about labor conditions in Xinjiang or similar issues (Bloomberg News, 2021)¹²⁷.

Additionally, decision-making bottlenecks often emerge due to the complexity of internal reporting lines. Unlike most Western firms, which operate with clearly defined and delegated managerial authority, Chinese conglomerates may enforce overlapping oversight structures, parallel leadership roles, or undefined escalation procedures. This leads to uncertainty in accountability, delays in strategic approvals, and inefficiencies

¹²⁷ Bloomberg News, "H&M Stores Shuttered in China as Backlash Over Xinjiang Grows," *Bloomberg*, March 27, 2021, available at: <https://www.bloomberg.com/news/articles/2021-03-27/h-m-stores-shuttered-in-china-as-backlash-over-xinjiang-grows> [last accessed 3 May 2025].

in execution. Italian brands operating under such conditions can experience a slow erosion of innovation capacity and loss of responsiveness to shifting market trends.

The cumulative effect of these factors is a weakening of the brand's ability to act as a coherent and autonomous entity. Over time, the lack of transparency and bureaucratic inertia can generate disillusionment among creative directors, marketing teams, and product developers, many of whom are essential to maintaining the brand's distinctiveness. In the worst-case scenario, these frustrations translate into resignations, public criticism, or complete brand repositioning that disconnects the product from its historical identity. This does not mean that all Chinese-owned luxury firms are inherently dysfunctional; rather, it indicates that the absence of clear, enforceable governance protections during the acquisition phase opens the door to systemic misalignment. Where there is no pre-agreed structure that defines autonomy, brand guardianship, and operational limits, the acquired firm becomes a satellite in a political-industrial orbit it cannot control.

Another problem in this scenario is the progressive disengagement of senior management and key creative figures. When operational autonomy is gradually eroded and strategic control shifts decisively toward the parent company, especially in opaque or top-down structures, local executives may begin to perceive themselves as excluded from meaningful influence. The result is often a silent withdrawal, followed by a wave of resignations, friction in internal communication, and a decline in collective commitment to long-term objectives. When these key creative figures leave or are sidelined, the brand may lose its compass. A newly appointed Chinese executive, even if competent, may lack the cultural literacy, symbolic capital, and relational depth required to maintain the brand's coherence. The replacement of Italian leadership with managerial figures from the acquiring company may appear rational from a corporate integration perspective but can trigger internal unrest, loss of talent, and erosion of employee morale across departments, from design to logistics to boutique management.

Moreover, this kind of turnover can have reputational consequences externally. In the fashion industry, creative direction and executive stability are closely watched by consumers, press, and investors. Frequent changes in management or public reports of

internal conflicts can undermine the perception of the brand's direction and stability. In some cases, it leads to what analysts call "*strategic drift*"—the slow, often imperceptible loss of alignment between the brand's heritage and its current market strategy. *Strategic drift* may manifest in a dilution of product identity, inconsistent campaigns, pricing misalignment, or a shift toward demographics that do not resonate with the brand's historic clientele.

Several real-world examples illustrate this dynamic. In the case of Lanvin, acquired by the Chinese conglomerate Fosun International in 2018, a series of creative and executive turnovers followed within months of the acquisition. Despite financial stabilization, the brand struggled to recover its identity and positioning in the market after the departure of long-time designers and the restructuring of its Paris headquarters. Although Fosun eventually appointed new leadership and launched global expansion efforts, analysts noted that the transition period led to significant confusion in product coherence and brand messaging (Business of Fashion, 2021)¹²⁸. From a governance standpoint, these events point to a structural weakness in the way integration is often approached: cultural alignment and strategic vision are not always treated as binding priorities. The governance frameworks put in place often fail to secure long-term creative independence or safeguard the symbolic authority of founding leadership. In the absence of binding mechanisms, such as creative veto rights, fixed-term leadership continuity clauses, or hybrid governance councils, many acquisitions result in a de facto absorption of the acquired firm into a logic of managerial standardization that is incompatible with the luxury sector. In sum, the departure of key managerial and creative figures is not simply a personnel issue; it is a signal of deeper systemic misalignment. Governance models that do not actively preserve these traits may achieve financial control, but they do so at the cost of eroding the very essence that makes the brand valuable in the first place.

In conclusion, the governance challenges observed in post-acquisition scenarios involving Chinese investors are neither isolated incidents nor inevitable failures, they

¹²⁸ Business of Fashion, "What's Next for Lanvin Group?", *The Business of Fashion*, October 11, 2021, available at: <https://www.businessoffashion.com/briefings/china/whats-next-for-lanvin-group/> [last accessed 3 May 2025].

are the consequence of structural misalignments that emerge when strategic, cultural, and managerial frameworks are not aligned from the outset. What becomes clear from both theoretical insights and real-world cases is that the traditional M&A focus on financial valuation and deal structuring must be complemented by a much more granular and binding discussion around governance integration. The strategy of the majority of Italian luxury brands is predicated on long-term vision, brand consistency, and symbolic coherence. When governance structures imposed post-acquisition neglect these principles—centralizing control, accelerating expansion, or prioritizing internal group synergies—the brand begins to lose its identity, both internally and in the eyes of the market.

To mitigate these risks, Italian firms considering or undergoing acquisition should adopt a more assertive and structured approach to governance negotiation. Specifically, several mechanisms should be considered non-negotiable:

- *Autonomy Clauses*: Provisions that guarantee operational independence in areas such as product design, communication strategy, supplier selection, and creative direction.
- *Cultural Integration Protocols*: Formalized processes to manage cross-cultural governance, including bilingual communication structures, joint strategic committees, and intercultural training for decision-makers.
- *Veto Rights and Golden Shares*: Legal tools that allow legacy leadership or independent directors to block decisions that are deemed detrimental to brand integrity.
- *Pre-agreed Exit Pathways*: Clauses that define the conditions under which original owners or key managers can exit with fair terms if strategic misalignment becomes unsustainable.

From a policy perspective, Italian institutions may also have a role to play in protecting strategic cultural assets. While outright restrictions on foreign ownership may be impractical or undesirable, there is room for regulatory frameworks that incentivize

responsible investment and penalize extractive or destabilizing acquisition practices. In this sense, governance should not be viewed solely as an internal matter, but as a dimension of national economic strategy, particularly when it comes to industries that project Italian soft power globally. Ultimately, the governance of post-acquisition entities should not aim merely at control or harmonization, it should be designed as a space of negotiation and respect—where the values of the acquiring firm and the acquired brand can coexist, evolve, and generate mutual benefit.

2.4.3 Strategies for overcoming post-M&A regulatory challenges

This section explores in detail the strategies adopted by Italian firms to address and mitigate post-M&A regulatory tensions. To provide a clear analytical framework, the discussion is structured around five interdependent thematic areas:

1. Data governance and legal interoperability
2. Labor Law integration and organizational sensitivities
3. Digital infrastructure and compliance dashboards
4. Institutional advocacy and regulatory engagement
5. ESG governance and brand positioning

By analyzing these five strategic domains, this part aims to outline a comprehensive roadmap for post-M&A adaptation in the Chinese context, highlighting both the risks and the structural opportunities available to Italian luxury brands.

Data governance

One of the most persistent post-M&A challenges facing Italian luxury brands acquired by Chinese groups is the structural divergence between European and Chinese regulatory frameworks. While much attention is typically devoted to securing regulatory clearance during the acquisition phase, companies often underestimate the extent to which legal asymmetries resurface during day-to-day integration. For

instance, the General Data Protection Regulation (GDPR), the core data protection framework in the European Union, operates on fundamentally different principles than China’s Personal Information Protection Law (PIPL). GDPR is built around user consent, data minimization, and territorial jurisdiction, whereas PIPL embeds data sovereignty principles that prioritize national interest and enforce strict localization requirements, as showed in the table below:

Table 4 – GDPR vs PIPL

Feature	GDPR (EU)	PIPL (China)
Legal principle	User consent, data minimization	Data sovereignty, national interest
Jurisdiction	Territorial, applies to EU subjects	Localized, prohibits cross-border transfers
Enforcement	Independent DPAs (e.g., CNIL)	Cyberspace Administration of China

For a luxury brand managing customer relationships across both geographies, this creates legal and logistical headaches:

“How should customer preferences collected via Chinese e-commerce platforms (e.g., Tmall Luxury Pavilion) be reconciled with European CRM systems?”

“What happens if consumer data must be transferred for global analytics, but Chinese data sovereignty law prohibits cross-border flows without government approval?”

These questions are not merely technical; they are strategic. A failure to navigate these constraints effectively can result in legal fines, reputational damage, and erosion of customer trust. For example, in 2021, Didi Chuxing, a Chinese ride-hailing company,

was fined \$1.2 billion by the Cyberspace Administration of China for data security violations during international operations, a case that served as a clear warning to all companies operating across digital borders (Zhu, Yang, & Wu, 2022)¹²⁹. While the luxury sector is less data-intensive than tech platforms, the growing digitization of fashion through omnichannel strategies, virtual try-ons, and personalized marketing makes data governance a core pillar of post-acquisition operations.

Labor Law

In addition to data, as mentioned before, labor law asymmetries create difficulties for brand management. In Europe, employment frameworks emphasize worker protections, collective bargaining, and transparency, whereas in China, labor law enforcement is often fragmented across provinces and subject to local political priorities. For example, restructuring a Chinese subsidiary post-acquisition may require formal consultations with local labor unions or even Communist Party cells embedded within the enterprise, elements that would be inconceivable in an Italian governance environment. If the acquirer attempts to impose a group-wide restructuring model without regard to local labor sensitivities, it risks triggering legal pushback or industrial unrest. Conversely, failing to adapt to Chinese expectations may lead to friction with group-level human resources policy and affect employee mobility or integration.

To address these divergences, Italian firms must adopt what can be described as a regulatory interoperability framework, a structured methodology to identify, categorize, and reconcile legal misalignments across jurisdictions. This may include:

- *Conducting jurisdictional gap analyses*, mapping where EU and Chinese regulations diverge and defining risk exposure.

¹²⁹ Julie Zhu, Yingzhi Yang, and Kane Wu, “China fines Didi \$1.2 bln but outlook clouded by app relaunch uncertainty,” *Reuters*, July 21, 2022, available at: <https://www.reuters.com/technology/china-fines-didi-global-12-bln-violating-data-security-laws-2022-07-21/> [last accessed 3 May 2025].

- *Appointing a bicompetent legal taskforce*, composed of external counsel and internal legal staff, with expertise in both civil law and Chinese regulatory practices.
- *Creating a dual-compliance matrix* that enables managers to see in real time which practices are compliant, partially compliant, or in conflict with host country requirements.

Moreover, this interoperability effort must be accompanied by a shift in internal culture. Legal departments should not be siloed; they must act as strategic partners to operations, design, IT, and marketing teams. Legal risks are rarely isolated—they cascade into production timelines, store openings, influencer campaigns, and ultimately brand reputation. It is also worth noting that regulators in both jurisdictions are increasing their coordination. In 2020, the European Commission launched a formal dialogue with China on data governance, while fashion brands have begun forming regulatory consortia to advocate for harmonization in areas such as carbon disclosure and anti-counterfeiting enforcement (European Commission 2020)¹³⁰. Italian luxury brands, especially smaller maisons without the scale of global conglomerates like LVMH or Kering, must actively participate in these forums, leveraging their cultural prestige to shape the legal environment in which they operate.

Ultimately, bridging EU–China regulatory asymmetries is not just about compliance, it is about preserving strategic optionality. Brands that can operate smoothly across both environments gain a competitive edge, while those that remain trapped in legal friction zones will find their creativity and agility severely constrained.

¹³⁰ European Commission, “EU-China: Commission and China hold first High-level Digital Dialogue,” *Press Release*, September 14, 2020, available at: https://ec.europa.eu/commission/presscorner/detail/pl/ip_20_1600 (accessed 4 May 2025).

Digital infrastructure

One of the most pressing challenges for European luxury brands operating under Chinese ownership is ensuring transparency in how financial data, supply chain sourcing, labor records, and customer interactions are documented and reported. Given the growing intensity of Chinese inspections, particularly in light of the 2022 amendments to the Anti-Monopoly Law, the Data Security Law, and enforcement trends under the PIPL, a lack of digitized documentation may expose the firm to arbitrary fines, operational shutdowns, or reputational attacks, often without advance notice or clear legal recourse. To mitigate these risks, Italian firms can implement digital governance dashboards, designed to consolidate key compliance and brand integrity indicators across jurisdictions. These platforms typically integrate:

- Real-time tracking of supplier certifications (e.g., labor, sustainability, origin),
- Employee audit trails and contract compliance statuses,
- Alerts for legal updates and regulation-specific enforcement actions,
- Cross-border data transfer logs and storage location audits,
- Customizable KPIs for internal risk monitoring tied to local regulatory standards.

According to Deloitte, companies that implemented centralized RegTech dashboards in China saw a 35% reduction in regulatory audit time and up to 50% faster internal response during government inspections. Moreover, the same report highlights that digitally mature firms were more likely to detect early deviations from regulatory expectations, especially around tax reporting and consumer rights compliance, before formal proceedings were initiated (Deloitte, 2024)¹³¹. Beyond internal operations, digital infrastructure also enables more resilient communication with both regulators and consumers. For example, the use of blockchain-based supply chain tracing can help firms counter accusations of using uncertified materials or subcontractors. This is especially relevant in luxury fashion, where Italian brands are frequently scrutinized

¹³¹ Deloitte Luxembourg, “RegTech companies to solve compliance and regulatory issues,” *Deloitte*, [publication date not specified], available at: <https://www.deloitte.com/lu/en/Industries/technology/analysis/regtech-companies-compliance.html> [last accessed 4 May 2025].

for their claims around sourcing, sustainability, or “Made in Italy” authenticity. By providing immutably recorded production stages, from textile origin to final packaging, blockchain systems can serve as a reputational safeguard during regulatory scrutiny.

Another area where digital tools are underused is in post-acquisition brand protection, particularly against grey market activity and IP infringement. By integrating product serialization, smart labeling, and QR-based verification into their CRM systems, Italian firms can monitor product circulation more effectively and provide Chinese consumers with verifiable authenticity certificates. In a market where counterfeiting remains pervasive, and where failure to control distribution may trigger liability under the Chinese E-Commerce Law, this capability is not optional, but vital.

Finally, internal governance structures benefit significantly from digitization when dealing with group-wide reporting obligations. One common frustration among foreign subsidiaries is the lack of clarity in decision-making chains, especially when approval flows traverse multiple business units, languages, and legal systems. By digitizing these approval chains, and integrating decision-tree logic (e.g., automatic escalation for brand-sensitive operations), firms can reduce both latency and ambiguity, improving agility without compromising oversight. However, it is important to note that digitization is not neutral: systems must be designed intelligently, not blindly. Overly rigid automation can reduce flexibility, and poor localization of compliance logic can trigger false positives or regulatory blind spots. Therefore, the development and oversight of digital infrastructure must involve interdisciplinary teams, combining IT, legal, branding, and Chinese regulatory specialists.

This multi-stakeholder design approach ensures that digital systems reflect the specific vulnerabilities of luxury brands operating in politically and culturally sensitive environments. In conclusion, digital infrastructure is no longer a support function; it is a strategic pillar for post-acquisition resilience. Italian luxury brands that invest in smart, adaptive, and culturally attuned digital systems will be better positioned not only to survive under Chinese ownership, but to maintain strategic and symbolic coherence across jurisdictions.

Institutional advocacy

While much of the post-M&A literature focuses on internal governance reforms or legal protections at the firm level, a less explored yet increasingly relevant strategy for Italian luxury brands operating under Chinese ownership is *institutional advocacy*. Rather than confronting regulatory pressure in isolation, firms can seek to shape the environment in which they operate through participation in collective lobbying efforts, business associations, and public–private initiatives that influence policy, perception, and enforcement at a systemic level. This approach requires a shift in mindset: from reactive compliance to regulatory co-design. Particularly in China, where relationships between business, government, and social trust are deeply interconnected, brand visibility and political capital can translate into regulatory tolerance, or its opposite. In our case, this symbolic positioning can become a resource in public diplomacy, industry self-regulation, and bilateral cooperation.

A first avenue of action is participation in foreign chambers of commerce, such as the EU Chamber of Commerce in China (EUCCC), the Italian Chamber of Commerce in China (CICC), or the China-Italy Chamber of Commerce (CCIC). By contributing to position papers, public consultations, and informal dialogues, firms can help shape the interpretation of rules, signal their good faith, and advocate for more predictable regulatory frameworks. In addition, brand groups can benefit from collaboration with sector-specific advocacy platforms such as Fondazione Altagamma, which represents over 100 high-end Italian brands across fashion, design, food, and hospitality. In 2021, Altagamma launched a cross-border initiative to promote the legal protection of Italian design and origin trademarks in China, including the development of certification models for “Made in Italy” within WTO-compatible structures. The foundation also cooperates with embassies, trade fairs (e.g., CIIE in Shanghai), and academic institutions to promote Italian excellence as a soft power tool, thereby reinforcing the reputational firewall that protects brands during moments of political or regulatory tension.

Crucially, advocacy also extends to the digital and technological domain. For example, the BrandZ China Top 100 report (Kantar, 2023)¹³² highlights how brands with strong public affairs strategies were less vulnerable to online consumer boycotts during politically sensitive events, such as the Xinjiang cotton controversy or EU–China trade tensions, compared to those who remained silent or disengaged.

A particularly innovative initiative in this space is the Joint Compliance Lab, a pilot program launched in 2022 by the European Union and selected Chinese regulatory agencies, in partnership with large multinationals and academic institutions. While still in its early stages, the program aims to test cooperative frameworks for cross-border regulation in the luxury and pharma sectors. Italian firms participating in such projects, not only as observers but as co-creators, can help define best practices that reflect their operational realities, rather than adapting to abstract legal standards developed for entirely different industries. Moreover, advocacy is not limited to interactions with Chinese institutions. It also involves coordinating with home-country ministries, trade missions, and export credit agencies (such as SACE or ICE) to raise diplomatic awareness of unfair treatment or regulatory asymmetries. For instance, in 2024, several European luxury brands issued joint statements to the European Commission urging coordinated diplomatic pressure in response to untransparent inspection campaigns targeting foreign e-commerce operations in Tier 1 Chinese cities. While formal sanctions were avoided, the pressure led to temporary enforcement pauses and clarification guidelines issued by the SAMR (State Administration for Market Regulation), a result credited partly to collective foreign lobbying (European Union Chamber of Commerce in China, 2024)¹³³. In this light, advocacy is not a secondary or symbolic activity. It is another strategic tool of regulatory adaptation, especially for smaller luxury brands that lack the bargaining power or legal sophistication of global conglomerates. When used effectively, it allows companies to offset structural

¹³² Kantar, *Top 100 Most Valuable Chinese Brands*, 2024, available at: <https://www.kantar.com/campaigns/brandz/china> [last accessed 6 May 2025].

¹³³ European Union Chamber of Commerce in China, *European Business in China Position Paper 2024/2025*, September 11, 2024, available at: <https://www.europeanchamber.com.cn/en/publications-position-paper> [last accessed 6 May 2025].

weaknesses (e.g., limited compliance budgets, fragmented supply chains, dependency on parent group IT systems) through collective influence and institutional leverage.

ESG governance

As the last strategic element in the post-acquisition operations there is the issue concerning *Environmental, Social and Governance practices* (ESG). In the evolving regulatory landscape of post-M&A China, Environmental, Social, and Governance (ESG) performance is no longer a voluntary add-on or a reputational badge, it has become a strategic pillar of legal compliance, stakeholder engagement, and brand legitimacy. For Italian luxury brands operating under Chinese ownership, integrating robust ESG protocols into their post-acquisition strategy can serve a double purpose: aligning with domestic and international expectations, while also reinforcing internal governance and reducing exposure to regulatory scrutiny. In recent years, Chinese authorities have substantially increased ESG reporting requirements for listed companies and foreign-invested enterprises. The China Securities Regulatory Commission (CSRC) has introduced guidelines mandating the disclosure of carbon footprint, labor practices, and anti-corruption procedures, especially for firms operating in sensitive sectors such as textiles, chemicals, and e-commerce. At the same time, China has committed to achieving carbon neutrality by 2060, and local governments, particularly in coastal regions like Shanghai, Guangdong, and Zhejiang, have begun implementing ESG-based rating systems for enterprises seeking tax incentives, subsidies, or participation in public-private partnerships.

For Italian brands acquired by Chinese groups, this regulatory trend presents a unique opportunity. By embedding advanced ESG practices and traceability systems, these firms can differentiate themselves within the parent group portfolio, gain preferential treatment from local regulators, and signal alignment with China's national development priorities, without compromising their brand values. For example, integrating blockchain-based traceability platforms to certify sustainable raw materials (e.g., organic cotton, vegetable-tanned leather) or to monitor artisanal production chains in Italy not only serves compliance with EU standards (such as the Corporate

Sustainability Reporting Directive, CSRD), but also fulfills Chinese ESG expectations regarding transparency and responsible sourcing. A practical illustration of this strategy is the partnership between Loro Piana (a heritage Italian brand now part of LVMH) and Blockchain Document Verification (BDV) systems used to certify the origin of vicuña wool and monitor the environmental impact of its processing. While not directly operating in China, Loro Piana's methods have been cited in international ESG roundtables as a model for traceability integration. For Chinese-owned Italian firms, similar systems can be used to create auditable compliance layers, allowing the brand to proactively demonstrate its alignment with both EU and Chinese sustainability frameworks. Moreover, Chinese consumers, particularly the growing Gen Z and Millennial middle class, are increasingly sensitive to ESG concerns.

Recent studies and industry reports consistently show that younger Chinese consumers, particularly in Tier 1 and Tier 2 cities, are increasingly responsive to environmental and ethical values when evaluating foreign luxury brands. This trend is particularly visible among Gen Z and Millennials, who associate sustainability not only with product quality, but also with authenticity and global relevance (Deloitte China, 2024)¹³⁴. In this context, ESG becomes not only a compliance tool, but a market differentiator: it protects the brand in the eyes of regulators and enhances desirability among ethically aware consumers. To operationalize this leverage, Italian luxury firms should consider:

- Establishing sustainability governance committees, with equal representation from brand-side executives, parent group managers, and independent experts.
- Publishing bilingual ESG impact reports tailored to both EU and Chinese regulatory audiences, emphasizing carbon reduction, water use, and labor conditions.

¹³⁴ Deloitte China, *The "Sustainability" Difference between China and the West from Consumers' Perspective*, February 23, 2024, available at: <https://www2.deloitte.com/cn/en/pages/finance/articles/differences-in-sustainability-between-china-and-the-west-from-consumer-perspective.html> [last accessed 6 May 2025].

- Seeking third-party certifications (e.g., GOTS, FSC, SA8000) recognized in China, and registering trademarks related to sustainable production with the China National Intellectual Property Administration (CNIPA).
- Engaging with Chinese green finance mechanisms, such as the Green Bond Endorsed Project Catalogue, to fund low-impact expansion or production initiatives.

At a broader level, participation in multilateral ESG alliances, such as the UN Global Compact China Network or the International Sustainability Standards Board (ISSB) pilot projects, enables firms to co-develop global sustainability frameworks that incorporate the realities of luxury production and branding.

Importantly, these ESG initiatives must be aligned with brand identity. A superficial or disconnected sustainability program risks undermining authenticity, especially in luxury sector. Therefore, governance structures must be designed to integrate sustainability into the brand narrative, not merely attach it as a reporting obligation. This is where Italian brands can draw on their traditional strengths, craftsmanship, local production, artisanal methods—as natural pillars of sustainable value creation. ESG strategy is not only about environmental compliance or marketing, it is a governance instrument that can mitigate risk, unlock incentives, and enhance resilience in a regulatory environment where political signaling and ethical alignment are increasingly decisive.

To conclude, post-M&A adaptation is not a passive trajectory, but a continuous process of assessment, negotiation, and, when necessary, redefinition of boundaries. For made in Italy brands acquired by Chinese entities, the critical question is not simply whether to integrate, but how far integration can proceed before it jeopardizes brand coherence, strategic integrity, and operational viability. Sustained cooperation with a Chinese parent company is viable when a set of structural and relational preconditions are met. These include: demonstrable respect for the target brand's identity, long-term commitment to the preservation of artisanal production, transparent

governance channels, and a shared vision regarding market positioning. In such cases, the acquiring entity can act as an enabler of growth, facilitating access to capital, improving supply chain scalability, and opening privileged access to the Chinese consumer market. When these conditions are satisfied and continuously reinforced, Chinese ownership may not only be tolerable, but strategically beneficial, especially for small and mid-sized Italian firms lacking the infrastructure to scale internationally. However, this form of cooperation must be continuously monitored and revalidated through performance indicators and qualitative feedback. The need for renegotiation arises when early-warning signs indicate a gradual misalignment between the original governance assumptions and the operational reality. In such scenarios, the brand should exercise the contractual levers available, whether they be veto rights, brand protection clauses, or periodic review obligations, to reopen negotiations on operational autonomy, strategic planning processes, or financial allocation. Where such mechanisms were not embedded in the original acquisition agreement, the brand may still leverage reputational capital, third-party mediation (e.g., Chambers of Commerce), or indirect political pressure to re-establish governance equilibrium. The renegotiation process must be approached with institutional professionalism: it should be framed not as resistance, but as a realignment in light of changed external conditions and internal performance feedback. It is in this phase that strategic diplomacy, both internal and external, becomes critical.

Disengagement, whether partial or complete, should not be viewed as a failure, but as a legitimate strategic decision when core incompatibilities become structural and irreversible. Situations that may justify such an outcome include: systemic violations of agreed brand governance principles; reputational damage in key export markets due to parent company mismanagement; use of the acquired brand as collateral for high-risk financial operations; or failure to comply with bilateral agreements regarding production, transparency, or creative independence.

Exit options may take the form of structured divestiture, buy-back mechanisms, licensing reversion, or negotiated withdrawal. In the most severe cases, legal proceedings may be required, but even in non-contentious contexts, it is advisable for Italian firms to explore alliances with local institutional actors (such as Invitalia, SACE,

or Fondazione Altagamma) to evaluate strategic re-internalization or rebranding pathways. Importantly, disengagement should be preceded by a detailed risk-impact analysis, assessing the financial, operational, legal, and reputational implications of various exit scenarios. Firms should prepare contingency plans well in advance, with legal structures (e.g., IP holding entities), financial reserves, and stakeholder communication strategies in place. The capacity to evaluate, anticipate, and act upon strategic thresholds is what distinguishes a reactive firm from a resilient one.

The tools outlined throughout this section, from contractual protections to advocacy coalitions, from compliance infrastructure to ESG positioning, must ultimately feed into a decision-making framework capable of guiding Italian luxury brands through the ambiguities of post-M&A governance in China. When well-articulated and grounded in proactive strategy, this framework does not merely mitigate risk, it enables long-term value preservation in one of the most complex and dynamic markets in the world.

In the end, the analysis developed in this chapter highlights a fundamental truth for Italian luxury brands operating in China: legal structure is not a neutral or secondary choice, but a central component of strategic positioning. The comparative assessment of equity-based models, joint ventures, and VIEs reveals that high-control structures, despite their complexity, remain the most coherent with the governance needs, brand integrity, and reputational demands of the luxury sector.

Furthermore, although contractual governance tools and compliance mechanisms are essential elements of risk mitigation, they should not be mistaken for substitutes of structural control. In a regulatory environment where legal predictability remains limited, and where enforcement often depends on informal or political variables, strategic risk cannot be fully neutralized through documentation alone. From another perspective, the ability to retain full legal sovereignty over operations is not only a legal safeguard, but a strategic imperative for preserving the symbolic capital of “Made in Italy” in an increasingly scrutinized global market.

Chapter 3 – Analysis of case studies (Ermenegildo Zegna and Ferretti Group)

3.1 Introduction to the case studies

In order to critically evaluate the effectiveness and risks associated with M&A strategies in the Chinese luxury market, this thesis adopts a qualitative case study methodology. This approach is particularly suitable when examining complex phenomena that unfold over time and across institutional environments, where context is inseparable from the decision-making process. In the field of international business and legal strategy, case studies allow for the investigation of mechanisms and contingencies that cannot be fully captured by quantitative models, especially in relation to governance structures, cultural alignment, and regulatory adaptation.

The rationale behind this methodological choice stems directly from the research questions guiding this thesis:

“What M&A strategies have Italian luxury brands adopted to enter and operate in the Chinese market?”

“How do Italian luxury brands structure their M&A transactions to overcome the institutional and regulatory challenges inherent in the Chinese market?”

“How do Italian luxury brands manage the associated risks in their market entry and operational strategies? What are the future perspectives in the market?”

A case-based approach enables an in-depth understanding of how legal tools, corporate governance mechanisms, and adaptive strategies are used in practice, beyond formal contracts or abstract frameworks.

In selecting case studies, three criteria were applied:

- (1) *Relevance to the research objective*, meaning the cases had to involve Italian luxury brands with significant exposure to Chinese capital or ownership structures;
- (2) *Availability of reliable data*, including access to public filings, press coverage, institutional reports, and where possible, industry insights;
- (3) *Comparative value*, meaning the cases should illustrate different approaches to post-acquisition governance and allow for a multi-dimensional analysis.

Based on the selected parameters, this chapter focuses on two emblematic Italian brands: *Ermenegildo Zegna* and the *Ferretti Group*. Both operate in high-end market segments and have undergone significant strategic transformation through capital integration with Chinese partners in recent years. Zegna represents a heritage menswear brand that engaged in a joint venture model, maintaining partial strategic autonomy while leveraging Chinese capital and distribution channels. Ferretti Group, on the other hand, exemplifies a full acquisition model under the control of a Chinese conglomerate, offering valuable insights into centralized integration, compliance restructuring, and the management of brand identity under foreign ownership.

Both brands encounter, and respond to, some of the most pressing challenges analyzed in this thesis: from cross-jurisdictional legal asymmetries to ESG alignment, from data governance issues to stakeholder diplomacy and brand protection.

Their comparative analysis enables a concrete reflection on how Italian luxury brands can adapt to foreign ownership while preserving core identity and strategic control. In this sense, Zegna and Ferretti are not merely case illustrations, but analytical anchors through which broader themes, discussed in the previous chapters, are tested against real-world dynamics.

3.2 Ermenegildo Zegna

3.2.1 Company profile

Ermenegildo Zegna is a leading Italian luxury fashion company, founded in 1910 by Ermenegildo Zegna in Trivero, Piedmont. Originally established as a textile manufacturer specializing in high-quality fabrics, Zegna rapidly expanded into a global luxury brand renowned for its sophisticated menswear collections. From its inception, Zegna emphasized exceptional quality, sourcing premium wool primarily from Australia and New Zealand to produce superior fabrics.

Through the leadership of subsequent generations, Zegna diversified its product offerings into ready-to-wear apparel, accessories, fragrances, and eyewear, consolidating its position within the luxury market globally, notably in Europe, America, and Asia (Ermenegildo Zegna Group, 2023)¹³⁵. Zegna occupies a prestigious position in the high-end luxury sector, predominantly catering to a sophisticated male clientele seeking refined quality, meticulous tailoring, and exclusivity. The brand epitomizes the concept of "quiet luxury," characterized by understated elegance, intrinsic quality, and subtle sophistication rather than overt ostentation (Ntanika, 2023)¹³⁶. Central to Zegna's luxury positioning is its vertically integrated supply chain and continuous investment in innovative and sustainable fabrics. Additionally, strategic collaborations, capsule collections, and acquisitions, such as the purchase of American brand Thom Browne in 2018, have allowed Zegna to expand its audience and adapt to evolving global luxury market demands (Sherman, 2018)¹³⁷.

Zegna entered the Chinese market in 1991, becoming one of the first Western luxury brands to establish a direct retail presence by opening its first boutique at the Peninsula

¹³⁵ Ermenegildo Zegna Group, *Annual Report 2023*, April 5, 2024, available at: <https://ir.zegnagroup.com/financial-documents/annual-reports/default.aspx> [last accessed 8 May, 2025].

¹³⁶ Maria Ntanika, "Quiet Luxury: The Art of Subtle Elegance in Fashion," *Milanesi a Milano*, July 14, 2023, available at: <https://www.milanesiamilano.com/post/quiet-luxury-the-art-of-subtle-elegance-in-fashion> [last accessed 8 May, 2025].

¹³⁷ Lauren Sherman, "Zegna Acquires a Majority Stake in Thom Browne," *The Business of Fashion*, August 28, 2018, available at: <https://www.businessoffashion.com/articles/news-analysis/zegna-acquires-a-majority-stake-in-thom-browne/> [last accessed 8 May, 2025].

Hotel in Beijing. At the time, the luxury market in China was virtually non-existent, and average income levels were relatively low; however, Zegna foresaw long-term potential driven by China's growing middle class and increasing purchasing power. Subsequently, Zegna expanded its footprint significantly, opening flagship stores across major cities including Shanghai, Guangzhou, and Chengdu. In 2003, Zegna further solidified its operations through a strategic joint venture, acquiring a 50% stake in SharMoon, a Chinese company specializing in high-quality menswear production for the local market, thus demonstrating its commitment to deeper integration within China's industrial fabric. Today, China represents a crucial market for the Zegna Group, significantly contributing to its global revenues. Despite economic fluctuations and geopolitical tensions, Zegna continues strategic investments aimed at reinforcing its luxury positioning by constantly adapting to local market dynamics and evolving consumer preferences (Ermenegildo Zegna Group)¹³⁸.

3.2.2 *Entry strategy and M&A activities of Zegna*

Ermenegildo Zegna's entry into the Chinese market in 1991 represented a pioneering step in luxury internationalization. The brand opens its first mono-brand boutique at the Peninsula Hotel in Beijing and it became the first Western luxury menswear brand to directly open a boutique in China, well before most Western competitors had considered China a viable luxury market. Zegna demonstrated both strategic foresight and operational boldness with this early market penetration. At the time, China lacked the consumer infrastructure and spending power typically associated with high-end fashion markets, yet Zegna correctly anticipated the long-term trajectory of Chinese economic growth and consumer sophistication. During the 1990s, Zegna's retail expansion in major cities like Shanghai and Guangzhou was conducted through wholly owned subsidiaries, not franchises. This direct investment model enabled Zegna to retain full control over brand positioning, product assortment, and service quality.

¹³⁸ Ermenegildo Zegna Group, *Annual Report 2023*, April 5, 2024, available at: <https://ir.zegnagroup.com/financial-documents/annual-reports/default.aspx> [last accessed 8 May, 2025].

However, as competition and operational complexity in China grew, the group pursued a deeper integration strategy.

In 2003, the Ermenegildo Zegna Group entered into a strategic joint venture with Sharmoon Garments, a Chinese menswear manufacturing company based in Wenzhou. This partnership was established under the legal framework of the Sino-Foreign Equity Joint Venture Law¹³⁹ (中华人民共和国中外合资经营企业法), which at the time represented the primary legal channel for foreign direct investment in China. Introduced in 1979 and amended in 1990, this law required the creation of a new legal entity jointly owned by the foreign and Chinese partners. At that time, the EJV model was one of the few legally sanctioned vehicles through which foreign investors could operate in China, especially in strategic or culturally sensitive sectors such as retail and fashion.

According to the Catalogue of Industries for Guiding Foreign Investment (2002 Edition), foreign entities were not allowed to operate wholly-owned enterprises in luxury retail, unless partnered with a domestic entity through a joint venture. This explains why Zegna, like many early movers in the Chinese market, opted for an equity-based partnership with a local company. Under the Equity Joint Venture Law, the resulting JV would have taken the form of a limited liability company jointly invested by the two parties, each contributing capital and sharing profits, losses, and risks in proportion to their equity shares. In Zegna's case, the joint venture with Sharmoon likely followed this model, granting Zegna a 50% ownership stake, common in early luxury retail EJVs, while allowing the company to maintain significant control over product design, brand communication, and store experience, areas crucial to luxury brand integrity (Sino-Foreign Equity Joint Venture Law, 2001 revision, articles 4–8)¹⁴⁰.

¹³⁹ National People's Congress of the People's Republic of China, *Law of the People's Republic of China on Sino-Foreign Equity Joint Ventures* (中华人民共和国中外合资经营企业法), adopted on 1 July 1979,

¹⁴⁰ National People's Congress of the People's Republic of China, *Law of the People's Republic of China on Sino-Foreign Equity Joint Ventures* (中华人民共和国中外合资经营企业法), articles 4-8, adopted on 1 July 1979, last amended on 15 March 2001 (now repealed), available at: http://www.npc.gov.cn/englishnpc/Law/2007-12/13/content_1384090.htm [last accessed: 8 May 2025].

The EJV contract, although not public, would have included mandatory clauses required by Chinese law (Sino-Foreign Equity Joint Venture Law, 2001 revision, articles 14-18)¹⁴¹, such as :

- Scope of business and duration of the venture (usually 10–30 years);
- Profit distribution mechanisms;
- Board composition and voting rights;
- Technology transfer clauses (if applicable);
- Dissolution and dispute resolution, often with Chinese courts as default jurisdiction

In the context of the luxury sector, additional attention was typically paid to brand ownership, trademark protection, and quality control. Foreign partners often inserted clauses to ensure exclusive control over design, brand image, store aesthetics, and customer experience, areas that directly affect brand equity. Zegna likely secured such rights contractually to avoid reputational dilution and operational misalignment with its global brand standards.

The legal structure of equity joint ventures (EJVs) imposed several formal obligations: registration with MOFCOM (Ministry of Commerce), filing of joint venture contracts and articles of association, and compliance with rules on governance, capital contributions, and profit distribution. Such ventures were considered limited liability companies under Chinese law, with each partner's liability limited to the capital subscribed. The standard governance structure included a Board of Directors composed of representatives from both partners, with all major decisions requiring

¹⁴¹ National People's Congress of the People's Republic of China, *Law of the People's Republic of China on Sino-Foreign Equity Joint Ventures* (中华人民共和国中外合资经营企业法), articles 14-18), adopted on 1 July 1979, last amended on 15 March 2001 (now repealed), available at: http://www.npc.gov.cn/englishnpc/Law/2007-12/13/content_1384090.htm [last accessed: 8 May 2025].

unanimous or supermajority approval, a model that promoted balance but often slowed down operational decisions.

Under **Article 6** of the 1990 JV Law, profits were to be distributed proportionally to capital contribution, and partners could not repatriate capital without MOFCOM approval. Following the law, it is possible to reconstruct the most likely clauses based on standard Sino-foreign JV models of the early 2000s. These would have included:

- *Board Composition and Voting Rights:* A balanced board with equal representation from both partners. Major decisions, such as capital increases, profit distribution, or amendments to the articles, would have required unanimous consent.
- *Profit Distribution Clause:* Net profits to be distributed in proportion to capital contributions (50/50), after taxation and mandatory reserves. Repatriation of profits was subject to foreign exchange control approval by State Administration of Foreign Exchange (SAFE) and Ministry of Commerce (MOFCOM).
- *Exit Clause:* Most JV contracts included a lock-in period (5–10 years), followed by pre-emptive rights, drag-along/tag-along rights, or provisions for buyback of shares in case of deadlock or strategic divergence.
- *Dispute Resolution Clause:* Given the international nature of the JV, it is likely that Zegna negotiated arbitration under CIETAC rules in Beijing or Shanghai, with Chinese law as the governing law. This reflects common practice for EJVs involving Western luxury firms (Beamish & Wang, 1989)¹⁴².
- *Confidentiality and IP Protection:* Zegna would have likely required strict clauses on non-disclosure of trade secrets, trademarks, and production know-how, given the high value of its brand and risk of counterfeiting in China.

¹⁴² Paul W. Beamish and Hui Y. Wang, “Investing in China via Joint Ventures,” *Management International Review*, Vol. 29, No. 1 (1st Quarter, 1989), pp. 57–64, published by Springer, available at: <https://www.jstor.org/stable/40227915> [last accessed 8 May 2025].

The JV with Sharmoon allowed Zegna to navigate both regulatory and cultural entry barriers. Legally, it provided the only viable structure for foreign entry at the time; strategically, it enabled local supply chain integration, risk-sharing, and faster expansion into China's then-nascent luxury landscape. From a regulatory perspective, the JV benefited from government incentives aimed at encouraging technology transfer and domestic industry development, aligning with Beijing's broader economic policy objectives.

However, this entry model also presented significant limitations. Equity joint ventures in China were often characterized by limited foreign control over day-to-day operations, dependency on the Chinese partner for local compliance, and exposure to legal uncertainty regarding IP protection and contract enforcement. The governance model, generally based on unanimity within a board composed of representatives from both sides, often led to deadlocks or misaligned strategic priorities. These vulnerabilities became increasingly evident as China's legal environment evolved. With the promulgation of the Foreign Investment Law (FIL) in 2020, the legal foundation for all joint ventures was fundamentally changed. The FIL abolished the separate regulatory treatment of EJVs, CJVs, and WFOEs, integrating them into a unified corporate law framework. Foreign-invested enterprises (FIEs) are now subject to the Company Law of the PRC, allowing for full foreign ownership in sectors such as luxury retail and manufacturing.

This legal reform created a turning point for existing JVs like Zegna's. Although Zegna has not publicly disclosed the fate of its JV with Sharmoon, the absence of references to equity-method joint ventures in its 2022 and 2023 Annual Reports suggests that the company may have either fully acquired Sharmoon's shares or restructured the venture into a wholly foreign-owned subsidiary. In both cases, the transition would have required approval from SAMR (State Administration for Market Regulation) and compliance with new filing obligations under the FIL implementation regulations.

From a legal standpoint, the JV model chosen in 2003 was appropriate for the era, providing Zegna with operational access and shared risk management. However, it also imposed constraints on flexibility, profit repatriation, and strategic control. The

post-FIL shift, whether formal or de facto, reflects a broader trend among multinational companies seeking to simplify governance and enhance autonomy in their Chinese operations (Wu, 2019)¹⁴³. Zegna’s case illustrates how contractual models must evolve in response to legislative changes, and how the ability to restructure cross-border ventures is a key component of long-term legal strategy.

Table 5 – Key clauses in the Zegna–Sharmoon JV structure

	Clause type	Standard provision in 2003 JV model	Relevance for Zegna-Sharmoon JV
1	Board composition and voting rights	Equal representation; major decisions require unanimous consent	Balanced control ensured trust but limited operational agility
2	Profit distribution	Profits distributed in proportion to capital contribution (50/50), subject to tax and MOFCOM approval	Aligned with equal shareholding and reduced risk of financial asymmetry
3	Exit mechanism	Lock-in period; pre-emption rights; drag/tag-along rights; buyout in case of deadlock	Strategic flexibility in long-term planning, especially under regulatory change
4	Dispute resolution	CIETAC arbitration in Beijing/Shanghai; governed by Chinese law	Provided international dispute handling mechanism in case of contractual breach
5	Confidentiality and IP protection	Strict clauses on trade secret protection and trademark use; limits on disclosure to third parties	Essential to safeguard luxury brand integrity in high-risk IP environment

¹⁴³ Weiping Wu, *Prospects for Institutional Investors in China*, in *Institutional Investment in China’s Infrastructure*, Lincoln Institute of Land Policy, 2019, available at: <http://www.jstor.com/stable/resrep22073.6> [last accessed: 6 May 2025]

In Zegna’s case, the legal strategy appears to have been one of “controlled proximity”: by entering into a joint venture, Zegna could legally operate retail stores, gain access to local market knowledge, and navigate early administrative licensing requirements, while retaining its brand equity and maintaining operational standards through contractual governance.

The JV with Sharmoon was also aligned with the broader policy climate of the early 2000s, marked by China’s accession to the WTO in 2001, and a gradual but controlled opening to foreign capital. According to the Catalogue of Industries for Guiding Foreign Investment (2002 Edition)¹⁴⁴, the retail distribution of luxury goods was still a “restricted” sector, meaning that only EJV or cooperative joint ventures were legally permissible for foreign entrants. This regulatory backdrop changed significantly in the following years.

With the promulgation of the Foreign Investment Law (FIL) of 2020, which came into effect in January 2020, the legal basis for joint ventures was entirely overhauled. The FIL abolished the EJV Law, unifying the legal treatment of foreign and domestic investment and allowing wholly foreign-owned enterprises (WFOEs) in previously restricted sectors. In line with this evolution, Zegna progressively transitioned toward full ownership of its operations in China, a shift visible in its growing network of directly operated stores and its delisting of the JV structure from official corporate disclosures after 2020 (Ermenegildo Zegna Group, Annual Report 2021, p. 113)¹⁴⁵.

This evolution illustrates how Zegna strategically used the joint venture framework not as a long-term solution, but as a temporary legal tool to gain early access and later consolidate control under a more favorable regulatory regime. The company’s legal trajectory, from an EJV governed under special foreign investment law, to a WFOE operating under the unified Company Law, mirrors the broader liberalization of

¹⁴⁴ State Development Planning Commission and Ministry of Foreign Trade and Economic Cooperation of the People's Republic of China, *Catalogue for the Guidance of Foreign Investment Industries* (2002), promulgated on March 11, 2002, c, available at: <https://www.lawinfochina.com/Display.aspx?lib=law&Cgid=39792> [last accessed 16 May 2025].

¹⁴⁵ Ermenegildo Zegna Group, *Annual Report 2021*, p. 113, published on April 30, 2022, available at: <https://ir.zegnagroup.com/financial-documents/annual-reports/default.aspx> [last accessed 8 May 2025].

China's legal environment for foreign investors. Zegna's entry through a legally compliant EJV structure, and its later strategic exit into full control, provides a model example of how legal instruments, regulatory timing, and contractual safeguards can be orchestrated to manage both risk and opportunity in a transitioning legal system.

3.2.3 *Objectives and performance in the Chinese market*

The Group's early move, anchored in the opening of its first boutique at the Peninsula Hotel, reflected an ambitious long-term strategy: to establish brand leadership in a market with vast growth potential and limited foreign competition. The subsequent creation of a 50-50 joint venture with local menswear manufacturer Sharmoon in 2003 was not only a necessity due to the regulatory restrictions but also a means to gain access to local expertise and accelerate domestic integration.

Zegna's stated objectives in China were clear (Zegna Group, 2021)¹⁴⁶:

- (1) Establishing early brand recognition and market leadership in the premium menswear segment;
- (2) Localizing production and supply chains to improve agility and market responsiveness;
- (3) Expanding the direct-to-consumer (DTC) model across tier-1 and tier-2 cities;
- (4) Protecting brand value through robust legal compliance and intellectual property enforcement

To support these goals, Zegna gradually shifted its operational model from joint ventures to wholly foreign-owned enterprises (WFOEs) following the introduction of the Foreign Investment Law (FIL) in 2020, gaining full legal control and enhancing strategic flexibility. This transition marks a strategic recalibration aimed at

¹⁴⁶ Ermenegildo Zegna Group, *Annual Report 2021*, published on April 30, 2022, available at: <https://ir.zegnagroup.com/financial-documents/annual-reports/default.aspx> [last accessed 8 May 2025].

consolidating Zegna's autonomy in branding, store experience, and digital operations, which are central to its positioning as a luxury menswear leader.

What differentiates Zegna from other luxury players in China is its focus on men's fashion and its ethos of "quiet luxury." While many Western brands aggressively pursue logo visibility and ostentatious aesthetics, Zegna has maintained an image of understated elegance and timelessness. This positioning has proven particularly resonant with China's elite male demographic, especially government officials, business leaders, and entrepreneurs, many of whom prefer discretion and cultural resonance over flamboyant displays of wealth. Moreover, Zegna's vertical integration, owning a complete value chain from raw materials to finished garments, has allowed the Group to maintain high standards of quality and consistency, even as it localized part of its production through Sharmoon and established regional merchandising teams within China (Zegna Group, 2021)¹⁴⁷. This stands in contrast with many of its competitors who rely heavily on third-party production and licensing agreements. By owning the supply chain, Zegna ensures both legal compliance (e.g., product safety, labor law standards) and brand control, two critical aspects in the highly regulated and reputation-sensitive Chinese market.

From a strategic communication perspective, the "One Brand" strategy, launched globally in 2022 and gradually extended to the Chinese market, further contributed to Zegna's positioning. This initiative unified all brand expressions under a single logo and design language, reinforcing a global message while allowing for localized retail experiences and product curation. In China, this translated into enhanced clienteling practices, immersive store layouts (as seen in the new Shanghai and Chengdu flagship boutiques), and refined CRM systems designed to foster long-term relationships with high-value customers. In terms of brand awareness and client loyalty, Zegna has been consistently ranked among the most respected brands in men's formalwear in China, despite intense competition from both international conglomerates (e.g., LVMH, Kering) and emerging local players (e.g., Icicle, Bosideng). While these brands have

¹⁴⁷ Ermenegildo Zegna Group, *Annual Report 2021*, published on April 30, 2022, available at: <https://ir.zegnagroup.com/financial-documents/annual-reports/default.aspx> [last accessed 8 May 2025].

leveraged aggressive marketing or celebrity endorsements, Zegna's strategy has relied more on institutional partnerships, long-term retail presence, and sustainable storytelling, notably through the Oasi Zegna and ESG initiatives. From this strategic and competitive perspective, Zegna's positioning in China is not based solely on sales growth or store count but rather on the integration of legal foresight, brand coherence, and cultural intelligence. This approach, more aligned with long-term brand equity rather than short-term gains, positions Zegna as a resilient and legally aware operator in a market that is increasingly volatile, regulated, and sensitive to foreign ownership dynamics.

In order to evaluate whether these strategic objectives have been effectively pursued and achieved, it is essential to examine Zegna's actual performance in the Chinese market after the entry into force of the FIL (2020).

From a performance perspective, China has emerged as a key revenue driver. In 2023, the Asia-Pacific region, driven mainly by Greater China, accounted for approximately 41.5% of total Group revenues, amounting to nearly €788 million (Zegna Group, 2023, p. 16)¹⁴⁸. While the Group does not publicly disclose China-specific figures, management disclosures and the density of directly operated stores in Greater China, currently the highest globally, suggest that Mainland China is the main driver of the APAC segment.

The data confirm that Asia-Pacific consistently represents the Group's largest revenue-generating region, outperforming both EMEA and North America. The chart also reveals a year-on-year increase in revenue from the Asia-Pacific region between 2021 and 2023, consistent with the Group's investment in store expansion, customer experience, and digital integration.

¹⁴⁸ Ermenegildo Zegna Group, *Annual Report 2023*, p. 46, published on April 5, 2024, available at: <https://ir.zegnagroup.com/financial-documents/annual-reports/default.aspx> [last accessed 8 May, 2025].

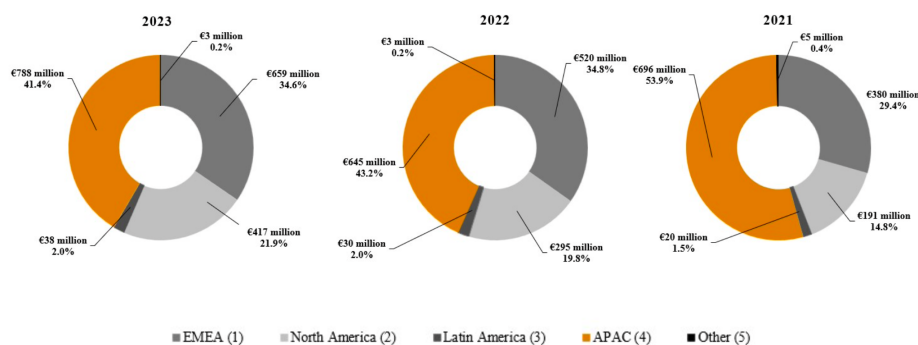


Figure 4: Revenue of Zegna in 2021, 2022 and 2023, by geographic area
Source: Zegna annual report, 2023, p.16

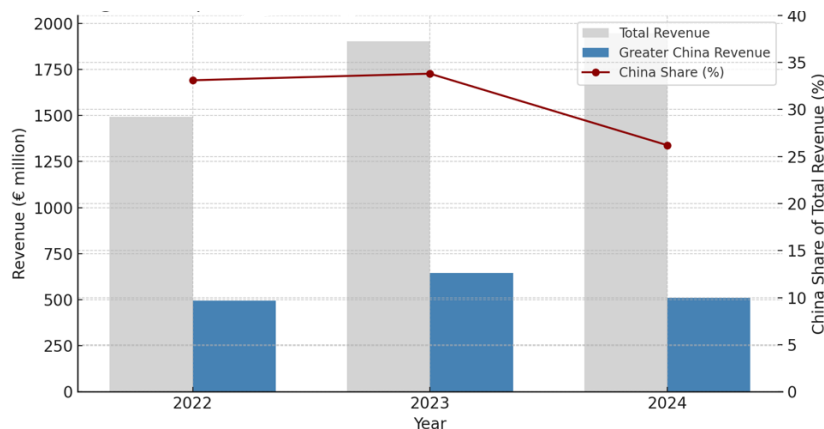
Overall, this geographic segmentation underscores the need for territory-specific legal and strategic frameworks, especially as the Group navigates the challenges of regulatory compliance, IP protection, and consumer engagement in Asia's highly competitive luxury landscape.

To complement the regional revenue breakdown provided in the previous chart, it is crucial to disaggregate the Asia-Pacific segment further by focusing on the specific contribution of Greater China. Although Zegna's official annual reports do not disclose country-level revenue figures, multiple external sources, including market analysis and financial databases, offer reliable estimates that shed light on the significance of this market. As shown in the graph below, Greater China has played a central role in driving Zegna's global growth trajectory, particularly in the post-pandemic recovery period.

In financial terms, Zegna's expansion in Greater China has produced remarkable results, particularly in the decade following the joint venture with Sharmoon. According to the graph, between 2022 and 2023, the Group's revenues in Greater China rose from €494 million to €643.8 million, representing more than 33% of total global revenues. This upward trajectory confirmed Zegna's success in leveraging its early presence, store density, and strong brand positioning among affluent Chinese consumers. However, in 2024, Greater China revenues dropped to approximately €509.4 million, representing just 26.2% of total turnover, a decline that suggests a potential shift in market dynamics. This performance must be evaluated not only in

light of macroeconomic volatility and shifting consumer behavior, but also considering Zegna’s evolving legal and operational structure, which allowed the company to adapt with agility to local demands while maintaining global brand consistency.

Graph 4 – Total revenue vs Greater China revenue (2022-2024)



Source: Zegna annual report, 2021, 2022, 2023

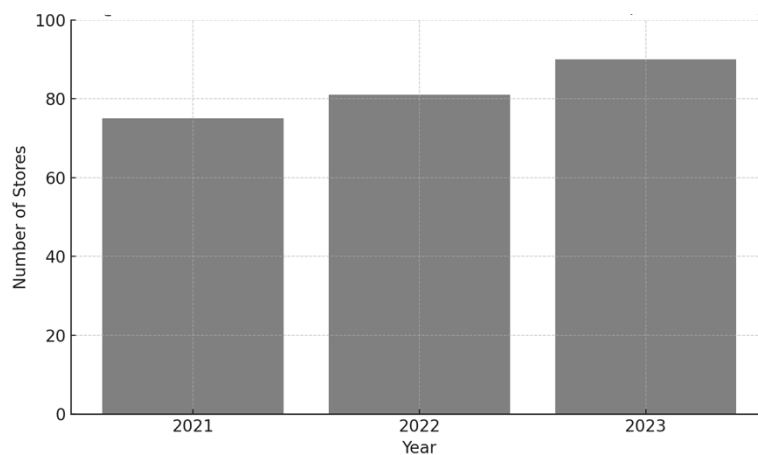
Zegna’s profitability has remained solid in the region despite these headwinds. The Group’s EBITDA margin improved to 11.6% in 2023 from 10.6% in 2022, a performance that reflects strategic efficiency, operational cost management, and customer loyalty in high-end product categories (Zegna Group, 2023, p. 53)¹⁴⁹. These margins are particularly noteworthy when compared to peer competitors in the menswear luxury segment, many of whom rely heavily on wholesale distribution or franchise models, which often generate lower margins and offer reduced brand control.

In addition to financial results, retail expansion metrics demonstrate Zegna’s long-term commitment to the region. As of 2023, the Group operates more than 75 directly operated stores (DOS) in Mainland China, accounting for the largest concentration of

¹⁴⁹ Ermenegildo Zegna Group, *Annual Report 2023*, p. 53, published on April 5, 2024, available at: <https://ir.zegnagroup.com/financial-documents/annual-reports/default.aspx> [last accessed 8 May, 2025].

Zegna boutiques globally. These are located not only in Tier 1 cities like Beijing, Shanghai, and Shenzhen, but also in emerging urban centers such as Chengdu, Hangzhou, and Nanjing, reflecting a well-calibrated expansion strategy focused on new luxury clusters and high-growth areas. The 2021 opening of flagship stores in Shanghai’s Taikoo Li Qiantan and Chengdu’s Sino-Ocean Taikoo Li are milestones in this expansion, offering immersive store experiences that combine local cultural elements with the brand’s global identity (Zegna Group, 2023¹⁵⁰; Zegna Newsroom, 2021)¹⁵¹.

Graph 2 – Number of Zegna stores in Greater China



Source: Zegna Annual Reports 2021 (p.158), 2022 (p.151), 2023 (p.161)

This widespread retail presence has not only enhanced physical visibility, but also enabled the company to implement its “One Brand” strategy more effectively. Introduced globally in 2022, this strategy was aimed at simplifying the brand architecture, unifying logo and design language, and reinforcing Zegna’s identity across all touchpoints. In China, it translated into store renovations, curated

¹⁵⁰ Ermenegildo Zegna Group, *Annual Report 2023*, p. 53, published on April 5, 2024, available at: <https://ir.zegnagroup.com/financial-documents/annual-reports/default.aspx> [last accessed 8 May, 2025].

¹⁵¹ Zegna Group, *Zegna Opens Two New Flagship Stores to Celebrate its 30th Anniversary in China*, 20 October 2021, <https://www.zegnagroup.com/it/news/31-zegna-opens-two-new-flagship-stores-to-celebrate-its-30th-anniversary-in-china/> [last accessed 10 May 2025].

merchandising, and advanced clienteling systems tailored to local customer profiles. This customer-centric approach has supported the retention and development of high-net-worth individuals (HNWI), who continue to account for a large portion of sales in the luxury menswear category.

However, the 2024 contraction in Chinese revenues suggests the limits of organic growth in a maturing market. Several factors contribute to this shift, including the growing influence of domestic luxury brands like Icicle, consumer fatigue with Western labels, and heightened sensitivity to price-value perception in the context of economic uncertainty. Moreover, younger consumers in China now seek brands that reflect authenticity, sustainability, and cultural relevance, which challenges legacy luxury houses to evolve their messaging and delivery. Zegna has attempted to address these shifts through targeted actions. The expansion of the Oasi Zegna project, both as a product platform (e.g., Oasi Cashmere) and sustainability narrative, plays well with eco-conscious consumers. Additionally, the brand has invested in WeChat mini-programs, local influencers, and data-driven CRM, enabling more precise targeting and digital engagement. These efforts align with Chinese regulatory expectations on data management and consumer protection, offering an implicit compliance advantage over less digitally mature competitors.

Yet the evolving regulatory landscape in China, marked by increased scrutiny on data flows, ESG disclosures, and business transparency, also represents a long-term challenge. Zegna, as a listed company operating via WFOEs, is subject to a higher degree of compliance obligations, which can impact both administrative costs and brand agility. Still, the company's strategic consolidation of its Chinese operations, together with the decision to internalize its joint venture model, has positioned it to meet these demands with better governance and brand alignment.

3.2.4 Critical evaluation of the case

Zegna's long-standing presence in China is, in many ways, a success story. Its entry in 1991 positioned the company as one of the earliest Western luxury brands to believe in the long-term potential of a market that, at the time, lacked both the infrastructure and consumer base for high-end retail. Over the years, the company navigated complex regulatory environments with remarkable discipline, first through a joint venture with Sharmoon, later through the transition to a wholly foreign-owned structure following the introduction of the 2020 Foreign Investment Law.

From a legal standpoint, Zegna's conduct was exemplary: compliant, responsive, and adaptive. However, from a strategic management perspective, it is legitimate to ask whether legal consistency alone has been sufficient to drive competitive advantage. Zegna did not lose ground, but it did not fully capture it either. The brand's emphasis on global coherence, control, and subtlety, while valuable in Western markets, seems to have limited its ability to develop cultural intimacy with Chinese consumers. In a market where luxury is increasingly tied to personalization, symbolism, and local relevance, the brand's quiet luxury positioning risks being perceived as distant or static. Early entry and full ownership are not, in themselves, sufficient to secure long-term leadership.

What Zegna's case reveals, in my view, is a missed opportunity to use law as a proactive strategic tool rather than simply a compliance framework. Rather than merely adapting to regulatory change, the brand could have employed more flexible legal vehicles, such as innovation-focused local subsidiaries or co-branded joint ventures with creative agencies, to deepen its engagement with younger consumers. At the same time, the delay in restructuring post-FIL raises questions about the Group's agility in responding to regulatory openings. In a market like China, legal windows of opportunity open and close quickly, and brand architecture must evolve accordingly.

Today, this need for legal and strategic agility is more urgent than ever. The international trade landscape is undergoing a structural shift. Recently, the United States further increased tariffs on a range of Chinese goods as part of a broader

“economic security” policy. China responded with retaliatory measures, and while the EU has so far taken a more measured stance, it remains caught in the crossfire of escalating Sino-American tensions. Brussels is currently debating a coordinated response to protect European interests, particularly in sectors like automotive, tech, and luxury, from indirect exposure to Chinese countermeasures or trade restrictions. The fragmentation of global trade blocs is no longer hypothetical: it is unfolding.

For European luxury companies like Zegna, this scenario raises concrete risks. Increased scrutiny on cross-border capital flows, shifts in consumer sentiment driven by nationalism, or sudden changes in import duties could all impact profitability in China. Moreover, regulatory divergence, particularly in areas such as ESG, data privacy, or supply chain transparency, may require differentiated legal compliance strategies, with significant cost implications. Zegna’s Italian identity, long seen as a strength in China, could in some scenarios become a liability, especially if European governments align more closely with U.S. trade and tech policy.

In light of these challenges, Zegna cannot afford to remain static. I believe the company must evolve toward a more modular and localized legal structure, one that allows for strategic experimentation within China while maintaining centralized brand governance. This could include the establishment of a local R&D and co-creation entity under Chinese commercial law, with tailored IP licensing, data governance policies aligned with the Personal Information Protection Law (PIPL), and partnerships with domestic players for distribution and cultural activation. The brand could also invest in predictive legal scenario modeling to prepare for potential decoupling scenarios between China and Western markets.

Ultimately, what the Zegna case teaches us is that legal strategy must not only protect, it must empower. It must enable brands not just to operate, but to lead. Zegna’s experience demonstrates that compliance and foresight have allowed the company to remain present in China for over 30 years, an achievement in itself, but the next phase requires something more: a willingness to rethink legal tools as levers for localization, agility, and cultural relevance.

In conclusion, I consider Zegna's journey in China to be both an impressive testament to long-term commitment and a cautionary tale for European luxury. Global presence is no longer a function of early entry or even brand equity alone. It is now a function of legal nimbleness, strategic plurality, and the ability to interpret and respond to complex geopolitical and cultural signals. For Zegna to remain not only visible, but influential, in the Chinese market, it must move from defensive positioning to strategic reinvention, driven not just by tradition, but by transformation.

3.3 Ferretti Group

3.3.1 Company profile

Ferretti Group is a global leader in the design, construction, and sale of luxury yachts, founded in 1968 in Bologna, Italy, by brothers Alessandro and Norberto Ferretti. Originally established as a family-run company in the nautical leisure sector, the Group gradually evolved into one of the most prominent players in the international yachting industry, known for its craftsmanship, innovation, and strong Made in Italy identity. Headquartered in Cattolica (RN), Italy, Ferretti operates eight shipyards throughout the country and holds a portfolio of prestigious brands including Riva, Pershing, Itama, Ferretti Yachts, Custom Line, CRN, and Wally. Each brand targets specific customer segments, ranging from sporty and innovative vessels to ultra-personalized superyachts exceeding 95 meters in length. This multi-brand strategy allows Ferretti to address a wide range of luxury clients in over 70 countries, supported by a selective network of dealers and direct commercial branches, including in Hong Kong, Singapore, and the United States (Ferretti S.p.A, 2025)¹⁵². The company's core business is divided into three main yacht categories: Composite Yachts (up to 30 meters), Made-to-Measure Yachts (30–43 meters), and Superyachts (up to 95 meters), offering increasing degrees of customization and complexity. Its customer base

¹⁵² Ferretti S.p.A., *Sustainability Report 2024*, approved on March 14, 2025, available at: <https://www.ferrettigroup.com/en-us/sustainability> [last accessed 15 May, 2025].

primarily consists of ultra-high-net-worth individuals seeking a blend of performance, elegance, and technological advancement.

A pivotal moment in Ferretti's internationalization was the acquisition by the Chinese industrial conglomerate Weichai Group in 2012, which injected financial stability and accelerated the brand's global positioning, particularly in Asia. This strategic partnership laid the groundwork for Ferretti's 2022 Initial Public Offering (IPO) on the Hong Kong Stock Exchange, which made it one of the few Italian companies to be dual-listed in both Asia (HKEX: 9638) and Europe (Euronext Milan: YACHT.MI). Ferretti's strategic commitment to the Chinese market is further demonstrated by the establishment of Ferretti Group Asia Pacific Ltd., a Hong Kong-based subsidiary that manages operations, marketing, and client services across Greater China.

Today, Ferretti is a vertically integrated player managing the entire production process in-house, from design and engineering to delivery and after-sales services. The company emphasizes sustainability, innovation, and digital transformation, including the development of full-electric propulsion systems and hybrid technologies (Ferretti ESG Report, 2021)¹⁵³. As of FY2024, Ferretti reported net revenues exceeding €1.24 billion and a record order backlog of €1.7 billion, confirming its strong global market position (Ferretti S.p.A, 2025)¹⁵⁴.

3.3.2 *Entry strategy and M&A activities*

Ferretti Group's trajectory of international expansion, particularly toward the Chinese and Asia-Pacific markets, has been shaped not by conventional licensing or distribution models, but through complex M&A operations and corporate restructuring designed to optimize both strategic positioning and legal architecture. Central to this process was the 2012 cross-border acquisition by Weichai Holding Group Co., Ltd., followed by the 2022 IPO on the Hong Kong Stock Exchange. These transactions,

¹⁵³ Ferretti S.p.A., *Environmental, Social and Governance Report 2021*, published on May 27, 2022, available at: <https://www.ferrettigroup.com/en-us/sustainability> [last accessed 15 May, 2025].

¹⁵⁴ Ferretti S.p.A., *Annual Financial Report 2024*, pp. 2-4, approved on March 14, 2025, available at: <https://www.ferrettigroup.com/en-us/investors> [last accessed 16 May, 2025].

taken together, provide an instructive example of how ownership, control, and jurisdiction can be legally engineered in the luxury industry.

The 2012 acquisition of Ferretti Group by Shandong Heavy Industry Group – Weichai Holding Co., Ltd. (Weichai) marked a pivotal turnaround in the company's trajectory, taking place in the context of severe financial distress. Prior to the transaction, Ferretti was burdened by unsustainable debt levels with over €600 million in debt and a deteriorating market position following the 2008 global financial downturn, and an urgent need for recapitalization to preserve industrial continuity. In this context, the operation was not a classic share deal but rather a hybrid structure involving equity injection, debt restructuring, and partial creditor write-off, mechanisms commonly used in restructuring under Italian law. The deal, announced in January 2012, involved a comprehensive financial restructuring totaling approximately €374 million, including a €178 million equity injection by Weichai to acquire a 75% controlling stake, and a further €196 million committed in new lines of credit and working capital refinancing (Ferretti S.p.A., 2012)¹⁵⁵. The remaining 25% of the equity was retained by a pool of creditors, including The Royal Bank of Scotland and Strategic Value Partners, through the partial conversion of debt into equity claims.

Legally, the transaction was a private cross-border M&A governed by Articles 2447 and following of the *Italian Civil Code*, which discipline capital increases for loss recovery, and by the provisions of the *Testo Unico della Finanza* (D.Lgs. 58/1998), given the involvement of multiple financial stakeholders. Given the distressed nature of the transaction, the acquisition falls within the typology of a "distressed M&A", in which the acquirer does not merely purchase equity, but also inherits and restructures portions of the target's financial liabilities. This classification implies increased legal complexity, including mandatory corporate approvals, coordination with judicial

¹⁵⁵ Ferretti Group, *Ferretti Group: SHIG – Weichai Group acquires control of the Group to jointly explore the luxury yacht market*, Press release, 10 January 2012, https://st.ilsole24ore.com/pdf2010/SoleOnLine5/Oggetti_Correlati/Documenti/Economia/2012/01/comunicato-stampa-ferretti.pdf?uuid=5ff9f7e-3b73-11e1-870e-6eab628fd0aa [last accessed 17 May 2025].

authorities in the presence of pre-insolvency proceedings, and enhanced disclosure obligations.

Crucially, the deal included a parallel debt restructuring agreement whereby senior creditors, such as Royal Bank of Scotland and Strategic Value Partners, agreed to a significant haircut on existing liabilities in exchange for minority equity stakes in the restructured company. This approach, combining capital injection with debt-equity swap and creditor governance rights, is a well-established solution in Italian corporate restructuring practice, particularly under pre-bankruptcy arrangements (*concordato preventivo in continuità*).

Although the Share Purchase Agreement (SPA) was not made public, it is reasonable to infer, based on standard Italian and EU M&A practice for strategic transaction involving distressed assets, that the agreement likely included:

- Reserved matters and supermajority rights concerning industrial decisions;
- Board representation guarantees, particularly for Weichai executives;
- Drag-along and tag-along clauses to ensure exit flexibility;
- Jurisdiction clauses, probably designating Italian courts or international arbitration for dispute resolution.

The involvement of Weichai as a Chinese SOE also implies that the acquisition underwent scrutiny under both Italian Law 56/2012 on foreign strategic investment and Chinese outbound investment regulations, highlighting the transaction's political and strategic significance.

Additionally, it is important to note that this acquisition occurred before the reinforcement of Italy's Golden Power framework (D.L. 21/2012, subsequently amended by D.L. 105/2019 and L. 21/2021), which today would likely subject such an operation to governmental screening due to Ferretti's industrial relevance and brand recognition as part of the Made in Italy heritage. This absence of institutional review at the time likely facilitated a faster execution of the deal but raises normative

questions under the current legal landscape, especially in light of recent geopolitical developments and the increasing strategic value attributed to high-end manufacturing sectors.

Post-acquisition, Weichai implemented a multi-layered holding structure, incorporating a Hong Kong entity, Ferretti International Holding Ltd., controlled via Weichai Holding (Hong Kong) Ltd., itself fully owned by the PRC-based parent (Ferretti S.p.A, 2022, p. 50)¹⁵⁶. This structure achieves multiple legal and strategic objectives:

- (i) it isolates Ferretti's financial risk at the holding level;
- (ii) it allows for regulatory arbitrage by using Hong Kong's flexible legal environment for listing and investor access;
- (iii) it separates operational governance (under Italian law) from financial governance (under Hong Kong law).

The culmination of this strategy was the IPO on the Hong Kong Stock Exchange, completed on March 31, 2022, through which Ferretti sold 83.58 million shares at HK\$22.88, raising approximately US\$243 million (Ferretti S.p.A, 2021, p. 167)¹⁵⁷. The IPO was regulated under the HKEX Main Board Listing Rules and the Companies Ordinance (Cap. 32), both of which emphasize high transparency standards, public float requirements, and disclosure of control chains. Crucially, Ferretti adopted a dual-class share structure, granting enhanced voting rights to Weichai despite dilution of equity, ensuring effective control without full ownership (Ferretti S.p.A, 2021, p. 44)¹⁵⁸.

This model of governance, where a PRC-owned entity controls a European industrial asset via an offshore holding and a foreign stock exchange, raises interesting questions of jurisdictional layering and regulatory arbitrage. Ferretti's production, design, and

¹⁵⁶ Ferretti S.p.A., *Annual Report 2022*, p. 50, published on March 8, 2023, available at: <https://www.ferrettigroup.com/en-us/investors> [last accessed 16 May 2025].

¹⁵⁷ Ferretti S.p.A., *Annual Report 2021*, p. 167, published on April 28, 2022, available at: <https://www.ferrettigroup.com/en-us/investors> (accessed May 16, 2025).

¹⁵⁸ Ferretti S.p.A., *Annual Report 2021*, p. 44, published on April 28, 2022, available at: <https://www.ferrettigroup.com/en-us/investors> (accessed May 16, 2025).

employment remain subject to Italian and EU law; its holding structure and IPO are subject to Hong Kong regulation; and its ultimate controller is a Chinese SOE subject to PRC public law. This legal layering creates both resilience and complexity: it shields Ferretti's industrial core from Chinese political risk, while granting Weichai capital and strategic access through a globally recognized legal system.

The rationale behind this architecture is strategic as well as legal. It allows Ferretti to:

- Raise capital in Asia while maintaining brand identity in Europe;
- Retain Italian tax residence and manufacturing while satisfying HKEX listing conditions;
- Maintain operational continuity with delegated Italian management, while formal control remains in Chinese hands.

As summarized in the table below, this multi-jurisdictional structure reflects a modern M&A logic, where legal form follows strategic function. Control is not exerted by day-to-day management or location of production, but through equity chains, voting rights, and offshore holding layers.

Table 6 – Post IPO Corporate Structure of Ferretti Group

	Entity	Jurisdiction	Role	Ownership / Voting rights
1	Weichai Group (PRC)	China Mainland	Ultimate controlling shareholder	100% ownership of Weichai HK
2	Weichai Holding Ltd. (HK)	Hong Kong SAR	Direct owner of Hong Kong holding	100% ownership of Ferretti Intl. Holding
3	Ferretti International Holding Ltd. (HK)	Hong Kong SAR	Intermediate holding company for IPO	Holds majority stake in Ferretti S.p.A.

4	Ferretti S.p.A (Italy)	Italy	Operational headquarters, design and shipbuilding	Listed entity; controlled via holding
5	HKEX Public Shareholders	Hong Kong SAR	Minority public investors post-IPO	Own ~25% equity; limited voting rights due to dual- class shares

From a legal-analytical perspective, the Ferretti case demonstrates how corporate law operates as a strategic design tool in international expansion. Rather than reacting passively to jurisdictional constraints, Ferretti proactively selected a legal architecture that maximized regulatory efficiency, investor access, and control retention. This confirms the relevance of corporate law as a dynamic variable in cross-border M&A, especially in sectors where intangible assets, geopolitical exposure, and brand sovereignty are critical.

3.3.3 Objectives and performance in the Chinese market

Ferretti Group's strategy in the Chinese market is guided by a dual objective:

- (1) to establish a long-term and controlled commercial presence in one of the world's most promising clusters of ultra-high-net-worth individuals (UHNWIs); and
- (2) to leverage its Hong Kong corporate platform to enhance capital access, investor visibility, and regional influence.

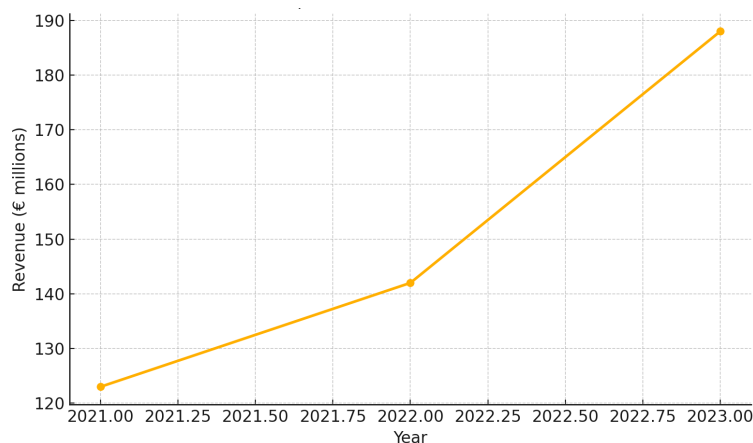
These goals were explicitly outlined in the company's IPO documents (Ferretti S.p.A, 2024)¹⁵⁹ and reiterated in subsequent financial and sustainability reports.

¹⁵⁹ Ferretti S.p.A., *Overseas Regulatory Announcement – Preliminary Consolidated Results as of 31 December 2023 and IPO Developments*, press release, 19 February 2024, PDF document [last accessed 19 May 2025].

Strategically, the creation of *Ferretti Group Asia Pacific Ltd.*, headquartered in Hong Kong, serves as the regional hub for commercial operations, client services, after-sales support, and marketing across Greater China and Southeast Asia. This structure marks a shift away from traditional dealer models toward controlled regional representation. A flagship showroom and service center in Hainan, the emerging Chinese yacht capital within the Free Trade Port initiative, further reinforces the Group’s operational entrenchment in China (Ferretti S.p.A, 2022, p. 6)¹⁶⁰.

On a commercial level, the Group’s results indicate a strong upward trend. In 2023, the Asia-Pacific region generated approximately €188 million in consolidated revenues, up from €142 million in 2022 and €123 million in 2021. (Ferretti Group, 2021, 2022, 2023)¹⁶¹¹⁶²¹⁶³.

Graph 4 – Asia Pacific revenue of Ferretti Group



Source: *Ferretti annual report, 2021, 2022, 2023*

¹⁶⁰ Ferretti S.p.A., *Annual Report 2021*, p. 23, published on April 28, 2022, available at: <https://www.ferrettigroup.com/en-us/investors> [last accessed 17 May 2025].

¹⁶¹ Ferretti S.p.A., *Annual Report 2021*, p. 23, published on April 28, 2022, available at: <https://www.ferrettigroup.com/en-us/investors> [last accessed 17 May 2025].

¹⁶² Ferretti S.p.A., *Annual Report 2022*, published on March 8, 2023, available at: <https://www.ferrettigroup.com/en-us/investors> [last accessed 17 May 2025].

¹⁶³ Ferretti S.p.A., *Annual Financial Report 2023*, approved on March 14, 2024, available at: <https://www.ferrettigroup.com/en-us/investors> [last accessed 16 May 2025].

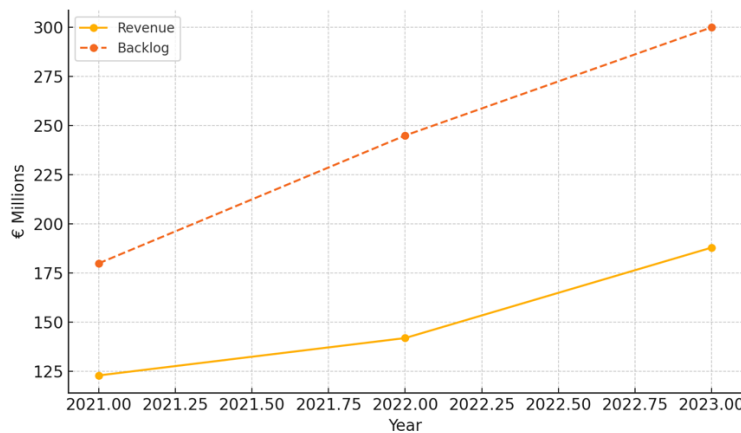
This represents a compound annual growth rate (CAGR) of +23% over the period 2021–2023, significantly outperforming EMEA and Americas. The growth occurred despite macroeconomic instability and the regulatory uncertainty affecting foreign flag registration and maritime activity in China during the COVID-19 period.

Ferretti's success in Asia-Pacific can be attributed in part to its adaptive product strategy. Chinese clients have shown a marked interest in both mid-size composite yachts (below 30 meters) and large, fully customized superyachts (above 40 meters), which offer a blend of prestige, innovation, and Made in Italy heritage. Ferretti has capitalized on this with targeted campaigns for the *Riva* and *Custom Line* brands, emphasizing exclusivity, Italian craftsmanship, and sustainability values. The group's ESG messaging, particularly around "yachting sustainability" and marine conservation, has proven to resonate with aspirational consumers in Tier 1 and emerging Tier 2 cities.

A key performance indicator of strategic relevance is the order backlog. At the end of FY2023, Ferretti reported a global backlog of €1.4 billion, of which approximately €300 million (21%) was attributed to contracts from the Asia-Pacific region (Ferretti S.p.A., 2023, p. 5). This not only reflects market demand but provides forward-looking revenue visibility, an essential factor for strategic planning and investor confidence. Importantly, these contracts are not the result of transient consumer behavior but stem from structural transformations in the Chinese yachting landscape, including the liberalization of marina licenses, domestic policies to promote yacht tourism (especially in Hainan), and the emergence of private yacht clubs with regional influence (Ferretti S.p.A., 2023, p. 7)¹⁶⁴.

¹⁶⁴ Ferretti S.p.A., *Annual Financial Report 2023*, approved on March 14, 2024, available at: <https://www.ferrettigroup.com/en-us/investors> [last accessed 16 May 2025].

Graph 5 – Asia Pacific revenue and order backlog (2021-2023)



Source: Ferretti Annual Report 2023

Despite the solid revenue growth observed in Asia-Pacific and the expansion of commercial presence in China, Ferretti Group continues to face a number of structural and operational challenges that affect its ability to consolidate a dominant position in the Chinese luxury nautical sector.

First, the Group's distribution model in China remains partially indirect, relying significantly on independent dealers rather than fully owned subsidiaries or mono-brand showrooms. While this model offers cost efficiency and market access, it limits the company's control over brand experience, after-sales service, and pricing strategies, key elements in a market where customer expectations and symbolic value are exceptionally high (Ferretti S.p.A., 2023, p. 45)¹⁶⁵.

Second, competition from emerging Chinese shipyards and other Asian players (notably Korean and Singaporean) is intensifying, particularly in the 20–40 meter segment, which is price-sensitive and technically replicable. Local manufacturers benefit from proximity to demand, favorable tax regimes, and rising national pride among consumers, increasingly shifting attention from imported to domestic offerings. While Ferretti retains a strong heritage and design advantage, these intangible assets

¹⁶⁵ Ferretti S.p.A., *Annual Financial Report 2023*, p. 45, approved on March 14, 2024, available at: <https://www.ferrettigroup.com/en-us/investors> [last accessed 16 May 2025].

may not be sufficient in an environment where functionality, price, and regulatory ease often outweigh prestige.

Third, the post-COVID recovery of China's luxury sector has proven uneven and volatile. The temporary lift in demand recorded in 2023 risks being reversed by macroeconomic headwinds, including a slowing property sector, tightened credit, and softer consumer sentiment. The 2024 data (Ferretti S.p.A., 2024, p. 16)¹⁶⁶ already indicate a sharp decline in APAC revenues (from €98.2 million to €39.6 million YoY), suggesting a fragile demand foundation. Regulatory unpredictability adds to the challenge: port and flagging regulations, limitations on foreign-flagged yachts, and local import tariffs create a fragmented and often protectionist environment.

<i>(In milioni di euro, eccetto le percentuali)</i>	2024	%	2023	%
Europa	593,5	50,6%	480,1	43,2%
MEA	269,3	23,0%	212,3	19,1%
APAC	39,6	3,4%	98,2	8,8%
AMAS	271,0	23,0%	320,4	28,9%
Totale ricavi netti nuovo	1.173,3	100,0%	1.111,0	100,0%
Imbarcazioni usate	67,0		23,5	
Totale ricavi netti	1.240,3		1.134,5	

Figure 5: Global revenue of Ferretti in 2023-2024, by region
Source: Ferretti Annual Report 2024 (p.16)

Lastly, the geopolitical dimension must be considered. While Ferretti is legally headquartered in Italy and retains its brand identity, it is ultimately controlled by Weichai, a Chinese state-owned enterprise. In the context of rising global scrutiny on foreign investments in strategic industries, and amid ongoing tensions between China and the West, including renewed U.S. tariffs on Chinese goods in 2025 and EU debates over economic security, the Group may face increasing pressure from regulators, investors, and even consumers. This situation exposes Ferretti to reputational risks and

¹⁶⁶ Ferretti S.p.A., *Annual Financial Report 2024*, p. 16, approved on March 14, 2025, available at: <https://www.ferrettigroup.com/en-us/investors> [last accessed 16 May, 2025].

potential misalignment between its Italian brand heritage and the perception of Chinese ownership. Furthermore, any escalation of trade frictions or policy divergence could impact Ferretti's supply chain, logistics, or financial operations, particularly in jurisdictions with FDI screening mechanisms.

While Ferretti's presence in China has produced tangible results in terms of revenue and market penetration, its long-term sustainability depends on its ability to navigate regulatory asymmetries, geopolitical uncertainty, and a highly competitive market structure. Legal flexibility, brand authenticity, and governance clarity will be essential for maintaining its competitive edge in the Chinese luxury nautical market.

3.3.4 Compliance, ESG and Intellectual Property Protection

Ferretti Group's legal strategy does not end with ownership and governance structures, it extends into risk management, ESG compliance, and the proactive protection of intangible assets. These dimensions are not merely add-ons to the firm's internationalization model but represent integral pillars of its long-term resilience and strategic positioning, particularly in the highly regulated and IP-sensitive environment of Asia.

Operating under a complex corporate structure that spans Italy, Hong Kong, and indirect exposure to the PRC, Ferretti has implemented a multi-tiered compliance framework designed to navigate divergent regulatory environments. The group's Italian headquarters operates under the full scope of EU and Italian corporate law, including obligations under D.Lgs. 231/2001 concerning administrative liability, tax compliance (IVA, IRES, IRAP), and employment law. Simultaneously, the Hong Kong-based Ferretti International Holding Ltd. is subject to the Companies Ordinance and Financial Reporting Council rules, ensuring transparency in financial reporting and capital market operations (Ferretti S.p.A, 2022, p. 100)¹⁶⁷. To manage regulatory fragmentation, Ferretti maintains distinct compliance oversight units for each

¹⁶⁷ Ferretti S.p.A., *Annual Report 2022*, p. 100, published on March 8, 2023, available at: <https://www.ferrettigroup.com/en-us/investors> (accessed May 16, 2025).

jurisdiction, coordinated through a centralized risk management function. This is particularly critical for intercompany transactions between the Italian and Hong Kong entities, which must comply with OECD guidelines on transfer pricing and with local tax authorities. The group's Code of Ethics and its Model 231, periodically updated, include controls for anti-corruption, conflict of interest, export regulations, and data protection (Ferretti S.p.A, 2025)¹⁶⁸. The company has also adopted a Whistleblowing Policy aligned with EU Directive 2019/1937, applicable not only to Italian operations but extended to its international offices. This policy ensures that violations of legal and ethical standards can be reported across the entire value chain, reinforcing transparency and accountability.

Ferretti has increasingly integrated ESG considerations into its legal and strategic planning. The group's approach is structured around three pillars: Planet, People, and Prosperity, as formalized in its recent Sustainability Reports. Key environmental initiatives include the development of hybrid propulsion systems, optimization of hull design to reduce fuel consumption, and the transition toward renewable energy in shipyards (Ferretti S.p.A, 2021, p. 54)¹⁶⁹. On the governance side, Ferretti has established an ESG Committee under the Board of Directors, which supervises sustainability performance, stakeholder engagement, and compliance with international standards such as the Global Reporting Initiative (GRI) and SASB. This committee also oversees the company's alignment with the EU Taxonomy Regulation and Task Force on Climate-related Financial Disclosures (TCFD) frameworks, especially relevant for Ferretti's European reporting obligations (Ferretti S.p.A, 2025, p.49-52)¹⁷⁰. Social responsibility initiatives include investments in employee training, health and safety programs, and local community engagement, particularly in the Romagna region. In China and Southeast Asia, the group's marketing strategy emphasizes ESG-aligned branding, with campaigns highlighting sustainability and

¹⁶⁸ Ferretti S.p.A., *Sustainability Report 2024*, approved on March 14, 2025, available at: <https://www.ferrettigroup.com/en-us/sustainability> [last accessed 16 May, 2025].

¹⁶⁹ Ferretti S.p.A., *Environmental, Social and Governance Report 2021*, p. 54, published on May 27, 2022, available at: <https://www.ferrettigroup.com/en-us/sustainability> [last accessed 15 May, 2025].

¹⁷⁰ Ferretti S.p.A., *Sustainability Report 2024*, pp. 49-52, approved on March 14, 2025, available at: <https://www.ferrettigroup.com/en-us/sustainability> [last accessed 16 May, 2025].

ocean preservation, topics that increasingly influence the preferences of high-end consumers.

As a luxury yacht manufacturer, Ferretti's value proposition is deeply rooted in brand identity, design innovation, and product exclusivity, all of which depend on robust intellectual property (IP) protection. The group manages a large portfolio of trademarks and industrial designs registered across major jurisdictions, including the EUIPO, WIPO, the PRC, and Hong Kong. Each of its brands—Riva, Pershing, Itama, CRN, Custom Line, and Wally—has distinct trademark coverage, monitored through internal legal teams and external IP consultants. In the Asian context, particularly in China, IP infringement remains a real threat. Ferretti has therefore adopted a preventive strategy, including registration of core trademarks in both Roman and Chinese characters, cooperation with local customs authorities for the identification of counterfeits, and contractual clauses with suppliers and distributors that include strict confidentiality, exclusivity, and anti-counterfeiting obligations.

Ferretti's contracts also contain territorial use limitations and IP ownership clauses, ensuring that design rights and technical know-how remain under the legal ownership of the Italian parent company, regardless of where manufacturing or distribution occurs. The company actively participates in industry associations for IP protection, such as UCINA and the European Boating Industry network, and engages in litigation when necessary to enforce its rights.

3.3.5 Critical evaluation of the case

The case of Ferretti Group offers a compelling yet unconventional example of how Italian luxury companies navigate the Chinese market, not through direct entry or traditional joint ventures, but through a full acquisition by a Chinese strategic investor. This reverse dynamic challenges many of the assumptions typically made in Western-centric analyses of market internationalization and demands a critical assessment from both a strategic and legal perspective.

From a strategic standpoint, Ferretti's integration into the Weichai Group ecosystem was not merely a survival strategy after its financial distress in 2012, it was a repositioning maneuver that redefined its growth trajectory. The acquisition allowed Ferretti to benefit from significant financial backing, improved access to Asian markets, and the ability to leverage the parent company's influence and infrastructure in China. However, unlike brands such as Zegna or Prada, Ferretti did not enter the Chinese market as a "foreign brand building local presence" but as a brand partially internalized within a Chinese industrial and political framework. This shift has profound implications for its strategic autonomy and long-term identity.

Legally, the acquisition was governed by Italian law, but the subsequent creation of a multi-layered holding structure via Hong Kong raises questions about transparency and regulatory arbitrage. This model is not uncommon among multinationals, yet in Ferretti's case it distances operational control from the Italian context, concentrating decision-making power within a Chinese state-influenced corporate environment. From a legal risk management perspective, this arrangement introduces vulnerabilities: it dilutes the role of Italian corporate governance norms and potentially exposes the brand to shifting Chinese regulatory and geopolitical pressures.

The performance data, though positive in terms of revenue growth in APAC, also suggest that Ferretti's presence in China is still heavily dependent on distribution networks rather than on owned assets or direct retail. This limits its ability to control brand experience, enforce IP rights robustly, or adapt swiftly to shifts in consumer behavior. Unlike Zegna, which has invested in culturally localized stores and experiential branding, Ferretti remains primarily product-driven and dealership-based, a strategy that may not be sufficient in a market increasingly demanding emotional and narrative engagement with luxury.

Where the Ferretti case becomes particularly delicate is at the intersection of geopolitical dynamics and strategic control. In May 2025, the United States announced a further wave of tariffs targeting Chinese-owned industrial assets, including those operating in third-party countries, which has reignited the debate within the EU over screening mechanisms for foreign direct investment (FDI), especially when involving

state-owned enterprises. Ferretti's position as an Italian firm under Chinese majority control places it in an ambiguous and potentially vulnerable zone. Should the European Commission or Italian authorities decide to enforce more stringent rules under the Golden Power framework or under the 2019 EU FDI Screening Regulation, Ferretti could be subject to compliance reviews, operational limitations, or even constraints on access to sensitive maritime technologies.

Moreover, reputational risk should not be underestimated. In an increasingly polarized global environment, where national identity and corporate transparency are becoming strategic assets, Ferretti's "dual soul" may alienate either Western stakeholders, who may view it as compromised by Chinese influence, or Chinese policymakers, who may expect tighter alignment with national priorities. This tightrope becomes even more difficult to walk for a luxury company whose value proposition is deeply tied to authenticity, narrative control, and perceived independence.

From a personal perspective, I believe Ferretti's strategy was a necessary but costly trade-off. It ensured survival and opened new markets, but at the price of long-term strategic flexibility and brand governance. While Zegna has managed to integrate into China without ceding equity or governance, Ferretti has accepted a structural dependency that complicates its global positioning. In a scenario of escalating trade tensions or regulatory divergence, this dependency may become a liability—both commercially and symbolically.

In conclusion, Ferretti's expansion in China is not a model of success to be replicated uncritically, but a case to be interpreted with nuance. It reveals the complex legal, reputational, and strategic consequences of global interdependence in an era where luxury brands are not only economic actors, but also geopolitical symbols. Its future will depend on how well it can protect its Italian identity, maintain legal and narrative sovereignty, and navigate the rising tides of international power competition.

3.4 Comparative analysis: Final consideration of the case studies

The legal and strategic structures adopted by Zegna and Ferretti reveal profound divergences that reflect different philosophies of internationalization. Zegna's model is legally grounded in a classical joint venture agreement under Chinese company law. By entering into a 50/50 partnership with SharMoon in 2003, more than a decade after its initial commercial presence in China, Zegna demonstrated a clear willingness to operate within Chinese norms, but without renouncing strategic control. The joint venture structure, though often complex to manage, allowed the company to maintain a balanced governance model, in which key decisions, especially regarding branding, pricing, and investment—remained under Italian authority. From a legal standpoint, this choice represents a calibrated response to foreign investment restrictions, enabling market access while preserving brand sovereignty.

Ferretti, by contrast, followed a legal trajectory rooted in distressed M&A under Italian law. Its 2012 acquisition by Weichai was governed by the Civil Code and Italian financial regulations, but the outcome was structurally different. The creation of a holding architecture via Hong Kong placed Ferretti's control within a Chinese corporate perimeter, even though production and design remained in Italy. From a governance perspective, this configuration distances the brand from its legal jurisdiction of origin and concentrates decision-making power at the shareholder level, with a strong presence of state-owned capital. The result is an asymmetrical governance framework where the operational identity remains Italian, but the strategic trajectory is largely subject to foreign influence.

In terms of risk exposure, Zegna faces moderate but manageable challenges, mostly regulatory adaptation, IP enforcement, and cultural sensitivity. However, the company retains the tools to respond independently to these risks. Ferretti, on the other hand, operates under higher systemic vulnerability: geopolitical tension, reputational ambivalence, and potential compliance friction due to its ownership structure. In the current context, characterized by increased EU vigilance on foreign-controlled

companies in strategic sectors, Ferretti may find itself exposed to policy changes that affect both its operations and legitimacy.

Looking ahead, the long-term prospects also diverge. Zegna's model appears slow but resilient: the company has laid the foundations for sustained growth through deep localization, legal clarity, and brand governance. Ferretti's trajectory is more fragile, dependent on a political-financial alignment that may shift rapidly. While both companies are thriving in the short term, only Zegna appears to have built the institutional flexibility and brand narrative coherence needed to navigate the uncertainties of the next decade.

This comparison confirms that the legal form is not a neutral instrument, but a strategic choice with profound consequences. It defines not only market access, but also brand positioning, strategic room for maneuver, and resilience under pressure. For Italian luxury firms approaching the Chinese market today, the question is not merely how to enter, but how to remain legally and symbolically intact.

Table 7 – Zegna vs Ferretti, strategic comparison

	Dimension	Zegna	Ferretti Group
1	Legal structure	Equity Joint Venture (50%) with SharMoon (2003), under Chinese company law	Full acquisition by Weichai Group (2012), distressed M&A under Italian law
2	Governance model	Italian-controlled; decision-making remains centralized in Italy	Chinese parent company, holding structure via Hong Kong
3	Ownership	Public company (NYSE), majority Italian-owned	Chinese state-owned control (Weichai Holding)

4	Strategic autonomy	High – strategic decisions remain autonomous	Limited – governance influenced by foreign majority ownership
5	Entry mode	Gradual entry: direct retail + JV	Reactive entry via ownership transfer
6	Risk exposure	Moderate (regulatory, IP, cultural)	High (geopolitical, reputational, compliance)
7	Market positioning	High-end positioning with strong brand control	Product-led strategy via indirect dealers
8	Long-term prospect	Sustainable: slow but adaptive, legally stable	Fragile: growth linked to political-financial stability

The comparative exploration of the Zegna and Ferretti Group case studies reveals the complexity of entering and operating within the Chinese market for Italian luxury brands. Each company exemplifies a distinct approach, Zegna through strategic autonomy and legal adaptability, Ferretti through foreign acquisition and capital reorganization. These divergent entry paths are not merely business tactics; they are structural decisions that shape governance, legal risk, brand perception, and ultimately, long-term resilience.

Zegna's gradual and controlled expansion, underpinned by a joint venture model and sustained investment in localized operations, illustrates how legal precision and brand sovereignty can coexist. Ferretti's trajectory, while financially successful in the short term, exposes the trade-offs inherent in yielding ownership control in exchange for liquidity and market access. Its experience demonstrates that regulatory asymmetries, geopolitical pressures, and cultural misalignments are not abstract risks but operational realities.

Both cases underscore that market entry strategies cannot be assessed solely on the basis of revenue growth. Instead, they must be evaluated through a multidimensional lens, one that considers legal infrastructure, strategic governance, and alignment with brand identity. In this light, the two case studies serve not only as empirical validations

of theoretical models but also as windows into the evolving tension between global ambition and national identity in the luxury sector.

Most importantly, these findings speak directly to the research questions posed at the outset of this thesis. They confirm that the legal structure chosen for entry into China profoundly affects a brand's capacity to manage risk, preserve identity, and adapt to institutional volatility. Moreover, they illustrate that in a highly politicized global environment, decisions about ownership, governance, and compliance are no longer peripheral, they are strategic imperatives.

This analysis opens the way to broader reflections about how Italian brands can protect their heritage while competing globally, especially in markets governed by different legal cultures and political economies. It also sets the stage for the concluding chapter, where these insights will be synthesized into a broader reflection on the challenges and opportunities of foreign market integration in an era of geopolitical uncertainty.

CONCLUSION

In reviewing the M&A strategies adopted by Italian luxury brands in the Chinese context, this thesis has challenged the idea that internationalisation is a simple exercise in economic and managerial transfer. In reality, what emerges is that expanding in China today means accepting a continuous confrontation with a profoundly different regulatory, political and cultural ecosystem, which questions the brand not only in its legal structure, but in its real value DNA.

The analysis showed that there is no universal formula for M&A operations in the Chinese market. Transactions are dynamic processes, strongly influenced by brand identity, the type of control exercised, geopolitical timing, and the ability to adapt to institutional ambiguities. Optimal strategies vary according to the level of openness of the industry, the political sensitivity of the sector, and the propensity of the Chinese partner to negotiate spaces of autonomy. In this sense, each acquisition is not just a contract, but a real institutional negotiation, in which the Italian brand is confronted with state logics, changing regulations and implicit expectations of “cultural compliance”. In this scenario, the real risk is not just the loss of corporate control, but the identity integrity of Italian brands, faced with the challenge of preserving authenticity and consistency even within structures that do not always share their genetic code. But it is precisely in this tension that emerge the real strategy: no longer deciding whether to “enter China”, but deciding how to do so, with what tools, and above all with what vision. If China can no longer be seen as a “land to conquer”, then brands must equip themselves for a coexistence based on respect, normative interpretation, and a new form of corporate diplomatic intelligence.

The cases analyzed, although different in form, all lead to the same conclusion: Made in Italy is not fragile, but exposed, and for this reason it must be protected not with closure, but with the right skills. To face China, new professional figures are needed, capable of reading Chinese jurisprudence, understanding cultural codes and handling institutional ambiguity with adaptive intelligence. In this sense, the issue is no longer just “doing business”, but adapting to foreign institutions without losing one's strong identity.

In a global context marked by geopolitical instability, trade wars, aggressive industrial policies and the redefinition of supply chains, M&As are no longer merely economic transactions. They become instruments of strategic positioning, capable of redrawing the boundaries of economic sovereignty and cultural influence. In this framework, Italy can no longer afford a disorganised approach: it is necessary for the State to develop a coherent foreign industrial policy, capable of supporting its national brands in global challenges, protecting intellectual property, strengthening diplomatic advocacy and facilitating access to critical markets such as China.

Future prospects call for systemic thinking. In the coming years, we are likely to see further growth in the number of M&A transactions on a global scale, driven by the need for consolidation, innovation and access to new markets in an environment of increasing regulatory uncertainty. In this context, China will continue to represent a unique challenge: an unavoidable but highly regulatory-intensive market where written and unwritten rules coexist in an elusive manner. For Italian brands, this will imply a profound rethinking not only of entry strategies, but also of post-acquisition governance, with an increasing focus on ESG, digital compliance and local narratives.

From an academic point of view, this research opens up new avenues to be explored. Future investigations could focus on the long-term impact of M&A transactions on the performance of European brands in China, or extend the analysis to other Asian markets characterised by hybrid forms of capitalism. Furthermore, the role of “soft” regulations - ethical codes, ESG standards, sectoral guidelines - as a legitimisation tool in opaque regulatory environments would deserve more attention.

Ultimately, this thesis does not provide definitive answers, but offers a lens through which explore the global expansion in a market like China. Today, internationalisation strategy can no longer be separated from the ability to manage complex institutional contexts, anticipate legal risks and build sustainable alliances. Italian companies, if they want to remain protagonists, will have to move from being mere exporters of beauty and heritage to conscious interpreters of power.

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