LUISS Guido Carli
LIBERA UNIVERSITÀ INTERNAZIONALE DEGLI STUDI SOCIALI

Dipartimento di Economia e Finanza
Cattedra di Law and Economics

MADE WITH ITALY
China Invests in Italy, Trends and Opportunities

RELATORE

Prof. Andrea Renda

CANDIDATO

Arianna De Marco

Matr. 153551

Anno Accademico 2011/2012

Table of Contents

ABSTRACT

Defining the country of origin of a product is becoming obsolete, due to the internationalization of the production process. In this globalized value chain, China has a major role as manufacturer, but it is attempting to incorporate and specialize in new profiting activities. In order to achieve this goal, Chinese companies strive to acquire missing components from foreign countries.

In this perspective, Europe and in particular Italy, represents an important target, because it is rich of new technology and know-how. However, after acquiring Italian companies, Chinese investors ship the acquired assets back to the mother land rather than maintain them in Italy. Therefore, Italian firms are transformed into favorable *prey* to integrate into the investors' value chain.

To improve this situation, Italian companies have to implement their position in the global value chain. Italy should try to build a cooperative relationship with Chinese investors and develop solid cooperation in future production processes.

1. INTRODUCTION

In the twentieth century, progress in the method of production was one of the most determinant revolutions for industry development. During the Second Industrial Revolution, new inventions such as the mechanization of industry challenged the nature of the manufacturing process. More and more industries started to use efficient machines and standardization of stages, which arranged in lines, brought more productivity. This revolutionized the process of creating an object, which became cheaper, faster, but most of all more flexible, because firms were now able to collect together interchangeable parts for all the stages of the value chain.
Nowadays products are still assembled following this method. However, thanks to the ease of transportation and communication something has changed and this generation is now moving toward a Third Industrial Revolution.

All of the activities necessary for the production of goods are now driven by a global value chain. Thanks to this global value chain, countries strive to get access to the best knowledge-intensive operations to implement in the production process in order to be competitive and successful in the global market. For this reason, it is primary to find the most efficient component, which best integrates with the organization of a firm, without caring about the geographical location. Accordingly, production is internationalized and it is always more difficult to determine the country of origin of a product.

An empirical example is China, where multinational companies from all over the world invest in order to reallocate in the country a fragment of their value chain. That is why China is strictly dependent from other developed countries' foreign direct investments, which largely invest in the manufacturing sector.
However, this role as manufacture did not fit China, which has modified its presence in the market since the years 2000, when it started to evolve as a source of foreign direct investment.

Today China is considered a global economic superpower and as such it is deeply integrated in the world economy, principally because it is large enough to considerably affect the world economy. It is also dynamic enough to contribute

effectively to global growth and is extensively open to trade and capital flow to have a considerable impact on other economies (Bergsten, 2009).

As China is becoming an area of intense activity, domestic firms have developed their presence in international markets creating a network of subsidies abroad. In this internationalization strategy, Europe represents an important hub and in particular Italy is an essential pawn in their strategy. Italian companies are rich of new technologies, know-how and brand names, which represent the components necessary for developing China's competences.

From an Italian point of view, domestic firms are challenging this new method of production, where they do not have a main role in the value chain, but once the Chinese invest and acquire Italian firms, they lose control of these acquired assets. In this dynamic process the difficult question to answer is whether the Italian government should intervene to strengthen the national foreign industrial policy and how Italy can build a cooperation with China in order to create the best environment for innovation.

This research aims to take a closer look at this problem and expose some potential solutions. First, section two will examine China's transition from manufacturer to producer and China's new role in the global economy since the year 2000, when it started to evolve as a source of foreign direct investment. Section three will then analyze Chinese outward foreign direct investment, the level of which is relatively low today, but understanding the strategies adopted by Chinese companies is of central interest. Subsequently, section four will provide an overview of the different Chinese investments in Italy, describing motivations and future detriments. Finally, section five will expose the importance of finding a way to strengthen Italian foreign policy.

2. CHINA: FROM MANUFACTURER TO PRODUCER

China was established as a large socialist country under a planned economy. Therefore, it is the principle of self reliance that has guided its development throughout the years. In economic terms, self reliance means developing the economy through only one's own efforts. However no country in the world can survive in such a closed economy; as generally nations derive benefits from supplementing and complementing each other's economies.

The first step in China's shift from a planned economy to a market oriented economy was a reform process which encouraged a gradual opening of the Chinese market. At the end of the 1970's China's government realized that it could not improve its economy under the closed planned economic system. This sparked its leader Den Xiaoping to undertake a series of reforms aimed at opening China's doors. The main advantages of these initiatives were on one hand that China opened up its trade barriers to the global market having the chance to steepen its economic growing curve. On the other hand the country started to attract Foreign Direct Investment (FDI), an important engine of modernization and economic development. Indeed, promoting the open-door policy can be viewed as a way of addressing China's lateness in both technological development and international interdependence.

The increase in FDI has been the greatest contribution to China's economic transformation and since the accession of the country to the World Trade Organization (WTO) in 2001 the volume of FDI in China has increased even further, to the extent that in 2010 China became the world's second largest recipient of FDI after the United States (UNCTAD, 2012). This entry provided incentives for the establishment of more export-oriented FDI, which facilitated the intensification of technological catch up and industrial reconstruction. These strategic alliances between two or more firms took the form of three kinds of investments: equity joint ventures (EJVs), contractual joint ventures (CJVs) and wholly foreign-owned enterprises (WFOEs). The main source countries included the United States, Japan, Germany, the United Kingdom, France, Italy and Norway (Chow, 2002). In addition FDI was mainly concentrated in four Special Economic Zones (SEZ) situated in the eastern costal region, which received special incentive policies for FDI.

2.1. China: The Workbench of the World

The progressive opening of China's market coincided with the development of new trends in business organization. Firms, more specifically multinational companies (MNCs), started to take advantages of the new possibilities for the coordination of industrial processes in the Age of Information and Communication Technology (ICT). The information revolution made possible a geographical dispersal of world industry through the breakdown of business' value chain. Therefore, any company could decide to produce one or several sections of the value chain wherever costs were lower. The redesign of industrial structure resulted in the transferring of labour-intensive manufacturing to China, where foreign firms benefited from a surplus of labour to produce noncore activities (Redding, 2007).

China's increase in FDI following its accession to the WTO also fostered the creation of joint ventures with foreign companies. On one hand China benefited from the creation of such companies as it gained access to modern technology from developed countries that it could not produce on its own. The transfer of such technologies has been fostered by MNCs who not only import capital and knowledge into China, but also boost the technological diffusion process.

On the other hand, multinationals increased their interest for these joint ventures because it was a chance for them to enter the Chinese market and find a lower cost region in which to setup their plants.

The strategy adopted by the MNCs was the internationalization of production through outsourcing or vertical integration. The latter deals with the merging of two businesses that are at various stages of the value chain whose work ends in a unique final product. Its advantage is that it allows a company to have great control over production capacity and over the access to inputs. Unlike vertical integration, a firm prefers to outsource any task from the value chain, even those regarded as core, because it gives more flexibility and helps the company reduce the commitment over their assets. Those activities are performed by an outside supplier from which the firm purchases an intermediate good or subcontracts a service. The benefit is that a firm can achieve a cost advantage over the production of a set of actions, since it can choose the most advantageous business in terms of cost both in labour and input

supply (The Economist, 2009). Therefore, instead of concentrating the production organization in the country of origin, multinational companies from all over the world have preferred to outsource plants in China, where they can lower their production costs.

As a consequence, during the last twenty years China has played the role of final product assembler, becoming *the workbench of the world* where the most famous brands invest their capital in order to outsource and reallocate operational activities linked with manufacturing. The assembly stage can be split into two: the first is the import of intermediate goods by foreign companies in China which are necessary for the production of the final product, and the second the export of finished goods to the company's country of origin.

As an illustration of this process, one can observe that in 2007, 66% of imports in the manufacturing sector were parts and components, while finished goods represented 59% of manufacturers' exports (OECD, 2012). Moreover, China's annual exports have grown rapidly in the last decade from $250 billion in 2000 to $1.9 trillion in 2012 (Rhodium Group, 2012).

Although, at first it may seem that China is just manufacturing and exporting products on the account of other countries, China was able to benefit from such a situation. Indeed, such foreign investments brought capital, new technology, managerial knowledge and labour training to the country. In addition, it provided a framework to conduct business transactions by introducing business structures, modern managerial practices and a more developed legal system (Chow, 2002).

Furthermore this development process has encouraged the rise of the capital/labour ratio and the spread and assimilation of technologies across different sectors. This promotes the increase in total factor productivity (TFP) which is one of the most widely used indicators of growth and measures the efficiency of the input imported in a economy in order to achieve the production process.

Indeed, provided that between 2000 and 2007 the growth rate of output in China was equal to 9.52%, it is possible to notice that the contribution of TFP to output growth is 5.23% per year. This is not an impressive level of TFP compared to advanced economies, but the growth rate in the last decade has been remarkable (OECD,

2012). As a result, it demonstrates firstly that China is moving up in the technology ladder through a catch up process and secondly that the country is upgrading in industrial construction.

From these figures it is clear that the country has not only pursued an *export-led strategy*, but it has smartly fostered a *two-pronged strategy*. The Chinese economy has let MNCs capitalize on the cost advantage of labour-intensive manufacturing and expand exports. However, China understood that the shortfall of an export-led strategy is that it employs only capital equipments and intermediate goods imported by another country. That is the reason why China wanted to pursue internal technological updating, which depends on the extent of diffusion and assimilation of foreign imported technologies (OECD, 2012).

In general the assembly sector contributes relatively little to the overall value chain, but through FDI and the process of learning-by-doing the local businesses have started to gain advantages from the indirect effects of technological spillover. Theoretically spillovers can occur vertically when domestic firms acquire tacit knowledge from foreign companies about both technology and design of new products. Technological spillover may also arise horizontally via labour turnover and the demonstration effect (OECD, 2012). The former deals with the transfer of MNCs trained workers from an FDI firm to a local one. The latter takes place where the simple close contact with other firms in the market inspires the development of new knowledge such as the creation of products or processes, which could not have arisen alone. However, recent studies by Hu and Jefferson show a negative result of horizontal spillover in China since it is associated with the *market-stealing* effect. Foreign-invested firms have no reason to transfer knowledge to domestic firms, who in turn are oppressed by the increase in competition and the reduction of market share and productivity.

In spite of this, the greater contribution of the transfer of knowledge in China is given by the *own-plant* effect which emphasizes the higher productivity levels and productivity growth of FDI business in comparison with local companies. In this view FDI in China has fostered the establishment of domestic industries in various sectors, who gain advantages from spillover and the increase in competition.

Consequently Chinese companies may grow as long as local production catches up and optimistically eclipse FDI plants (Hu & Jefferson, 2002).

2.2. Unbalanced economic growth

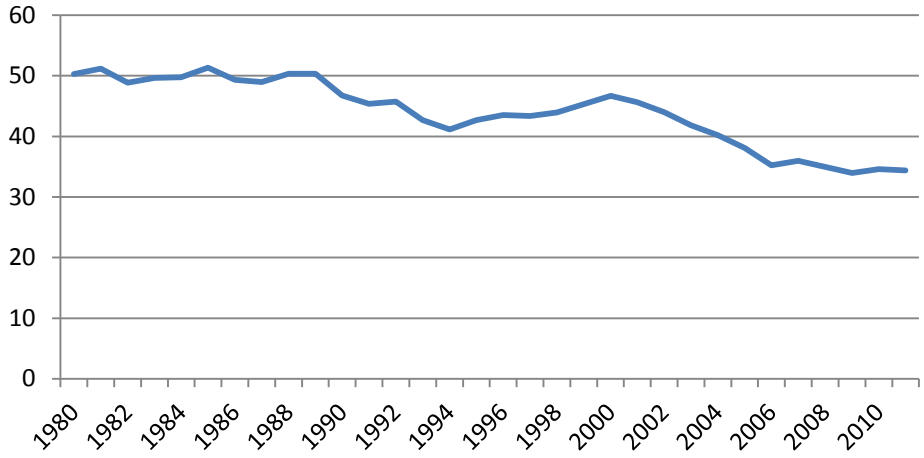
In recent years the growth of FDI flows in China has been exponential reaching in 2011 a peak of $124 billion (UNCTAD, 2012, p. 12). Indeed the expanding of investment has been the major driver of China's growth after the Den Xiaoping economic reforms. Indeed real GDP, PPP (constant 2005 international $) has increased 15 times its level since 1980 (Annex Graph 1). There is evidence from the World Bank Development Indicators that in 2011 China was the second largest economy measured in Gross Domestic Product, before Germany and Japan, but succeeding only to the United States (Annex Table 1).

As early as 2007 the Prime Minister Wen Jiabao stated that *«China's economic growth is unsteady, unbalanced, uncoordinated, and unsustainable»*. China's top political leadership understood that an economy based on foreign investment and exports would be difficult to sustain in the future at the same rate of growth as the last two decades.

In all economies the increase in output, and thus economic growth, depends on four factors which are private consumption, investment, government spending and net exports of goods and services.

The growth of both private consumption and government spending as a percentage of GDP has been rapid throughout the period of reforms (respectively Graph 2 and Graph 3). However, after a first positive moment, the household final consumption expenditure as a percentage of GDP has lagged behind the fast growth of the economy, a lag that has become particularly evident since 2000. The household consumption fell sharply reaching the lowest share of 34,39% of the GDP in 2011, which is considered worse than any major economy in the world.

Graph 2: China: Household consumption expenditure as a percentage of GDP, 1980-2011

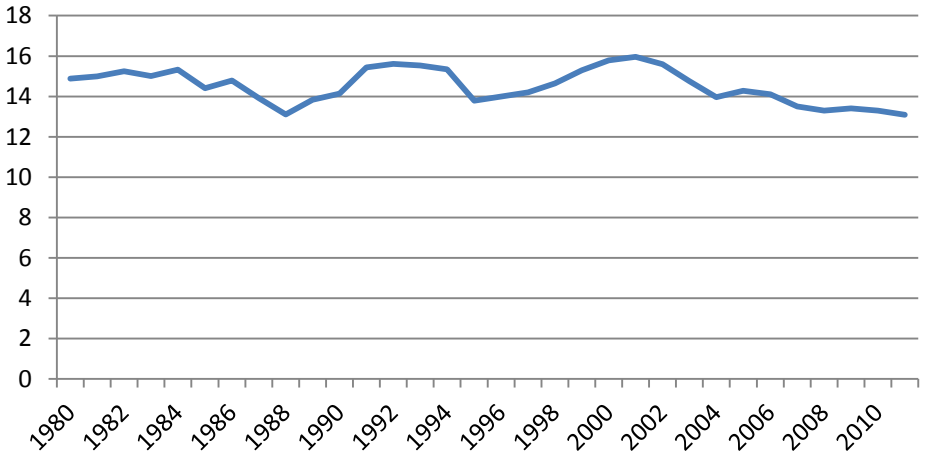


Source: The World Bank, 2012

On the other hand, general government final consumption expenditure as a percentage of GDP has been relatively stable, with an average of about 14 percent throughout the reform period. Even if it declined from a peak of 16 percent of GDP in 2001 to 13 percent in 2011.

According to these results, the household final consumption and the government final consumption cannot be used to explain Chinese growth during the last two decades.

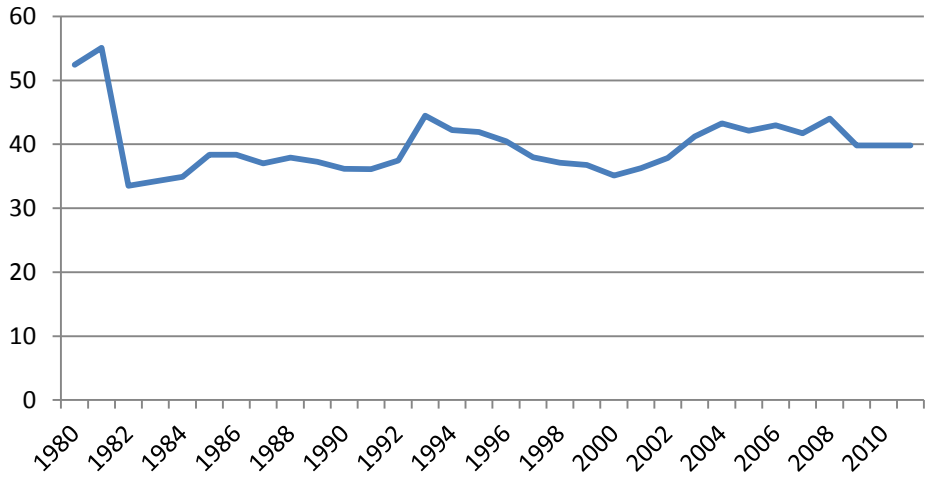
Graph 3: China: General government final consumption expenditure as a percentage of GDP, 1980-2011



Source: The World Bank, 2012

In contrast, as noted earlier, China is characterized by an extraordinary high rate of investment. As shown in Graph 4 in the Annex, investment averaged 36 percent of the GDP during the first decade of reforms, which is relatively high in comparison with developing country standards. In 2011 China's investments account for more than 48 percent of the GDP, which is almost certainly the highest level of investment ever achieved in a large economy. Moreover no country has ever been loaded with so much capital during all the stages of its development (Bergsten, 2009).

Graph 4: China: Total Investment as a Percentage of GDP, 1980-2011



Source: World Economic Outlook, 2012

Another main source of economic growth for China has been the exports of goods and services since 2002. Graph 5 in the Annex illustrates exports of goods and services as a percentage of GDP from 1980 to 2011. It is clear that the index tripled by 2003 reaching almost 30 percent of the GDP. It expanded rapidly with a maximum of 40 per cent of GDP in 2006 and during the last five years from 2007 to 2011 the exports accounted on average for one third of China's growth.

Indeed the contribution of exports of goods and services has been extraordinarily large and the Premier Wen Jiabao realized the urgency to implement macroeconomics reforms worrying that it would be the cause of imbalances in China's economic growth. Chinese development has been supported principally by the combination of investments and exports, which depend on several factors such as product market conditions, skilled or unskilled labour force, government policy and

institutions. However this strategy results in an inefficient use of resources (Bergsten, 2009).

The proposed solutions to decrease the asymmetries in China's economic growth support the implementation of two arguments. The first deals with the reduction of the excessive large trade surplus, due to the large increase in exports. The second relies on expanding domestic consumption, which would help to improve income distribution or at least decrease income inequalities.
These two strategies are complementary in order to achieve China's goal to rebalance its source of economic growth.
In addition, the Chinese government implemented a long-term strategy of which the objective was to achieve technological parity with advanced economies in order to sustain economic growth. The emphasis being on the ability to increase productivity and to encourage domestic companies to grow in the international market (The World Bank, 2012). Such increase in growth can be possible only through putting into effect the cumulative process of learning that China has performed lately. The aim is to be able to shift from being *the workbench of the world* to a higher level status quo: an innovative knowledge economy.

In order to achieve its goal China must branch out its strategy growth with new implications. Firstly, Chinese businesses should continue to improve their technological catch up for the next decade while they understand how to entirely exploit the potential accumulated in both the industry and service sectors. Secondly, even if there has been an increase in research and development (R&D) spending and in the number of patent and published papers, the priority for China's future growth is quality and efficiency of the innovation system. Thirdly, the country knows that creating an innovation system will take years, but the investments done today will turn beneficial when domestic business will translate promising discoveries into profitable innovations. The fourth implication for China's economic growth in an innovation based economy is that human capital is necessary to adapt to technologies and to innovate. Therefore investments in the education system are essential to enhance Chinese human capital in order to meet future demand of a highly skilled labour force. Finally, the most crucial factor to boost innovation development is the

dynamism of firms which have the power of the business sector in their hands (The World Bank, 2012).

2.3. The Red Queen Hypothesis

Once the scope for rising growth through large injection of capital has been exhausted the question that the People's Republic of China must ask itself is if capital, labour, technology and knowledge combined can facilitate this new transformation in a fruitful way.

The renovation of China's growth path is divided in two stages, which are decisive if China really intends to shift from an extensive growth to an intensive growth. The former was suited for catch up and convergence, when capital formation and the spread of existing technologies were the two only sources of development. The latter deals with an increase in efficiency and fosters the role of China as a producer of innovation generated internally (Eichengreen, 2008).

Therefore now that China is at its peak as a manufacturing base, it should move toward a more sustainable model of economic growth through emphasizing the skilled-intensive industry rather than labour-intensive industry, where the country has a comparative advantage. China's future perspective is to learn and adapt to new technologies in baby steps, because the most important issue is that the PRC continues to move and evolve.

The Chinese companies are no longer satisfied to be the manufacturing hub of the global economy, because even if China has received a large amount of FDI, it has not gained a proportionate payoff. They know that the greatest part of profits do not correspond with the manufacturing sector, but they are associated with the design and the brand name, which are in the hands of the foreign companies.

For this reason, the time has arrived for China to move up not only in the technology ladder but also in the value chain trying to put into effect the Red Queen Hypothesis, which is based on the concept that *«it takes all the running you can do to stay in the same place»* (Carrol, 1871). If China wants to keep on growing as fast as in previous

years, it has to implement macroeconomic policies and initiatives aimed at further opening the Chinese market and developing a more integrationist strategy.

The first step toward progress was made by the Chinese government back in 2000, when it launched the *Go global* (走向世界) policy. This policy encouraged Chinese companies to increase their presence in the international market and to invest capital abroad. Indeed it set the precondition for promoting outward foreign direct investment and the domestic firms' commitment to the global market, which is another way to get access to international technologies.

Furthermore, during the 12th Five Year Plan, China confirmed its commitment to coordinate economic and social improvement with its future goal of setting a long-term strategy aimed at balancing the amount of inward and outward FDI. This economic development would happen in two stages in time, with the first stage starting in 2011 and the second occurring between 2021 and 2030.

During the first stage the formula of investment plus exports will remain a driver of economic growth, but a crucial source will be the increase in productivity by technological absorption. In the meantime China should focus its attention on institutions and market organizations which would help the Chinese system to move toward an innovative economy. In addition the business sector will increase the quality of R&D in order to be able to compete with companies from advanced economies in the globalized market.

The second stage of China's transformation support a strategic orientation based on two major combined players. During this second decade there will be an important growth of innovation derived from the development of R&D's discoveries and ideas. On the other hand China will face a rise of multinational enterprises with acquired comparative advantages, such as technological leaders in the globalized market. These domestic firms will advance economic growth thanks to the competitive pressure from companies and integration into the world economy (The World Bank, 2012).

As demonstrated above, FDI in China is characterized by four main features; firstly FDI has been the predominant form of access to global capital. Secondly, a large proportion of FDI in China is directed toward the manufacturing industry. Thirdly,

the area with the highest concentration of foreign investment is the eastern coastal region. Lastly, the FDI fostered the transfer of knowledge and technology from Developed countries.

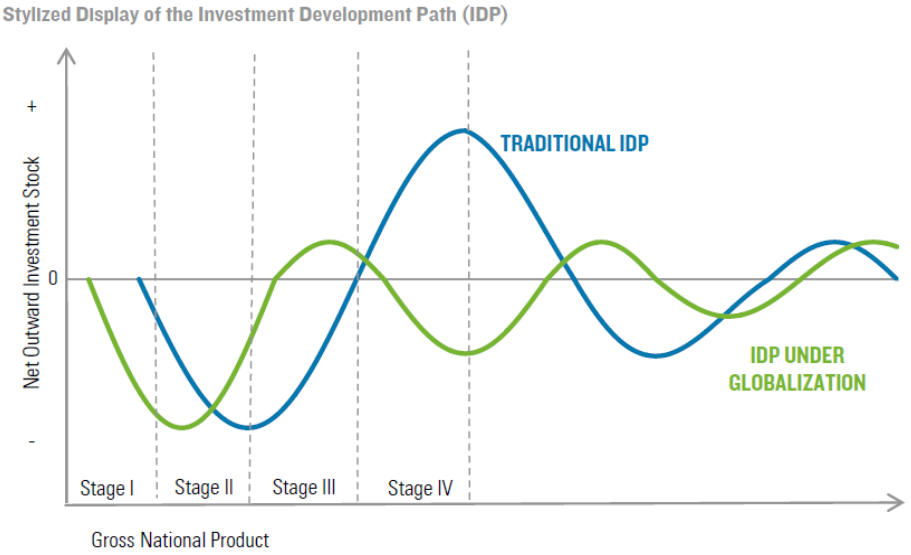
Although, FDI gave China the opportunity to be involved in the international segmentation of the production process, focusing only on Foreign Direct Investments would be quite wrong for China's economic development. Firstly because, as noted earlier, foreign companies can import new technologies, equipment and strategic plans, without creating anything on the Chinese territory. Secondly, FDI concentration would bring China to become not only dependent on foreign science and technology (accepting again a kind of colonial dependency), but also dependent on foreign markets accepting the danger of period of stagnation and recession.

Indeed, China does not want to become a subsidiarity of the international market, but it wants to change and challenge the world economies that see the PRC as the *workbench of the world*. The first step toward this initiative is to start to invest in foreign countries, importing other missing technologies, knowledge and even new ideas.

3. CHINA'S OUTWARD FOREIGN DIRECT INVESTMENT

China's development path is not unusual, since it reflects the typical emergence of developing countries in the global investment scenario. Dunning's (2008) study found a common trend in the development of investments identifying a five step Investment Development Path (IDP), illustrated in Graph 6.

Graph 6: Economic Development and FDI Patterns



Source: Dunning et al. (2008)

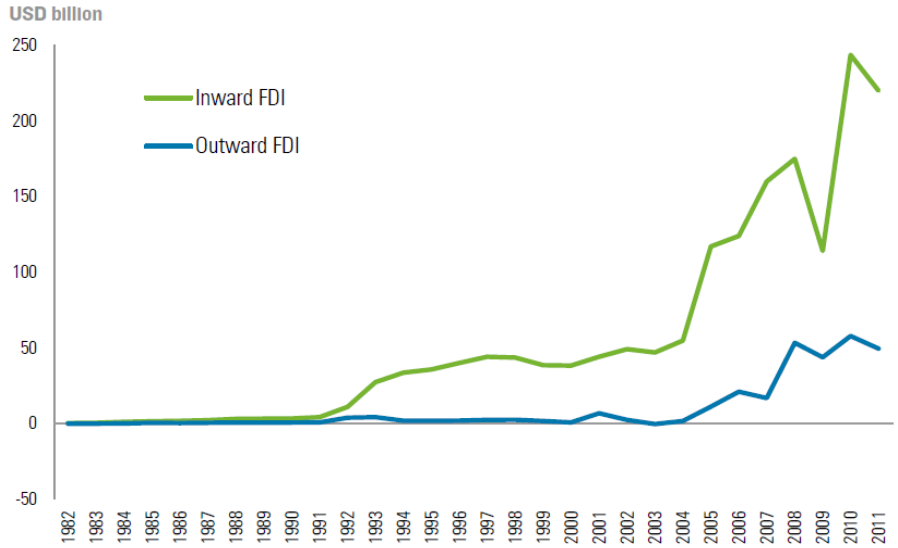
According to the graph, the first stage describes a pre-reforms period, when both inward and outward investment converges to zero. This is because cross-border investors are not interested in flowing capital in the underdeveloped country and domestic firms have no foreign exchange reserve to send abroad. In the following years, as Gross National Product (GNP) rises and economic reforms are put into place, the country starts to move gradually on to the second stage of the Investment Development Path. It is visible that domestic firms moderately attract investment stock from foreign investors. Subsequently with the accumulation of capital through FDI, the country becomes a fast-growing economy and it can begin to invest abroad. The outward investment steeply increases for the next two stages (stage three and four) such that the period of negative net FDI is followed by a period of considerable higher net outward investment stock. It reflects the changing competitive factors of a developing country, who direct its attention to different market opportunities and natural resource endowment. Finally the last stage corresponds to the convergence of

the developing country's GNP to the developed country GNP, moreover FDI remains approximately stable for now on.

3.1 Trends

China's story closely followed the timeline illustrated by Dunning and today its economic performance matches with the second stage of the IDP; Graph 7 illustrates the flows of inward and outward Foreign Direct Investment in China between 1982 and 2011.

Graph 7: China's Inward and Outward FDI Flows, 1982-2011



Source: PBO/SAFE, Rhodium Group

It can be clearly seen that China's outflows of direct investment are considerably smaller than China's inward FDI. The Graph compares the initial massive increase in inward FDI with an only recent gradual rise of outward direct investment. However, China's outward investment has performed remarkably for the last decade, so that in 2010 China's outward FDI flows achieved the peak of US $68 billion, making the country the fourth-largest outward investor after the United States, Germany and France (not counting Hong Kong) (Rhodium Group, 2012).

Although, China's outward investment is a relatively new phenomena, it has experienced a massive increase since the 1990's. Table 2 in the Annex provides

information on the total accumulated value of foreign owned assets in 1990, 2000, 2010 and 2011 and the FDI stock is measured in US dollars at current prices and current exchange rates in millions. It is clearly visible that there was a significant increase in the last decade of the 20th century. In 1990 FDI stock amounts to $4.455 million, rising in 2000 to $27.768 million. Similarly, in the new century FDI stock grew further, recording $298.411 million in 2010 and $365.981 million in 2011 (UNCTAD's FDI database, 2012).

Having grown quickly since the adoption of the *Go global* policy, China's outflows have gradually increased in recent years. Table 3 compares the Chinese amount of FDI from 2000 to 2011 and the outward FDI flows is measured in US dollars at current prices and current exchange rates in billion. According to the table there has been a steep increase of outward FDI flows from $2.52 billion in 2002 to $68.81 billion in 2010. Furthermore in the last five years China has reached the maximum amount of outward FDI flows with an increase of 132% from $22.47 billion in 2007 to $52.15 billion in 2008. In the following years from 2008 to 2009 and from 2009 to 2010 there was a significant rise by 8.2% and 20% respectively, despite the financial crisis. In contrast with this rapid upgrade, between 2010 and 2011 China's outward FDI flow has experienced its first drop in ten years. In 2011 outward FDI equaled $65.12 billion with a decrease of 5.3% from the previous year (UNCTAD's FDI database, 2012).

Table 3: China outward FDI flows in US Dollars at current prices and current exchange rates in billions, 2000-2011

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
China	0,91	6,88	2,52	2,85	5,49	12,26	21,16	22,47	52,15	56,53	68,81	65,12

Source: UNCTAD's FDI database

These figures reveal an impressive Chinese performance considering that a decade ago it was just a marginal player in the outward FDI market. Nowadays, China's role is changing and its FDI abroad is becoming more diversified by sector and by national distribution.

For this reason Table 4 reveals the distribution of outward FDI stock both by economic sector and industry and it compares the proportions in billions of dollars

and in percentage of the total amount in the year 2010. According to this table it is the tertiary economic sector that had received most of the Chinese funds with a percentage of 68% of the total amount equal to $316.5 billion. The main subgroups are Leasing & Commercial Services, Financial Services and Wholesale & Retail with a percentage of 30.7%, 17.5% and 13.3% respectively. The primary sector comes second with almost 15% of the total outward FDI stock. The only relevant industry is Mining, Quarrying & Petroleum which account for $44.7 billion or 14%. Contrary to the tertiary and the primary sector, the secondary sector is considerably smaller with a percentage of less than 6% of the total amount (Davies, 2012).

Table 4: China: distribution of outward FDI stock, by economic sector and industry in US$ billion and percentage of total outward stock, 2010

SECTOR / INDUSTRY	**2010**	
Primary	**47,3**	**14,9%**
Mining, Quarrying & Petroleum	44,7	14,1%
Agriculture, Forestry & Fishing	2,6	0,8%
Secondary	**17,8**	**5,6%**
Manufacturing	11,6	3,7%
Construction	6,2	2,0%
Services	**215,4**	**68,1%**
Leasing and Commercial Services	97,3	30,7%
Financial Services	55,3	17,5%
Wholesale and Retail	42	13,3%
Transport, Storage and Postal Services	23,2	7,3%
Information Transmission, Computer Services & Software	8,4	2,7%
Real Estate	7,3	2,3%
Scientific Research, Technology Services & Geological Prospecting	4	1,3%
Electricity, Gas & Water Production and Supply	3,4	1,1%
Residential Services	3,2	1,0%
Water Conservancy, Environment & Public Management Services	1,1	0,3%
All Sectors / Industries	**316,5**	**100,0%**

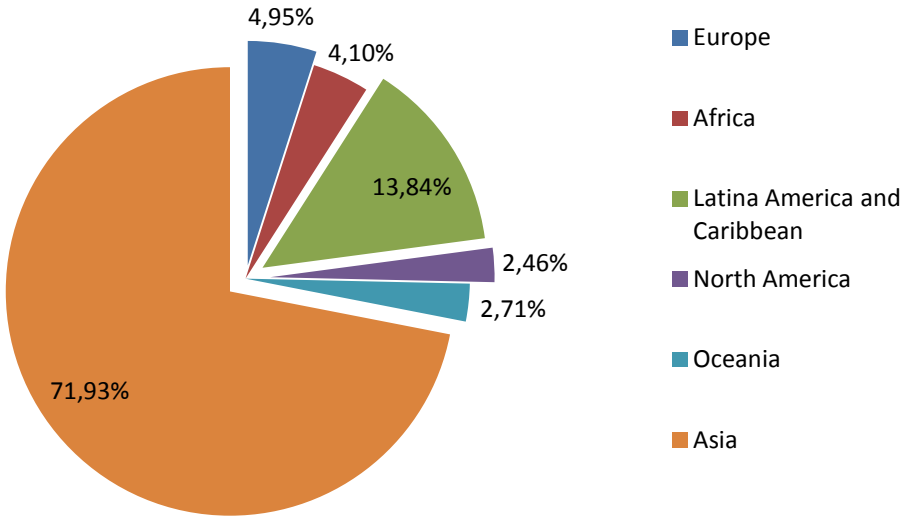
Source: Davies, K. (2012). *Outward FDI China and its policy context, 2012.* Vale Columbia Center on Sustainable International Development.

Analysing the geographical distribution of China's outward FDI stock in Pie Chart 1, it is clearly visible that the highest amount, 72% is invested in Asia. In addition the Asian focal point is Hong Kong, which received in 2010 almost $200 billion (Table 5 in the Annex, which specify the region and economy of destination of Chinese outward investment). The second largest portion of outward FDI from China is Latin America and the Caribbean, which collected 44 billion, which corresponds to 14% of

the total outward FDI. In this region the major beneficiaries are the tax havens such as the British Virgin Islands and Cayman Islands which accumulated 7.31% and 5.45% of the total stock respectively. Other important targets for China are Africa, who accounts alone for more than 4% and Oceania with almost 3% of the total outward FDI stock.

In contrast with these significant figures, not even a 10% of China's outward FDI stock is located in developed economies; in particular in 2010 the largest recipient was Australia with $8 billion that match with less than 3% of the total, whereas North America acquired $7.8 billion or 2.4% of the total (Davies, 2012).

Pie Chart 1: China: geographical distribution of outward FDI stock as a percentage of total Chinese outward FDI stock of $317,2 billion, 2010



Source: Ibid

In 2010 China invested in Europe less than $16 billion that is the 5% of the total global stock; although, Europe attracts only a small portion, it is growing rapidly. Indeed after an initial increase of $1 billion annually between 2004 and 2008, Chinese outward investment in EU27 tripled to $3 billion in 2009 and 2010. In the last two years it tripled again reaching $7.6 billion in 2011 and achieving the maximum in 2012 with $7.8 billion of outward foreign direct investment. The top destination in 2011 of Chinese investment in Europe are in ascending order France, United Kingdom and Germany and they are spread across a different range of sectors from manufacturing to services (Rhodium Group, 2012).

3.2 Empirical Determinants and Main Features

China has recently incremented its interest in the European Market. In order to describe this phenomenon Filippov (2008) coined the expression *Europeanisation*, which defines the Chinese *"sustained efforts to enter competitive European markets, to strengthen the presence in Europe with the goal of getting access to superior technologies, know-how and competence"*.

In theory economists identify two types of investments: the American type and the Japanese type. The first one aims at gaining market share in a foreign country, whereas the second aims at investing in third countries to achieve a cost reduction strategy and gain from lower production costs. In contrast with these two types of investments, Chinese outward FDI is quite different, because of its current stage of development and the competitive advantage in the manufacturing sector. Chinese companies are good manufacturers and assemblers, so they do not want to move their factories overseas; but they remain weak in technological development, brand and international marketing and management. For these reasons China has focused on three main areas of investments. The first is resource-seeking investment, where the focal point is on searching for primary resources, such as cotton, oil, copper and other raw materials which are necessary for Chinese production; in fact the pioneers of Chinese FDI were national oil companies looking for new reserves. The second motive for Chinese FDI is market-seeking, which aims at entering in new markets through service companies that can help to export from Chinese-based factories and capitalize on the global scale. Third is strategic asset-seeking investments aim at increasing the set of a firm's technological endowment and knowledge (Huang, 2012).

In practice Chinese investment in Europe is evolving, because in early years it was concentrated only on natural resources as global Chinese outward FDI; now in order to challenge and strengthen competitiveness China searches also for operating platforms, brand and technology acquisitions.

Although, the collection of specific data on China's outward FDI in Europe is difficult due to Chinese inaccuracy, the Rhodium Group analysed the European market and summed up the results found in Table 6 in the Annex, which gives an

overview of China's outward FDI in Europe (27) by industry between 2000 and 2011.

From this table it is visible that the top eight sectors scored more than $1 billion of investment from China with Chemicals, Plastics & Rubber, Utility & Sanity Services and Automotive in the lead. However in terms of total numbers of projects Communication Equipment & Services, Industrial Machinery & Equipment and Alternative or Renewable Energy scored the highest figures. It indicates that European collaboration with China was mostly determined by small and medium size investments, since they did not receive a great amount of capital.

According to the Table, the preferred modalities to install Chinese presence in Europe are Mergers and Acquisitions (M&A) and Greenfield investment projects. China settled more Greenfield investment than M&A in Europe in terms of total number of projects with 428 projects delivered between 2000 and 2011. Communication Equipment & Services attracted alone almost 100 Greenfield investment projects, whereas the average is around 10 projects per sector.

However, in terms of US dollars, the value of M&A was three times higher than the value of Greenfield projects. Indeed the value of M&A in Europe equaled $15.652 million, whereas the one of Greenfield was just $5.309 million. From these results it is clear that M&A drives the Chinese desire to easily and quickly acquire strategic assets such as advanced technologies and established brand names (Rhodium Group, 2012).

In addition, China has invested on European project $7.8 billion in 2012 and these investments were directed primarily to the acquisition of utilities, such as the Energias de Portugal, consumer products, with the takeover of the majority of shares of Weetabix, industrial machinery and infrastructure, where a Chinese wealth fund bought 10% of London's Heathrow Airport (Hanemann, 2013).

The major players in Chinese outward FDI are state-owned enterprises (SOEs), because their overseas investments get easily approved by the government. However, in Europe the most common type of investors are state sovereign wealth funds, state-owned enterprises, hybrid ownership structures, wholly private firms and wealthy individuals.

Table 7 compares the type of Chinese investors in the EU-27 between 2000 and 2011, analysing the components of Greenfield and M&A that different type of ownership deals with. The highest concentration of capital comes from Government Controlled enterprises, with 72% of the total investment. Indeed these companies regulate by the state have spent more than $15 billion on European M&A and Greenfield, with about 12 billion and 3 billion respectively.

However in terms of total number of deals, Private and Public firms have the largest figures; they account for 63% of deals in Europe both in M&A and Greenfield. In particular Private and Public Greenfield account for almost 2/3 of the total number of this type of project in Europe.

Furthermore Chinese Sovereignty Wealth Fund had the minimum amount of investment in Europe with only two M&A deals within 2000 and 2011 valued at less than $4 billion (Rhodium Group, 2012).

Table 7: China: FDI in the EU-27 by Ownership of Investing Companies in US million and number of deals, 2000-2011

NUMBER OF DEALS

	Greenfield	% share	M&A	% share	All Deals	% share
Government Controlled	148	35%	66	46%	214	37%
State Owned Enterprises	*148*	*35%*	*64*	*44%*	*212*	*37%*
Sovereign Wealth Fund	*0*	*0%*	*2*	*1%*	*2*	*0%*
Private and Public	280	65%	79	54%	359	63%
TOT	**428**		**145**		**573**	

TOTAL INVESTMENT (US MN)

	Greenfield	% share	M&A	% share	All Deals	% share
Government Controlled	2738	52%	12413	79%	15151	72%
State Owned Enterprises	2738	52%	8814	56%	11552	55%
Sovereign Wealth Fund	0	0%	3599	23%	3599	17%
Private and Public	2569	48%	3238	21%	5807	28%
TOT	**5307**		**15651**		**20958**	

Source: Rhodium Group, 2012

In conclusion, in spite of the impressive rate of growth of Chinese investment analyzed in the last 10 years, their outward FDI remains small in absolute terms. Indeed at the USCC (U.S. – China Economic and Security Review Commission), a congressional commission created by the Congress in 2000 on the bilateral relationship between China and US, examined the Chinese outward FDI trends and

discovered that currently it accounts for just 6% of global outward FDI stock (China Economic Net, 2011).

3.3 Limitations and Future Prospects

After the launch of the *Go global* strategy, China shifted from the first to the second stage of the IDP. However, in order to be able to evolve and increase its outward FDI further, Chinese enterprises have to face all the limitations of entering as an investor into the foreign market.

The first difficulty is the regulatory environment, because domestic firms struggle with the adoption of overseas laws, regulations, tax and political situation. Consequently, it has a negative influence on the business relation with the foreign country, who in some cases would force Chinese investment into a corner. This is the reason why China should try to behave respectfully in their host country in order to be welcome instead of being treated suspiciously. Another limitation factor for China's growth is the lack of managerial skills and talent inside the country, due to language and cultural constraints, which are essential to overcome in order to operate globally. Chinese managers appear to be unable to look outside the box of their culture and business model, which has a high hierarchical structure. The third limitation to China is its focus on short-term profit instead of long-term planning, of primary attention in Western model. In addition Chinese companies need to invest heavily in their physical presence and advertisement in order to truly expand in the European market. Finally, another essential limitation that Chinese enterprises should try to surpass is their inexperience in the establishment of international network and integrated production. Due to this lack of experience the government has to control the trends and the way in which outward FDI is conduced. Moreover it should ensure that each investment undertaken by Chinese firms is economically sustainable, as by definition FDI intend to economically, socially and environmentally advance the development of host countries (Xiqing, 2012).

In particular, these limits are frequently met in the European zone, where China is raising its investment. This region represents a real opportunity for Chinese

companies because European firms have had trouble to economically sustain their business model due to the financial crisis, and they are looking for capital abroad to survive in the market. This situation provides Chinese investors with the opportunity to help European companies by investing in their assets, thereby strengthening Chinese presence in the European market, but also learning from its competitive economy and acquiring commercial prospects (Voss, H. & Clegg J., 2012).

A peculiar example in Europe is the Italian case, where Italy's firms are looking abroad for capital to invest in the industrial structure and China is more than willing to bring its capital in such a favorable businesses. In Italy Chinese investors have to keep particular attention on the barriers set by governmental policies, because when Italian firms recognize Chinese investment as a potential competitor, they can be expected to increase measures to prevent diffusion.

Although, Chinese investors have to pay attention to overcome the limits imposed to enter in the Italian market, according to preliminary estimates China's outward foreign direct investment is expected to continue to grow in the future not only in Italy, but in all the rest of the Europe. This mushrooming will be fruitful only if Chinese firms improve their skills in building a reputation in foreign markets as individual firms and also as part of a constructed group. Moreover the act of exposing domestic firms to the global market will affect positively both inward and outward foreign direct investment (Davies, 2012).

4. ITALY AND CHINA: LIAISONS DANGEREUSES

Data from the Rhodium Group in collaboration with UNCTAD shows that China's FDI between 2000 and 2011 was well diversified in all countries of the European Union (Table 8 in the Annex). Italy is ninth in this ranking and it is preceded by economies such as France, the United Kingdom, Germany, Sweden and Belgium which have been able to attract higher amount of cross border investment in the last ten years. Italy attracted almost 7% of all European deals with 47 investments, specifically 31 Greenfield projects and 16 M&A, totaling $554 million. Indeed, the total number of deals is relatively high in comparison with other European countries ranked above Italy in the table, but the investment value is significantly low.

In terms of attraction, according to Ernst and Young's European Attractiveness Survey in 2012, Italy will attract only 2% of the investors' attention in the next three years. This is a relatively low percentage especially in comparison with other European countries such as Germany and even Poland which will attract FDI for 35% and 10% respectively.

Indeed, Italy is not considered a magnet of inward investment despite its favorable location, large domestic market and skilled labour force. The reason is that Italy has several negative structural factors which reduce investors. A source of unfavorable inflow of foreign capital is the composition of the Italian market which is characterized by small and medium enterprises (SMEs) that enhance the fragmentation of the private sector. Another element is the rigidity of the labour market which widens the gap between different types of employees. Moreover, Italy lacks of appropriate infrastructures and excesses of red tape and taxes which avoid the implementation of foreign investment. Additional obstacles are a low intra-industry competition that results in higher prices, especially in the energy sector and a weak financial market with a small number of companies traded in the market in comparison with other European countries.

Although, various disadvantages prevent an equal diffusion of FDI in the Italian market, its strategic position in the Mediterranean South Europe, allows to easily reach millions of consumers from Europe but also from North Africa. In addition Italy is in the vanguard of other the European members, because it is specialized in diverse sectors such as automotive, textile, luxury goods and white goods industry.

Moreover national brands are popular worldwide for the production of high quality products *Made in Italy* and for being trend setters. This diversified industrial economy concentrated on traditional sectors represents the focus of attention for Chinese companies which are looking for a development in the consumer goods business.

Therefore, in the last years these industries became extremely attractive for Chinese companies which are taking advantage of the recent Italian situation deteriorated by the financial crisis. Due to the financial crisis on one hand the value of the Euro has been damaged and has worsened in comparison with the Chinese Yuan. On the other hand, the Italian market has been heavily oppressed and its impact is visible in the financially precarious firms, which cannot sustain competition and need external capital to continue to operate. In this perspective, Chinese firms are ready to invest in Italy and profit from these favorable investments, and of all they are willing to take the risk, because it is unlikely that the opportunity to buy Italian knowledge at such a low price will occur again in the near future (Pietrobelli, 2010).

Furthermore, to explain the FDI trend in Italy, it is necessary to underline the features and pitfalls of Italian capitalism characterized by a *crowding out effect* reversed. Italy has several national companies in different industries which excel in the market, but they are undercapitalized and have insufficient support to succeed. However, a great part of Italian capital is directed to the sustainment of big public and private companies which work at a loss and are considered hopeless cases. This capital delocalization is the reason why Italian firms are unable to find investment within the national boundaries and need to attract capital from abroad, even if they have the potential to improve and expand not only in the Italian market but globally (Renda, 2012).

In order to achieve this goal, at the end of March 2012, the Italian Prime Minister Mario Monti went in China and met the Chinese Prime Minister Wen Jibao. The aim of the visit was to send a message of reliability of the Italian national economic system and foster outward investment in the nation. The two countries got closer and closer in the last years and with the goal to build a more solid relationship of strategic partnership. For this reason, China put its effort in settling agreements with Italian companies in order to sustain a business friendly relationship.

Therefore, Chinese investment in Italy has the goal of redeeming Italian companies, covering debts and alleviating the burden of the financial crisis. Indeed, the transactions between the two countries are made in good faith and are not at all hostile, especially because Chinese people still find difficult to completely understand the external world, because their customs and culture are indubitably distant from the *Old Word* traditions.

4.1 Italy as a source of competitive advantage

The inward investment from China has recently crossed two distinctive phases, the first one deals with the creation of Greenfield investment and the second one with the realization of M&A.

The very first Chinese activity registered in Italy dates back 1989 when Air China, the flag carrier opened an office and a commercial base in Rome. In the following years Chinese FDI in Italy was rare and limited to the installation of an economic foothold in Europe. With the start of the new century, China gradually incremented its outward FDI globally and also in Italy, in particular it expanded its Greenfield investment into R&D and marketing operations. However, China's main interest is associated not only with the construction of new operational facilities, but Chinese firms are also searching for strategic partnership with established Italian businesses which can be beneficial in the long term. As a result their investment concentrates on M&A, which better guarantee the achievement of their goals.

There is little information on the Chinese investment in Italy; however Pietrobelli tried to sum up the major M&A operations in Italy from 2001 to 2009. According to the following table Chinese investment expanded in diverse sectors of the Italian economy in which the country has an advantage and White goods and Machinery were the main target; M&A are particularly spread in small and medium companies with less than 100 employees. In particular Haier, a major player in white goods, bought two Italian companies, Meneghetti in 2001 and Elba in 2009, thanks to which it is now spreading like wildfire in the Italian market. In addition in 2008 Cifa, a producer of machinery for concrete was incorporated by the Chinese multinational

Zoomlion and this acquisition turned out to be the largest in Italy in terms of amount of capital invested.

Table 10: Main M&A operations by Chinese firms in Italy between 2001 and 2009

Year	Target	Acquirer	Sector	Size (Employees)	Stake (%)
2001	Meneghetti	Haier	White goods	100	100
2004	Wilson	Wenzhou Hazan	Textiles	n.a.	90
2005	Benelli	Quianjiang	Automotive	100	100
2006	Elios	Feidiaio Electics	White goods	54	n.a.
2007	HPM Europe Spa	Huan Sunward Intelligent	Machinery	6	51
2007	Omar srl	Xinyu Hengdeli Holdings	Luxury goods	48	90
2008	Cifa	Changsha Zoomlion	Machinery	70	60
2009	Elba	Haier	White goods	150	20

Source: Pietrobelli et al. (2010). The "Marco Polo" Effect: Chinese Investment in Italy

In order to understand this particular Chinese concentration on M&A operations in Italy, it is possible to highlight two main investment determinants closely related to each other, in which Italy has a competitive advantage and can provide positive benefits to Chinese companies.

The first Chinese determinant is market-seeking investment, because on one hand Italy represents a profitable market and a hub that leads to an even larger market since it is a member of the European Union. Thanks to this door to Europe, Chinese firms avoid most of the tariff barriers and control barriers that they otherwise have to get through in order to enter in the market. In addition having an Italian partner helps solving the marketing problems related to a *Made in China* brand which is often considered of low quality and unreliable. On the other hand Chinese firms are looking to learn how to satisfy different ranges of customers and Italian consumers are a particularly useful group to study since they are well known for being sophisticated and demanding. Therefore Chinese firms are willing to comprehend and incorporate new experience and knowledge which can contribute to their development (Pietrobelli, 2010).

Similarly, Haier, a Chinese innovative global brand of home appliance and consumer electronics, followed this strategy. Already in 1990s Haier's goal was to expand its production in related sectors and to enlarge the market shared. As a result the Chinese companies carry out a technology acquisition strategy in order to consolidate product differentiation and upgrade internationalization in the same time. The fist investment in Europe was in 2000, when Haier opened a sale and marketing office in Varese, a town in the north of Italy. This foothold in Italy represented the coordination hub for all European countries and a center of research in order to study the tastes and needs of European citizens. Subsequently, diverse products were sold on the market with a specific design produced to satisfy the European market. However, one year later Haier made its first purchase in Italy (and Europe) with the acquisition of Meneghetti, a white goods manufacturer. In the following years, Haier pursued its acquisition strategy buying also Elba, another appliance producer, in 2009. The Chinese firm has as a main aim the need to avoid tariff barriers and product controls, but it also wants to benefit from the newly acquired production facilities to expand production capacity and increase product variety. In addition, another important factor of Haier's strategy is that it bought Maneghetti also to import its white goods in China and sell them with an Italian brand name (Duyster, 2009). Today, Haier is the number one brand of home appliances according to Euromonitor International and the company recognizes Italy as a strategic platform, as it even located its European fridge production center there.

The second major motivation for Chinese investment in Italy is strategic asset-seeking, which's goal is to benefits from intangible assets such as technological development, know-how, managerial knowledge and brand name. These types of acquisitions are crucial for China that is in a transitional period, since it is shifting from assembler to producer of higher value-added goods and services.
In order to achieve an industrial upgrade, China is betting on Italian capabilities and a long term strategic relationship allowing foreign companies to enter in the Italian market.

However, above all, the reason why China advances this strategy is that Chinese companies are trying to understand their customers which have evolved in tastes since the opening of the market.
Chinese consumers go shopping for *Famous Brands* and prefer goods that are not *Made in China*. As a result domestic firms struggle to provide them consumer goods with a significant percentage produced in Europe. Therefore the acquisitions of historical Italian brands turn out to be beneficial to exploit within the intra-Asian trade and satisfy oriental buyers (Mangini, 2012).

There are several cases of asset-seeking strategies adopted in Italy; some examples include Ferretti, a yacht producer, Sergio Tacchini, a sportswear maker and Omas, a pen designer.
Ferretti has two sources of advantages for Shandong Heavy Industry Group, the machinery producer which acquired it: know-how and brand name. Indeed, Ferretti has been a master in the production of yachts since fifty years and its strength is the popularity of its brand name, which is associated with famous actors. The company neared bankruptcy at the end of 2011 and the Chinese investment group seized the opportunity and acquired 75 per cent of Ferretti shares. In the hands of the Chinese investor the future prospect for the firm is solid, because it is expected that in the next five or ten years the Chinese market will be demanding such products and the Shandong Heavy Industry Group will be ready to serve its customer and reap all the profits (Bloomberg, 2012).
This is a clear example of how the acquisition of a brand name today, at a moment in which China has the capital to invest abroad, will have high returns in the near future.
Another recent case in which a Chinese brand acquired of a company nearing bankruptcy is Sergio Tacchini. The Italian company, specialized in sportswear, is one of the most popular brand on the tennis field. However, also in this case the Chinese strategy seems focused on moving the production and the distribution to the mother land, taking advantage only of its name and its history.

In contrast with these two examples where the investor is mainly committed to the brand name, the scope of the acquisition of Wilson by Wenzhou Hazan is different.

This Chinese investor, a footwear producer, decided that in order to sustain and better assimilate Italian know-how and design, it had to maintain the production factories and design centers in Italy, before exporting the goods to China when finished.

Xinyu Hengdeli's acquisition of Omas followed the same pattern. The Italian firm, a leader in the production of luxury writing instruments, already benefitted an image as an established international producer, with almost 75% of its returns outside of Italy. Omas is considered a profitable platform for the Chinese investor which is willing to accumulate the heritage of highly skilled Italian artisan and extend its production to multiple different accessories in order to gain from Omas' technical and design know-how.

Chinese intention to locate the production in Italy is particular to the acquisition of Italian SMEs, which have the qualities, but not the capital to increase the potential and expand to foreign markets. In addition, these SMEs are managed by ambitious Italian personalities, who represent an advantage for Chinese companies ready to learn from their managerial experience in order to fill the lacuna in these tasks and bring higher profits to China (Pietrobelli, 2010).

4.2 An Extreme Case in the Heart of Italy

Unfortunately, Chinese investment in Italy has not always been a bed of roses. Analysing China's outward FDI in Italy, the Prato case study cannot easily pass unnoticed. Prato is a city in the north of Italy famous for high quality products *Made in Italy*. However, from 2001 Chinese entrepreneurs started to acquire Prato's manufacturing industries, expanding year after year. According to a report from Prato's Chamber of Commerce, in 2010 Prato counted almost as many Chinese businesses as Italian ones (Donadio, 2010).

The activities performed in Prato are the all but advantageous for both the Chinese business in Italy and the global image of the *Made in Italy*. The production in Prato is obscure and confuse due to thousands of Chinese workers, which have built a real China town in the Italian city. In addition, the Chinese manufacturing companies in

Prato have specialized only in one sector: fast fashion, which produces low-end clothes, shoes and various accessories.

The strategy adopted in Prato reveals to be almost equal to the strategy pursued in the rest of Italy and Europe. The main determinant of Chinese investment in the Italian city is the acquisition of manufacturing know-how and advanced technologies. Indeed, Chinese acquisition stated buying up Italian-owned textile firms which have already improved new technologies and know-how to run the business. Subsequently, thanks to the skills learned their investment continued not only as M&A, but also as Greenfield constructing new operational facilities from the ground up.

Chinese investors are often focused on asset-seeking investment in order to acquire Italian brand name, but in Prato the Chinese firms specifically attempt to take advantage from having a *Made in Italy* product. Indeed, the goods produced in their factories are sold as Italian products, but with a business model all made in China. The most problematic disadvantage is that resellers from all Europe supply their warehouses with products manufactured by these companies in Prato. Therefore they can profit by exporting extremely cheap products *Made in Italy* without paying any tariff barriers.

Additionally, another detriment of the Chinese investment in Prato is the increase in corruption, which advanced in the Italian city. Chinese investors and workers are accused of tax evasion and illegal immigration as part of an actual organized crime group. However, the plague involves also money laundering, prostitution, illegal duplication of branded items and illegal classification of items made by foreign firms as *Made in Italy*.

Ten years ago Prato was known as the producer of quality goods and for its scrupulous artisans, however nowadays the image has changed dramatically, because in 2013 Prato is known to have the second largest Chinese immigrant population in Italy.

This situation is not representative: neither it represent manufacturing in Italy as a whole, as manufacturer are scare that such state of tension will spread in other regions with the increase of Chinese investment in Italy; nor does it illustrate what

China's entrepreneurs intend to do with a business friendly investment. Indeed Chinese investors were initially positive of this new business linked with low-end clothing, but they realized that things got out of hand. On one hand Prato attracted the attention of other European countries due to the negative influence of Chinese investment on the Italian city; on the other hand the investment focused exclusively on the manufacturing of fast fashion, which is a sector very difficult to upgrade and consequently not highly competitive.

4.3 Chinese or Italian Opportunities

According to Pietrobelli (2010) Chinese investment in Italy reflects the so called "Marco Polo" effect. Marco Polo was an Italian merchant and traveler who in the XIII century visited China and discovered their development and social improvement. After 24 years and almost 8000 km of journey on a boat Polo brought back in Italy what he learned from Chinese customs and development. In the XXI century this story is happening again, but it is reversed. In an era in which in less than 24 hours everyone can reach his destination, China entered in Italy's market in order to learn and export in its country the Italian competitive advantage and exploit it in its favor.

No one can deny that Chinese investment in Italy brought a large amount of capital in order to *save* companies which were in a tight spot, but that had the potential to be a successful in the future. In addition, most of these investments ensured the continuity and the generation of employment, however M&A create few new jobs in comparison with Greenfield projects and in case of restructuring or integration workplaces can also shrink.

Indeed, most but not all Chinese acquisitions continue their business in Italy. As noted earlier for example, Ferretti was acquired with the intention of exploiting technological advancement, managerial know-how and brand. None of these features is strictly linked to the Italian manufacturing sector, which in the last years has been removed from Italy and exported to Qingdao, a production center in the north of China in order to better serve the Chinese demand. This strategy is in line with the

idea to acquire resources in Italy to bring them back to their homeland and benefit from them in the huge Chinese market.

This example sums up the typical case of Chinese investment in Italy and highlights the issue that even if the motivations of Asian acquisitions are different in different sectors, strategic asset-seeking motivation is the main objective of Chinese investment in Italy. Therefore, it is possible to affirm that it is not Italy *per se* that attracts Chinese outward FDI, but the Italian companies leaders in their sectors, are the main goal of the Asian's acquisitions.

Due to the failing of efficient allocation of Italian capital on the territory, promising Italian firms are obliged to look abroad for investment and this makes them always more the *prey* of the market and always less the *predator* of the international scene.

This consideration raises the concern that the real scope of Chinese investment in Italy is not to benefit the Italian companies in order to help them overcome the financial crisis. However, the Chinese goal is to ship new acquired assets back to China rather than maintain them in Italy. Therefore it is impossible to differentiate between investment that brings a net benefit to the nation and predatory investment. The reason why is that Chinese investors can buy Italian assets at a price below their cost, which is incompatible with the real value, move technology and valuable assets back home and shut down Italian operations (Renda, 2012).

The problem is that Italy does not always comprehend the potential of its business in terms of competition and learning potential, where instead Chinese companies see a profitable agreement to exploit in their favor. Indeed Italian companies are selling out the milestones of their national industrial economy and thereby allowing the exploitation of the brand *Made in Italy*. The acquisitions are realized once at a time, taking into account only the short term interests and without paying attention at the long term initiatives. Therefore, Italian companies should try to control the future *hidden agenda* of the Chinese investors and also consider them not as the *savior* of the situation, but as potential competitors in the market (Mangini, 2012).

5. HOW TO STRENGHT ITALY'S FOREIGN INDUSTRAIL POLICY TOWARD COOPERATION?

With the deepening integration of Chinese companies in the Italian market, the traditional production process is difficult to maintain. The organization of the value chain has changed dramatically in the last years, because it is more globally oriented and requires more intensive connections within the global production network.

The concern is that Italy has not implemented active policies to preserve the value of national companies in the development of the international relationship, whereas it has preferred to pursue a *laissez faire* economic policy. While other European countries practice FDI screening policies, Italy does not provide any special treatment for foreign investors. Indeed they are not subject to any authorization or notification obligations, and foreign investors have to follow the same path of rule as any other Italian investors. Only some sectors have been limited, in order to keep in Italian hands industries such as air and maritime navigation, insurance and information. In addition Italy does not encourage controls on strategic sectors of its industry, allowing Chinese investment to acquire companies of national and public interests (OECD, 1994).

This liberalized economic legislation creates a mix of hopes and fears for future acquisition in Italy, because the country is not prepared for possible exploitation of its industrial *jewels*. In addition, Italian firms stared to conceive Chinese investment as potential competitors in the market. This is the reason why Italian industrial policy has to improve by implementing investment conditions even further. The aim for future policies should not be to decrease the level of liberalization achieved until now, because reducing the access of domestic markets to foreign investors would only bring negative effects such as neo protectionist practice. This protectionist conduct would hurt not only the Italian, but also the European reputation for promoting liberalization and openness of the market. In addition, closing the door to Chinese investment would turn out to increase the austerity measures that the government has had to put in practice in a period of financial crisis such as the current one.

Contrary, future investment policies should be directed toward a more cooperative behavior in relation with foreign investors. Indeed, Italy has to stimulate growth and competitiveness in order to be able to be an active player in the international market, especially because keeping its door open to Chinese investment, encourages China to keep its door open to Italian investment. Therefore, the Italian government should take in to consideration to leave room to facilitate growth through growth-friendly policy instead of limiting it. In order to implement growth-friendly policy the government can no longer ignore the importance of the increasing presence of the Global Value Chain (GVC) (Renda, 2013).

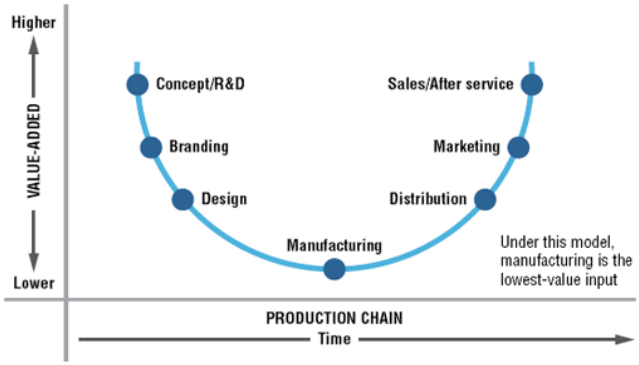
The GVC has recently arisen as a phenomena linked to the increase in complexity and modularity. On the one hand, modern production is composed of many interconnected parts due to the popular practice of off-shoring and outsourcing a fragment of the value chain to a different firm in cost efficient countries. Moreover, in order to handle growth, MNCs are used to acquire small firms with technological improvement and useful innovation. On the other hand, modularity deals with the search for the best parts or options to incorporate in the manufacturing section of the vale chain. Therefore, GVC is the result of the recent internationalization of operations, which transformed the industrial production into a *network of added-value chain* (Lamy, 2011).

Experience has illustrated that not only Italy, but Europe is struggling with this new model of industrialization, because all European members states lag behind in the modernization process. Waiting for things to change is neither productive nor beneficial. Only a strong industrial base can stimulate economic recovery and reinforce European global competitiveness, because there won't be any convergence toward the global economy without improving competition and strengthening the sectors of the value chain where European countries have a competitive advantage.

Graph 8 illustrates the "Stan Shih's smiling curve", which was named for the founder of Acer corporation. The man first proposed a correlation between the operations in the production chain and their relative value generated. Creative activities such as R&D and design are in the first downward sloping part of the curve; at the lowest point, manufacturing brings the lower value-added and the end of the production finishes with an upward sloping curve in which operations such as Marketing and

Services bring a relatively higher added value. Therefore, each company can decide a range of strategies to implement and opportunities to exploit.

Graph 8: The Smiling Curve



Source: Stan Shih's Sliming Curve

European countries were experts in gaining advantages from higher value-added activities, which coincide with the start and the end of the production process. Although, they are attempting to keep the primacy in these sectors in the GVC, data suggests that European firms are losing their grip on the production chain and are shifting down the smiling curve, becoming more a manufacturer than a value-added producer. This situation is not totally harmful, but it can worsen if value added activities such as innovation process and logistic, are performed by foreign competitors (Renda, 2013).

In general, in order to be able to implement GVCs, government has to allow the market to operate without imposing barriers and promote the spread of innovation through knowledge transfer. Accordingly, several European members are taking initiative to facilitate the interconnection of the so called *knowledge triangle*. The knowledge triangle is based on a bottom-up approach, where research, education and business cooperate for the free movement of knowledge across all the three edges. The first two sides of the triangle, education and research are fundamental to produce high quality human resources able to face the innovation process. University deals with the understanding of knowledge, which generates creative solutions, whereas research institutes lead to a more practical participation in the market thanks to the increase in expertise in knowledge transfer. Universities and research institutions work together to create an interconnected relationship, which plays a strategic role in the knowledge society. In addition, it is fundamental to maximize communication

between research institutions and businesses in order to pool research results together and to better finalize resources. The same is true for the relationship between universities and businesses, which has to develop in European countries, in order to create innovation hubs in which different operators can meet and exchange ideas.
The main targets in the business sector are SMEs, because small firms are popular for being the engine of growth. Small companies have to continuously reinvent themselves due to the necessity to compete in an open market and they are more willing to cooperate across borders. Indeed, it is easier for an SME to enter in contact with suppliers and innovation stimulators thanks to a flexible structure that allows small companies to provide innovative solutions in collaboration with both universities and research groups (Renda, 2013).
Despite European countries moving to facilitate knowledge transfer between the three edges, initiatives often operate on national scale and lack of an international inclination. In an economy growing in the direction of GVCs, the development of only intra and inter European interactions is no longer sufficient. A transnational perspective is necessary to promote knowledge transfer across the globe and move toward the improvement of open innovation.

5.1 Italy and the Global Value Chain

Italy, as a member of the European Union and a major player in the market, has to find a way to actively join the GVC and adapt to a more harmonious transfer of knowledge. For this reason, national companies should renovate their structure and organization, in order to stimulate growth through the improvement of cooperation between businesses, universities and research institutes. It is only through strengthening of infrastructures and communication between them, that it be possible to build a solid basis for the knowledge economy. Additionally, the increase in competitiveness is crucial to evolve and enter as a protagonist in the GVC.

In particular, in the Chinese investment perspective, no one can deny that Italy has superiority over China in those activities of the Smiling curve that produce higher added value. Accordingly, national companies should encourage to promote

innovation internally in the nation, so that Italy does not lose the production of those creative activities that bring higher benefits and profits.

However, the obstacle lies in the composition of the Italian market characterised by SMEs, which are the main source of innovation. In Italy small companies are not well integrated in the market due to lack of capital and an unfavorable environment. Consequently, SMEs became delicious *prey* for Chinese *predators*, who thanks to the abundance of capital can afford to acquire technological knowledge and Italian know-how. In terms of GVC it is impossible to prevent the diffusion of Chinese investment in Italy, so national companies came up with the possible solution that "if you can't beat them, joint them". Chinese investments are based on the concept that they do not decide geographically whether to implement production stages; instead every stage of the value chain is organized and managed in the most efficient way available. Therefore, acquiring Italian companies and specifically domestic SMEs, is a strategic move in the improvement of their personal GVCs. They learn on their skin how to benefit from the internationalization of the production process and now thanks to the shift from a manufacturing to a producer stage, Chinese companies are spreading their knowledge. In this situation Italian firms should try to enter in this vicious circle not as *prey*, but as *allies*, for this reason they should implement the relationship with Chinese investors and become active member and solid cooperators of the value chain.

The aim of Chinese investment in Italy is to have a high degree of control on acquired firms and along the value chain. Consequently, Italian companies lose their status of necessary and primary source of production and become a secondary player in their professional value chain. Instead, the two parties should try to cooperate in order to create an information intensive relationship between them. In this cooperative relationship China and Italy can work shoulder to shoulder in a confident atmosphere where the value added production is equally distributed in the two nations and where the firm with better competence on an operation implements it in the value chain.

Only through cooperation between parties, both of them can achieve a win-win situation, otherwise the relationship will turn out to be a double edged sward. On one

hand, the GVC is a dynamic process: limiting its implementation by reducing the participation of Italy, China limits the functional upgrading of its development of innovative technologies. On the other hand, asymmetric power between local producer and international investor result in conflicts and resentment, which does not support the global intensification of competition.

In order to improve a favorable environment for Italian SMEs and allow them to move along the Smiling curve to reach higher value added activities, it is necessary to create significant measures that attract a wider range of investors and ensure an efficient employment of resources. This is why a feasible option is to promote communication intra and inter parties of the investment agreements. Chinese investors and Italian firms should try to enter into partnerships and joint ventures, in order to strengthen an economic cooperation and identify advantageous commercial and industrial opportunities in traditional and strategic sectors, in particular in the leading sector of the *Made in Italy*.

In conclusion, in order to enhance Italian foreign industrial policy and be successful in Chinese investment, Italy has to move as a national economic system. Indeed, firstly Italy has to improve its national situation, which is still characterized by an unbundled communication between SMEs, entrepreneurs and government; successively it is necessary that the country starts to act as a member of the European community, because creating a system with neighboring countries can help them perform as a team. Consequently, European countries can fully exploit their dynamic position in the Global Value Chain and create a network in the international markets, which are the most compelling markets in this moment.

Italy needs to improve coordination within borders and on international level in order to adapt to changes in the economic environment and face the increase in competition. For these reasons, the country has to create a network to actively operate in the GVC and start to move together with other European countries to develop a European economic system.

6. CONCLUSION

Nowadays it is always more difficult to identify the country of origin of a product, due to the increasing network of the global value chain. In an interconnected world each stage of the production process is outsourced or off-shored to an external firm and the geographical position of the partner is not relevant anymore. Product manufactured in China, are most probably assembled in the country, where MNEs from all over the world take advantage of the low costs of the labour force. The rest of the activities linked to the realization of the finished goods come from numerous other countries that precede and follow the assembly stage.

China started to be called *the workbench of the world*, when international companies invested capital to reallocate operational activities in the country. They would import intermediary goods and export finished products ready to be sold in shops all over the world. These investments in China dramatically increased the level of inward FDI in the country, but at the same time MNCs did not only inject capital in the Chinese market, but also technologies, knowledge and development. Indeed, China learned on its skin the shortfall of this strategy, where it was just a secondary participant and gained the lowest amount of the profits generated by the production process. This is the reason why Chinese companies pursue internal technological upgrading and devote their work to the diffusion and assimilation of foreign imported technologies.

In addition, also China's Prime Minister Wen Jiabao understood that an economy founded just on foreign investment and exports would be difficult to maintain in the future. In three decades China has become the second largest economy in the world, however this rate of growth is impossible to sustain. A macroeconomic analysis reveals that household consumption and government spending lag behind the fast growth of the economy, so they are not considered to be drivers of Chinese economic growth. In contrast the recent development has been supported principally by the combination of the high level of investment and net imports and exports.

Consequently, the Chinese government realized the urgency to implement macroeconomics reforms in order to support the continued growth. It proposed a *Go*

global strategy aimed at achieving a long-term technological parity with advanced economies by incentivizing domestic companies to enter in the international market. Therefore China started to become a transitional economy trying to shift from being a manufacturing specialist to the higher status quo of producer in an innovative knowledge economy. However, if the country wants to reach its goal, it has to move faster than ever, because if it wants to keep on being the second largest economy it cannot rest on its laurels. Instead it has to develop further Chinese companies positions' in the value chain and it requires commitment and dedication.

The first step toward this initiative is to start to invest in foreign countries, importing other missing technologies, knowledge and new ideas. In the last years Chinese outward investment appeared internationally and has massively increased since the 1990's. Indeed China has reached the highest amount of outward FDI flows with an increase of 132% in 2007.

These investments have been concentrated in Asia, where the focal point is Honk Kong. Other continents that attracted the highest amount of outward FDI are Latin America and the Caribbean, where the major beneficiaries are the tax havens and; Europe, where France, the United Kingdom and Germany are the top destinations.

China is particularly interested in Europe, because it is a fruitful source of technologies, know-how and competence and also since Chinese companies try to strengthen their presence of in European market. Indeed there are three main determinants of Chinese investment in Europe: Resource-seeking investment, where the focal point is on searching for primary resources; Market-seeking, which aims at entering in new markets and gaining a significant amount of market share and; Strategic asset-seeking investments aim at increasing the set of a firm's technological endowment and knowledge. In accordance with these motivations the preferred modality to install Chinese presence in Europe are M&A and Greenfield projects. It is clear, especially though M&A's, that the Chinese desire to easily and quickly acquire European strategic assets such as advanced technologies and established brand names.

M&A are the main concern in Italy, because Chinese companies are taking advantage of the recent Italian situation deteriorated by the financial crisis and inefficient allocation of national capital buying up the Italian *jewels*.

Despite the several negative structural factors which reduce investors' attractiveness to Italy, its strategic position and the specialization in diverse and traditional industrial sectors represent the focus of attention for Chinese companies which are looking for a development in the consumer goods business. Empirical analysis of Chinese investment in Italy reveals that investors intend to focus on small and medium firms, which have a crucial role in the market. In addition having an Italian partner helps overarching issues with importing external goods and allows Chinese companies to study Italian consumers in order to learn how to satisfy different ranges of customers.

Another motivation of the investment in Italy is to benefit from intangible assets such as technological development, know-how and managerial knowledge. This type of acquisition is aimed at benefiting from the Italian brand name, especially in the Asian market. A recent phenomenon in China sees domestic customers shopping for famous brands, which are not *Made in China*. For this reason Chinese companies seek to satisfy oriental buyers providing goods with a significant percentage produced in Europe.

However, not all investment profits from the acquisition of Italian brands, others specifically attempt to take advantage of having a *Made in Italy* product. As we have seen, the Prato case is significant: the strategy adopted in Prato aimed at manufacturing product in Italy, with an entirely Chinese business model. It means that they profit by exporting extremely cheap and low quality products *Made in Italy* without paying any tariff barriers.

From an Italian perspective, these Chinese acquisitions bring a mix of fear and hope. On one hand they are positive, because by providing capital to the SMEs that have the potential to go global and succeed, investors save companies in a tight spot. On the other hand, Italian firms are becoming more of a *prey* in the international market and less an *ally*. Indeed, the Asian investments are transforming into predator investments with the goal to ship acquired assets back to the mother land rather than maintain them in Italy.

The difficulty lies in the Italian misunderstanding of their business potential, so Chinese companies profit from the agreements. A way to turn the situation around would be by implementing growth-friendly policy and by improving the national

position GVC. It is impossible to ignore the GVC anymore, due to the increasing presence in modern production.

Italy is not alone in this situation; most of the European countries strive to implement this modernization process. However they are taking into account initiative to improve and facilitate the spread of innovation through the advancement in knowledge transfer. A way to move in this direction is by maximizing the communication between research, education and business, in order to allow them to cooperate in an innovative society. Therefore it is necessary for all European member states, and especially for Italy, to create a network of communication both internally within the national borders, but also internationally.

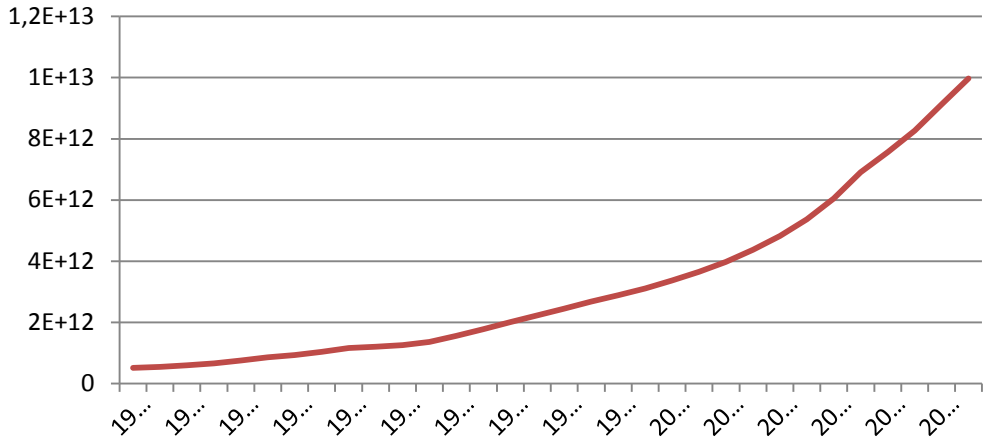
Italy has to join this new economic environment, where the GVC is primary, by allowing SMEs to move along the smiling curve and reach higher value added activities. Since it is impossible to limit Chinese investment in Italy, because it would be only detrimental for the nation, it is crucial that those activities remain in Italy and are not exported to China. For this reason, Italian companies should build partnerships with Chinese investors, in order to keep their friends close, but their enemy's closer.

The two parties of the investment should cooperate and build an information intensive relationship, where value added production is equally distributed in the two nations and promote dynamic innovation. Assimilating simply temporary Italian knowledge would be constructive in the short term, but to bring higher benefit in the long term, cooperation between Italy and China is necessary.

In conclusion, to favor Italian recovery and improve international credibility, domestic companies have to adapt to the modernization process without lagging behind the leading sector where it has a competitive advantage. Most of all, foreign and Italian investors should work together to increase the presence in the international market and develop the Italy's growth potential, which resides in the strength of its industrial system.

ANNEX

Graph 1: China: GDP, PPP (constant 2005 international $), 1980-2011



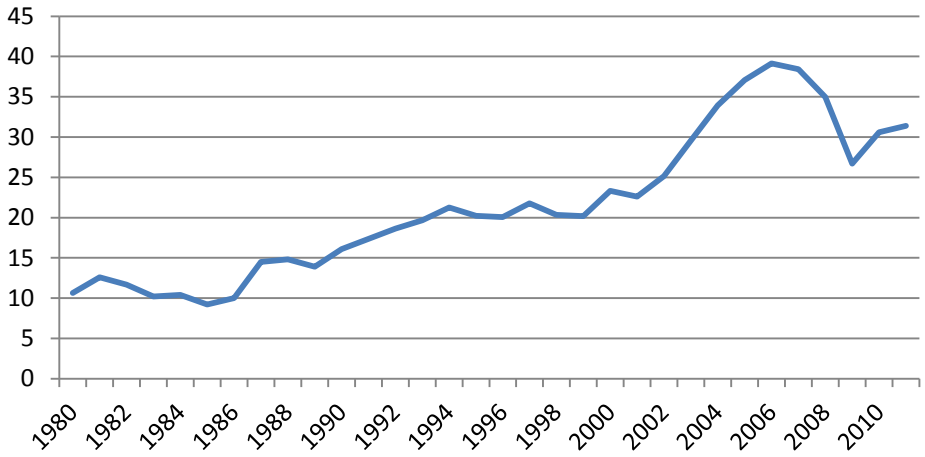
Source: The World Bank, 2012

Table 1: Gross Domestic Product (GDP) 2011

Ranking	*Economy*	*(millions of US dollars)*
1	United States	14,991,300
2	China	7,318,499
3	Japan	5,867,154
4	Germany	3,600,833
5	France	2,773,032
6	Brazil	2,476,652
7	United Kingdom	2,445,408
8	Italy	2,193,971
9	Russian Federation	1,857,770
10	India	1,847,977
11	Canada	1,736,051
12	Spain	1,476,882
13	Australia	1,379,382
14	Mexico	1,153,343
15	Korea, Rep.	1,116,247
16	Indonesia	846,832
17	Netherlands	836,074
18	Turkey	774,983
19	Switzerland	659,308
20	Saudi Arabia	576,824

Source: The World Bank

Graph 5: China: Exports of goods and services as a percentage of GDP, 1980-2011



Source: The World Bank, 2012

Table 2: China outward FDI stock in US Dollars at current prices and current exchange rates in millions, 1990, 2000, 2010-2011

ECONOMY	1990	2000	2010	2011
China	4455	27768,39	298411	365981

Source: UNCTAD's FDI database

Table 5: China: geographical distribution of outward FDI stock in US$ billion and percentage of total outward stock, 2010

REGION / ECONOMY	**2010**	
Developed economies	**29,7**	**9,36%**
Europe	15,7	4,95%
European union	*12,5*	*3,94%*
Germany	1,5	0,47%
Netherlands	0,5	0,16%
United Kingdom	1,4	0,44%
North America	7,8	2,46%
Canada	2,6	0,82%
United States	4,9	1,54%
Other developed economies	n.a.	n.a.
Australia	7,9	2,49%
Japan	1,1	0,35%
Developing economies	**n.a.**	**n.a.**
Africa	13	4,10%
Asia	228,1	71,91%
Hong Kong	199,1	62,77%
Singapore	6,1	1,92%
Oceania	8,6	2,71%
Latina America and Caribbean	43,9	13,84%
British Virgin Islands	23,2	7,31%
Cayman Islands	17,3	5,45%
Transitional economies	**n.a.**	**n.a.**
Russia	2,8	0,88%
World	317,2	100,00%

Source: Ibid

Table 6: China: outward FDI in the EU-27 by Industry in US million and number of deals, 2000-2011

	Sector	Value (USD mn)			Number of Project		
		Greenfield	*M&A*	*TOTAL*	*Greenfield*	*M&A*	*TOTAL*
1	Chemical, Plastics & Rubbers	126	3505	3631	13	9	22
2	Utility and Sanity Services	0	3259	3259	0	1	1
3	Automotive OEM & Components	655	1961	2616	23	12	35
4	Coal, Oil & Gas	18	1603	1621	4	7	11
5	Communications Equip. & Services	1180	177	1357	95	5	100
6	Transportation Services	784	546	1330	9	7	16
7	Metals Mining & Processing	25	1200	1225	13	14	27
8	Consumer Electronics	187	983	1170	33	9	42
9	Industrial Machinery & Equipment	495	499	994	34	23	57
10	Food, Tobacco & Beverages	110	570	680	10	9	19
11	Financial Services & Insurance	495	31	526	26	2	28
12	Real Estate	146	340	486	4	1	5
13	Pharmaceuticals	21	280	301	4	3	7
14	Electronic Equip. & Components	133	152	285	22	5	27
15	Software & IT Services	256	13	269	21	5	26
16	Aerospace, Space & Defense	79	174	253	7	4	11
17	Textile & Apparel	137	96	233	8	4	12
18	Alternative/Renewable Energy	145	84	229	45	7	52
19	Healthcare & Medical Devices	30	63	93	9	2	11
20	Paper, Printing & Packing	74	0	74	2	1	3
21	Leisure & Entertainment	48	0	48	3	0	3
22	Other Transport Equipment	31	15	46	4	1	5
23	Business Services	43	1	44	13	2	15
24	Minerals Mining & Processing	1	42	43	1	2	3
25	Semiconductors	18	17	35	4	3	7
26	Biotechnology	24	10	34	6	2	8
27	Consumer Products & Services	28	0	28	9	1	10
28	Furniture & Wood Products	0	27	27	0	3	3
29	Engines Turbines	14	4	18	2	1	3
30	Construction Services	6	0	6	4	0	4
	TOTAL	5309	15652	20961	428	145	573

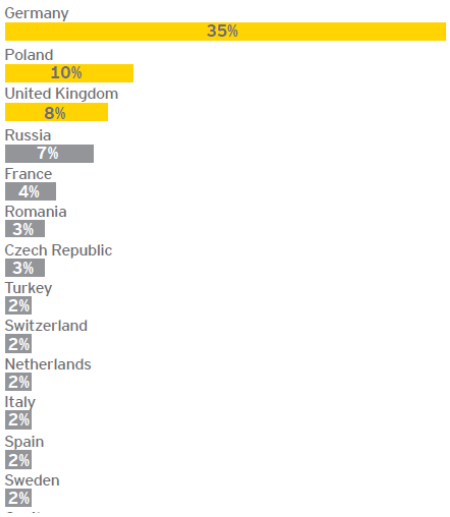
Source: Rhodium Group, 2012

Table 8: China's FDI in the EU by country in USD million and number of deals, 2000-2011

	Country	Investment Value (USDmillion)	Number of Greenfield Projects	Number of Acquisitions	Total Number of Deals
1	France	5722	46	24	70
2	United Kingdom	3684	69	26	95
3	Germany	2543	113	33	146
4	Sweden	2251	14	6	20
5	Hungary	2065	14	4	18
6	Netherland	1164	32	15	47
7	Belgium	847	12	3	15
8	Greece	714	5	0	5
9	Italy	554	31	16	47
10	Austria	391	6	5	11
11	Romania	299	13	1	14
12	Poland	190	15	1	16
13	Spain	187	22	1	23
14	Czech Rep.	76	10	1	11
15	Finland	48	1	4	5
16	Portugal	47	5	0	5
17	Bulgaria	47	6	1	7
18	Luxembourg	46	1	1	2
19	Ireland	44	6	1	7
20	Denmark	30	6	1	7
21	Latvia	3,8	1	0	1
22	Cyprus	3	0	1	1
23	Estonia	0	0	0	0
	Lithuania	0	0	0	0
	Malta	0	0	0	0
	Slovakia	0	0	0	0
	Slovenia	0	0	0	0
		20.956	**428**	**145**	**573**

Source: Rhodium Group, 201

Table 9: What are the Most Attractive Countries in Europe in the next 3 years?



Source: Ernst & Young's European Attractiveness Survey 2012

BIBLIOGRAPHY

Alon, I. (2012, April – June). *The Globalization of Chinese Capital: Power Shift*. EastAsiaForum: Economics, Politics and Public Policy in East Asia and the Pacific, Vol. 4 (No. 2). Retrieved from: http://epress.anu.edu.au/wp-content/uploads/2012/05/EAFQ-4.2-WEB-FINAL.pdf

Astarita, C. (2012, Mar 31st). *Cina-Italia: Monti Getta le Basi per una Nuova Partnership*. Panorama. Retrieved from: http://economia.panorama.it/mondo/Cina-Italia-Monti-getta-le-basi-per-una-nuova-partnership

Bergsten, C. F., Freeman, C., Lardy, N. R., & Mitchell, D. J. (2009). *China's Rise: Challenges and Opportunities.* Washington, DC: Peter G. Peterson Institute for International Economics.

Bloomberg. (2012, Jan 10th). *Yacht Builder to the Stars Ferretti Bought by China Bulldozer Manufacturer*. Retrieved from: http://www.bloomberg.com/news/2012-01-10/shandong-heavy-to-buy-controlling-stake-in-yachtmaker-ferretti.html

Carrol, L. (1871). *Through the Looking-Glass*.

China Economic Net. (2011, Mar 31st). *China's ODI Growth to Continue: U.S. Congress Report*. Retrieved from: http://en.ce.cn/Business/Macro-economic/201103/31/t20110331_22338083.shtml

Chow, G. C. (2002). *China's Economic Transformation.* Princeton University: Blackwell Publisher Inc.

Chunxin, Z. (2012, Feb 4th). *Presidente della Cinese Zoomlion, Leader Mondiale nel Settore dei Macchinari per l'Edilizia*. AGI China 24. Retrieved from: http://www.agichina24.it/l-intervista/notizie/presidente-della-cinese-zoomlion-leader-mondiale-nel-settore-dei-macchinari-per-lrsquoedilizia.br-

David, K. (2012, June 7th). *Outward FDI from China and its Policy Context, 2012*. Vale Columbia Center on Sustainable International Development. Retrieved from: http://academiccommons.columbia.edu/catalog/ac%3A148489

Dixin, X., Suinian, L., et al. (1982). *China's Search for Economic Growth: the Chinese Economy Since 1949.* (Watson, A., Trans.). Beijing, China: New World Press.

Donadio, R. (2010, Sep 12th). *Chinese Remake the "Made in Italy" Fashion Label*. The New York Times. Retrieved from: http://www.nytimes.com/2010/09/13/world/europe/13prato.html?pagewanted=all&_r=0

Dunning, J. H., Changsu, K. & Donghyun, P. (2008). *Old Wine in New Bottles: a Comparison of Emerging Market TNCs Today and. Developed Country TNCs Thirty Years Ago*. SLPTMD Working Paper Series (No. 011). Oxford University, Department of International Development. Retrieved from: http://economics.ouls.ox.ac.uk/13065/1/SLPTMD%2520WP%2520011-Dunning.pdf

Duysters, G., Jacob, J., Lemmens, C. & Jintian, Y. (2009, Feb 23th). *Internationalization and Technological Catching Up of Emerging Multinationals: a Comparative Case Study of China's Haier group.* Industrial and Corporate Change, Volume 18, Number 2, pp. 325–349. Retrieved from: http://arno.unimaas.nl/show.cgi?fid=19268

Eichengreen, B. (2008). *The European Economy since 1945: Coordinated Capitalism and Beyond*. Princeton University Press.

Ernst & Young. (2012). Growth, Actually: Ernst & Young's 2012 European attractiveness survey. Retrieved from: http://www.eyeim.com/press.htm

Haier. (Producer). (2012, Jan 26th). *Haier Europe Corporate Presentation*. Podcast Retrieved from: http://www.haier.com/uk/header/201107/t20110709_27160.shtml

Hanemann, T. (2013, Jan 27th). *The EU-China Investment Relationship: From a One-Way to a Two-Way Street*. New Europe Online. Retrieved from: http://www.neurope.eu/blog/eu-china-investment-relationship-one-way-two-way-street

Hanemann, T. & Rosen, D. H. (2012, June). *China Investment in Europe: Patterns, Impacts and Policy Implications*. Rh[g] Rhodium Group. Retrieved from: http://rhg.com/wpcontent/uploads/2012/06/RHG_ChinaInvestsInEurope_June2012.pdf

Hu, A. G. & Jefferson, G.H. (2002). *FDI Impact and Spillover: Evidence from China's Electronic and Textile Industries*. The World Economy, volume 25, issue 8. Retrieved from: http://onlinelibrary.wiley.com/doi/10.1111/1467-9701.00481/pdf

Huang, Y. (2012, April – June). *The Changing Face of Chinese Investment*. EastAsiaForum: Economics, Politics and Public Policy in East Asia and the Pacific, Vol. 4 (No. 2). Retrieved from: http://epress.anu.edu.au/wp-content/uploads/2012/05/EAFQ-4.2-WEB-FINAL.pdf

Lamy, P. (2011, Jan 24th). *"Made in China" tells us little about global trade*. Financial Times. Retrieved from: http://www.ft.com/intl/cms/s/0/4d37374c-27fd-11e0-8abc-00144feab49a.html#axzz2M8xZ85ue

Lonardi, G. (2008, June 25th). *La Cifa ai Cinesi: è la più Grande Acquisizione in Italia*. La Repubblica. Retrieved from: http://www.repubblica.it/2008/05/sezioni/economia/caso-giorno-borsa/giu-25/giu-25.html

Mangini, S. (2012, September 25th). Conference on *Ad-Venture in to China*.

OECD. (1994). Review *of Foreign Direct Investments: Italy*. Retrieve from: http://www.oecd.org/industry/inv/investmentstatisticsandanalysis/34383839.pdf

Pietrobelli, C., Rabellotti, R. & Sanfilippo, M. (2012, February). *The "Marco Polo" Effect: Chinese FDI in Italy*. Chatham House. Retrieved from: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1564568

Renda, A. (2013, Feb 26th). *Top-down or Bottom-up? Governments and the "Right Mix" in Innovation Policy*. Ernst &Young.

Renda, A., Bitetti, R., Luchetta, G., Quarta, L., Cammarone, P. & Pons, E. (2012, September). *Dalla Greater China con Furore? Investimenti e Strategie Cinesi in Itali nel Terzo Millenio*.

Redding, G., & Witt, M. A. (2007). *The Future of Chinese Capitalism: Choices and Chances.* Oxford: Oxford University Press.

Sauvant, K. P. (2012, April – June). *New Kid on the Block Learning the Rules*. EastAsiaForum: Economics, Politics and Public Policy in East Asia and the Pacific, Vol. 4 (No. 2). Retrieved from: http://epress.anu.edu.au/wp-content/uploads/2012/05/EAFQ-4.2-WEB-FINAL.pdf

The Economist. (2009, Mar 30th). *Vertical Integration: Idea.* Retrieved from: http://www.economist.com/node/13396061

The Economist. (2012, March 17th). *Luxury on the Cheap: Foreign Investment in Italy*. Retrieved from: http://www.economist.com/node/21550285

UNCTAD. (2013). FDI database. Retrieved from: http://unctad.org/en/Pages/Statistics.aspx/fdi

UNCTAD. (2012). Toward a New Generation of Investment Policies. In *World Investment Report 2012 (Overview)*. New York and Geneva: United Nations. Retrieved from: http://unctad.org/en/PublicationsLibrary/wir2012overview_en.pdf

Vinciguerra, L. (2007, September 28th). *Sergio Tacchini, la Missione di Salvataggio Arriva dalla China*. Il Sole 24 ORE. Retrieved from: http://www.ilsole24ore.com/art/SoleOnLine4/Economia%20e%20Lavoro/2007/09/tacchini-sergio-missione-salvataggio.shtml?uuid=491632ca-6d94-11dc-bf27-00000e25108c&DocRulesView=Libero

Voss, H. & Clegg J. (2012, April – June). *Helping Out the Eurozone*. EastAsiaForum: Economics, Politics and Public Policy in East Asia and the Pacific, Vol. 4 (No. 2). Retrieved from: http://epress.anu.edu.au/wp-content/uploads/2012/05/EAFQ-4.2-WEB-FINAL.pdf

WOO, J. (2012, January). *Technological Upgrading in China and India: What Do We Know?*. In *OECD Development Centre (Working Paper No. 308*). Retrieved from: http://www.oecd.org/india/Working%20Paper%20308.pdf

World Bank. (2013). World Development Indicators & Global Development Finance. Retrieved from: http://databank.worldbank.org/ddp/home.do

World Bank. (2012). Supporting Report 2. *China's Growth through Technological Convergence and Innovation.* World Bank, Washington, DC. Retrieved from: http://www.worldbank.org/content/dam/Worldbank/document/SR2--161-228.pdf

World Bank. (2011). Ranking by Gross Domestic Product (GDP) 2011. Retrieved from: http://data.worldbank.org/data-catalog/GDP-ranking-table

World Economic Outlook. (2012). China: Total Investment as a Percentage of GDP, 1980-2011. Retrieved from: http://world-economic-outlook.findthedata.org/l/1170/China

Xinyu Hengdeli Holdings Limited. (2007, Oct 27th). *Xinyu Hengdeli and LVMH Co-operate in Developing OMAS: Enhancing the Brand Status and Expanding its Global Profile*. Retrieved from: http://jinhuiholdings.jinhuiship.com/PDF/C01700/e03389(63).pdf

Xiqing, G. (2012, April – June). *Barriers and Pitfalls on Foreign Paths*. EastAsiaForum: Economics, Politics and Public Policy in East Asia and the Pacific, Vol. 4 (No. 2). Retrieved from: http://epress.anu.edu.au/wp-content/uploads/2012/05/EAFQ-4.2-WEB-FINAL.pdf

Zhang, Y. & Filippov, S. (2009). *Internationalization of Chinese Firms in Europe.* United Nations University, Maastricht. Retrieved from: http://www.merit.unu.edu/publications/wppdf/2009/wp2009-041.pdf