DISSECTING CHINESE ODI:
DRAGON MULTINATIONALS IN ITALY

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This paper provides original evidence about Chinese Outward Direct Investment (ODI) in Italy.

Data have been collected at the micro level, through a multiple-choice questionnaire submitted to the whole population of Dragon multinationals.

With a response rate of 86%, this paper draws a detailed profile of the parent companies and document the strategic features of their ODI.
OUTLINE OF THE PRESENTATION

- PREMISE
- LITERATURE REVIEW
- EMPIRICAL ANALYSIS
- CONCLUDING REMARKS
PREMISE (1)

The new geography of Foreign Direct Investment (FDI)

Past 2 decades: ↑ number of Multinational Enterprises (MNEs) from emerging economies, mainly because of overseas expansion by Asian companies (UNCTAD 2006, 2007)

Outward Direct Investment (ODI) from developing countries is not a new phenomenon, but it has experienced a quantitative & qualitative transformation (UNCTAD 2008):

- **quantitative**: ↑ magnitude (flows from 6 to 253 billion USD; stocks from 145 to 2288 billion USD between 1990-2007)
- **qualitative**: change in geographical (from developing to developed host countries) and sector (from manufacturing to service industry) patterns
PREMISE (2)

China has consolidated its position as a global investor

**Stocks**: 0 to 150 billion USD between 1978 and 2008

**Yearly growth rate**: 60%


**Examples**:

- Lenovo Group acquired the PC business of IBM
- Haier established its manufacturing plants in South Carolina
- TLC bought the TV arm of France’s Thomson SA and Alcatel SA
- Nanjin Automotive Industry Corporation acquired MG Rover in the UK
China is not only a **destination** for FDI, but also a **source** of multinational activity.
LITERATURE REVIEW (1)

Existing literature about emerging countries MNEs focuses mainly on:

1) Applicability of the “traditional view” of Foreign Direct Investment to emerging countries ODI

2) Characteristics of emerging countries multinationals and their ODI
1) Applicability of the “traditional view” of Foreign Direct Investment to emerging countries ODI

What is the so called “traditional view”?

- **OLI framework** (Dunning 1993): MNEs invest abroad to exploit certain Ownership-Location-Internalization advantages own before internationalization

- **IDP framework** (Dunning 1981): Internationalization occurs through various stages (inward FDI ➔ export ➔ outward FDI)
The “traditional view” was built to explain ODI from advanced countries: is it capable of explaining ODI from emerging economies?

**No, a new theory is needed**


- **Critiques against IDP**: the time profile of emerging countries ODI does not conform to the IDP hypothesis (Athreye-Kapur 2009, Li 2007, Gao 2008)

**Yes, a slight adaptation is enough**

Emerging countries MNEs are not a completely new species of firms. The OLI mechanism is still at work, because they possess some ownership advantages (parental networks, process capabilities, management and corporate entrepreneurship) even though different from those of developed countries investors

(Fortanier-Tulder 2009, Yiu et al. 2007, Buckley et al. 2007)
2) Characteristics of emerging countries multinationals and their ODI


- Leading global position in **industries** such as automotives, chemicals, electronics, petroleum, transport, TLC (UNCTAD 2006)

- **Small** compared to advanced countries MNEs, although a number of large ones have recently appeared (UNCTAD 2006)

- Used at operating in **highly volatile environments** (Fortanier-Tulder 2009)

- **Push factors**: market- and (strategic) resource-seeking ODI are predominant


Novelties of this paper:

Compared with the existing literature, this paper provides:

- **Quantitative** rather than qualitative analysis of Chinese MNEs
- **Microeconomic** rather than macroeconomic evidence
- **Original survey data**, rather than case histories or anecdotal studies
- **Rich framework** in terms of sample representativeness, n. questions, variety of issues
- Data about **Dragon MNEs** (headquartered in Mainland China) + MNEs from **Hong Kong & Taiwan**

This allows us to dissect macro trends by means of firm-level data:

Why do Chinese enterprises invest abroad? How do they enter into a foreign mkt? What returns & problems do they face abroad?
EMPIRICAL ANALYSIS – data & methodology

- **New firm-level database** about Chinese ODI in Italy

- **Survey interviews** (2009-2010) to the whole population of investors from Mainland China, Hong Kong, Taiwan with affiliates in Italy

- Small population (21 parent companies), **high response rate** (18/21=86%)

- **Multiple-choice questionnaire** (50 questions, 2 sections: 1) profile of the parent company 2) characteristics of ODI), designed according to the literature
EMPIRICAL ANALYSIS – results (1)

Employees of the parent company

Sales of the parent company
Industry of the parent company

- transport: 22%
- telecommunication: 17%
- electronics: 22%
- machineries: 11%
- home appliances: 11%
- motorcycles: 6%
- luxury goods: 11%
EMPIRICAL ANALYSIS – results (3)

Province of origin of the parent company

- Taiwan: 17%
- Hong Kong: 21%
- Zhejiang: 11%
- Shenzen: 11%
- Beijing: 17%
- Shanghai: 6%
- Shandong: 6%
- Hunan: 11%
- Province of origin of the parent company
EMPIRICAL ANALYSIS – results (4)

Type of the parent company, by region of origin

<table>
<thead>
<tr>
<th>Region</th>
<th>State Owned Enterprise</th>
<th>Private Firm</th>
<th>Mixed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mainland China</td>
<td>46%</td>
<td>18%</td>
<td>36%</td>
</tr>
<tr>
<td>Taiwan &amp; Hong Kong</td>
<td>0%</td>
<td>86%</td>
<td>14%</td>
</tr>
</tbody>
</table>
EMPIRICAL ANALYSIS – results (5)

Push factors, by region of origin

- Mainland China
- Taiwan & Hong Kong

Diagram showing the distribution of push factors: capital to invest, government support, and stagnant domestic market.
EMPIRICAL ANALYSIS – results (6)

Pull factors, by region of origin

- Mainland China:
  - high skilled & productive labour force: 40%
  - avoid trade barrier: 30%
  - local distribution networks: 20%
  - specialized suppliers: 10%
  - established brand: 10%
  - advanced technology: 5%
  - business potential: 5%
  - strategic platform to Europe: 5%

- Taiw an & Hong Kong:
  - high skilled & productive labour force: 50%
  - avoid trade barrier: 20%
  - local distribution networks: 10%
  - specialized suppliers: 10%
  - established brand: 10%
  - advanced technology: 5%
  - business potential: 5%
  - strategic platform to Europe: 5%
EMPIRICAL ANALYSIS – results (7)

Entry mode, by region of origin

- **Mainland China**:
  - JV: 40%
  - WOE: 60%
  - M&A: 0%

- **Taiwan & Hong Kong**:
  - JV: 0%
  - WOE: 20%
  - M&A: 80%
EMPIRICAL ANALYSIS – results (8)

Reasons to choose M&A

Target firm for acquisition
EMPIRICAL ANALYSIS – results (9)

Reasons to choose JV

Contributions of the two partners

- reduce risks & share costs: 10%
- acquire reputation: 20%
- acquire technology & know-how: 30%
- gain local support: 40%
EMPIRICAL ANALYSIS – results (10)

Reasons to choose Wholly Owned Enterprise

- Strengthen own brand credibility: 70%
- Protect intangible assets: 30%
EMPIRICAL ANALYSIS – results (11)

Satisfaction, by entry mode

- M&A
- WOE
- JV

- very satisfied
- not satisfied, but not planning any correction
- not satisfied, planning to switch entry mode
- not satisfied, planning to disinvest
EMPIRICAL ANALYSIS – results (12)

Main problems

- Infrastructure: 2%
- None: 11%
- Language: 11%
- Lack of flexibility in labour market: 14%
- Unfavourable living conditions: 14%
- Bureaucracy: 20%
- Cultural distance: 29%

Main returns

- Sales: 13%
- Competitive position: 18%
- Technology & experience: 20%
- New market segments: 24%
- Image & reputation: 25%
CONCLUDING REMARKS

Main findings:

- This paper provides fresh micro evidence about Chinese ODI in Italy, to dissect macro trends
- Empirical findings are in line with the theoretical predictions about the profile of Chinese parent companies and the features of their FDI
- Multinational firms headquartered in Mainland China seem to differ from those headquartered in Hong Kong & Taiwan

Limits & future agenda:
Small population (no econometrics)
Single-home & single-host analysis
\rightarrow extend the survey to Indian MNEs in Italy
\rightarrow extend the survey to Chinese MNEs elsewhere in Europe