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**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

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❖ **PREMISE**

❖ **LITERATURE REVIEW**

❖ **EMPIRICAL ANALYSIS**

❖ **CONCLUDING REMARKS**

## **PREMISE (1)**

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### **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)**

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### **China has consolidated its position as a global investor**

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

**Yearly growth rate:** 60%

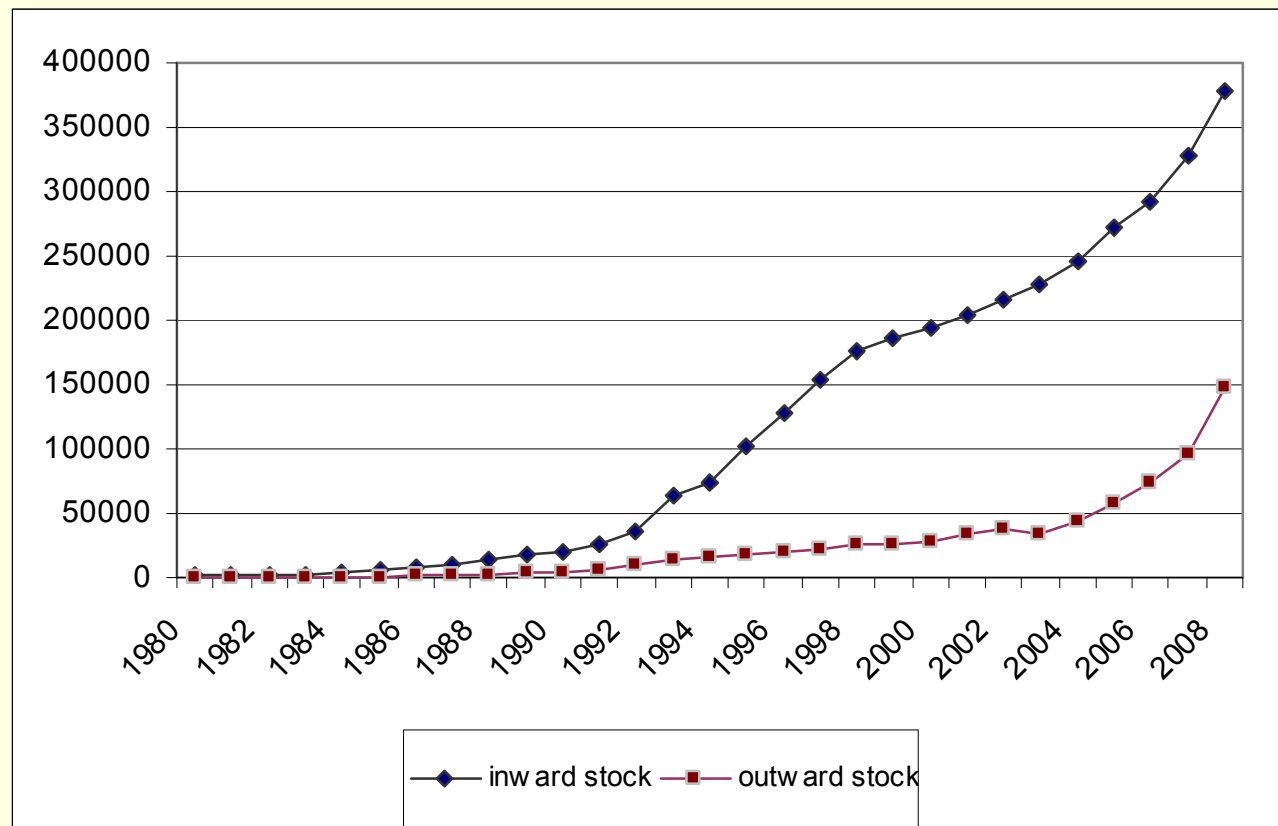
→ 13th largest home country worldwide, 6th among emerging economies in 2007 (UNCTAD 2008, Cui et al. 2008)

#### **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

## PREMISE (3)

China is not only a **destination** for FDI, but also a **source** of multinational activity



# LITERATURE REVIEW (1)

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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**

## LITERATURE REVIEW (2)

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### 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)



## LITERATURE REVIEW (3)

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 OLI:** emerging countries ODI are asset-seeking rather than asset-exploiting (Athreye-Kapur 2009, Deng 2007, Luo-Tung 2007, Li 2007, Child-Rodrigues 2005, Zhang 2005, Boisot 2004, Nolan 2001, Buckley et al. 2007)

▪ **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)

# LITERATURE REVIEW (4)

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## 2) Characteristics of emerging countries multinationals and their ODI

- High degree of **state ownership**, strong government intervention to promote internationalization (Yeung-Liu 2008, Deng 2007, UNCATD 2006)
- 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
- **Pull factors:** government support, availability of capital, stagnancy of the domestic mkt (Athreye-Kapur 2009, Fortanier-Tulder 2009, Duysters et al. 2009)
- **Entry modes:** Joint Venture (JV), Merger&Acquisition (M&A), Wholly Owned Enterprise (WOE) (Schuller-Turner 2005, Child-Rodrigues 2005, Deng 2007)

## Novelties of this paper:

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### 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:**

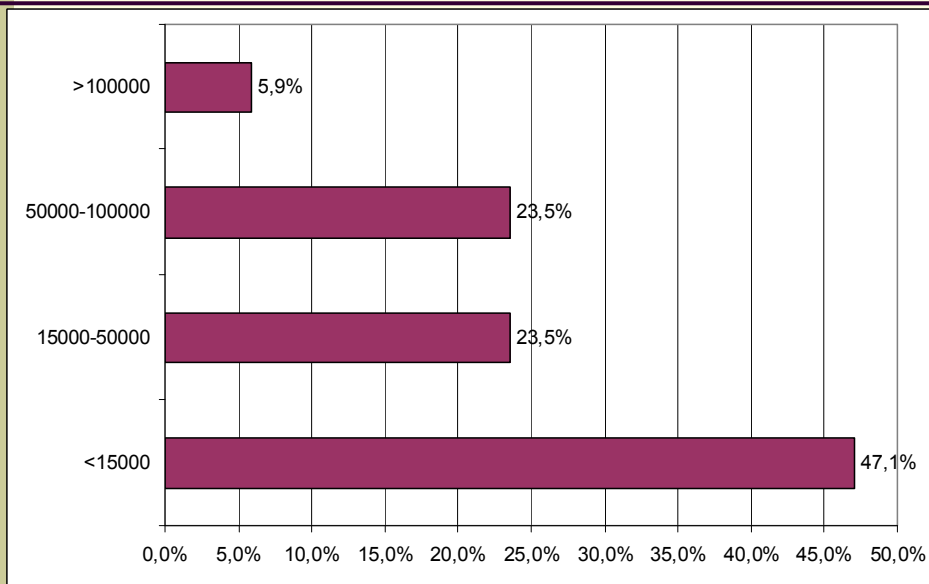
**Why do Chinese enterprises invest abroad? How do they enter into a foreign mkt? What returns & problems do they face abroad?**

## EMPIRICAL ANALYSIS – data & methodology

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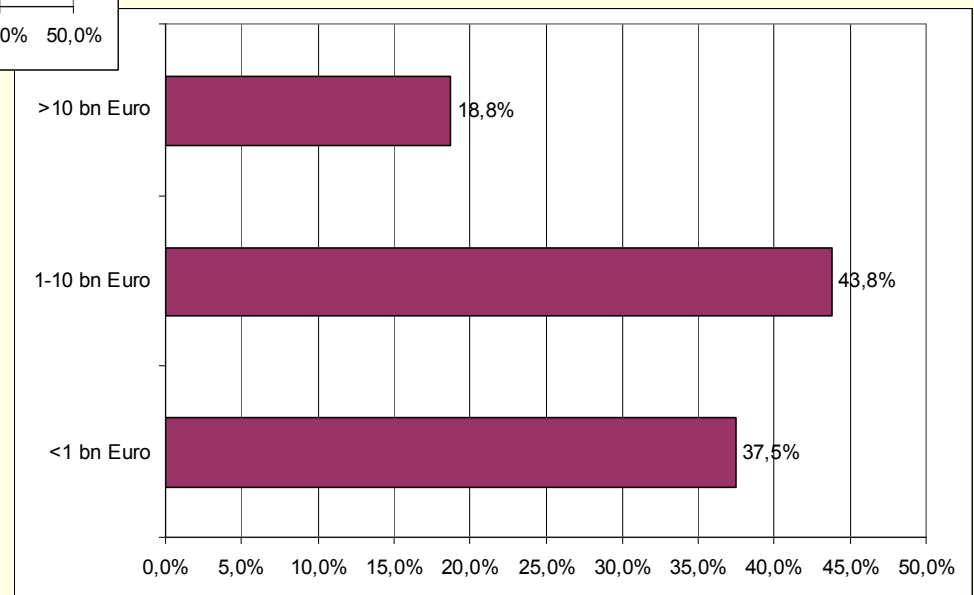
- **New firm-level database** about Chinese ODI in Italy
- **Survey interviews** (2009-2010) to the whole population of investors from Mainland China, Hong Kong, Taiwan with affiliates in Italy
- Small population (21 parent companies), **high response rate** (18/21=86%)
- **Multiple-choice questionnaire** (50 questions, 2 sections: 1) profile of the parent company 2) characteristics of ODI), designed according to the literature

# EMPIRICAL ANALYSIS – results (1)



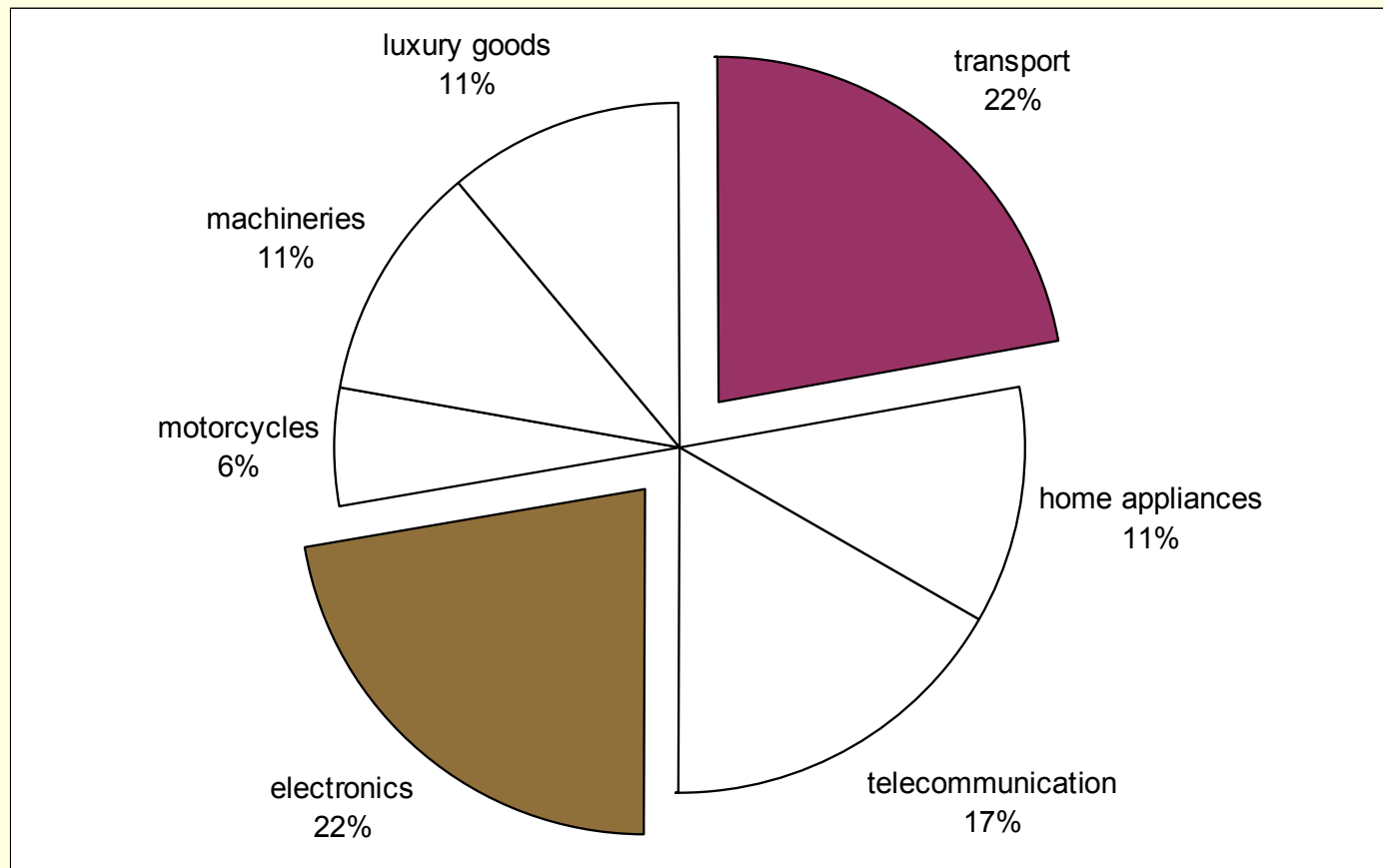
Employees of the parent company

Sales of the parent company



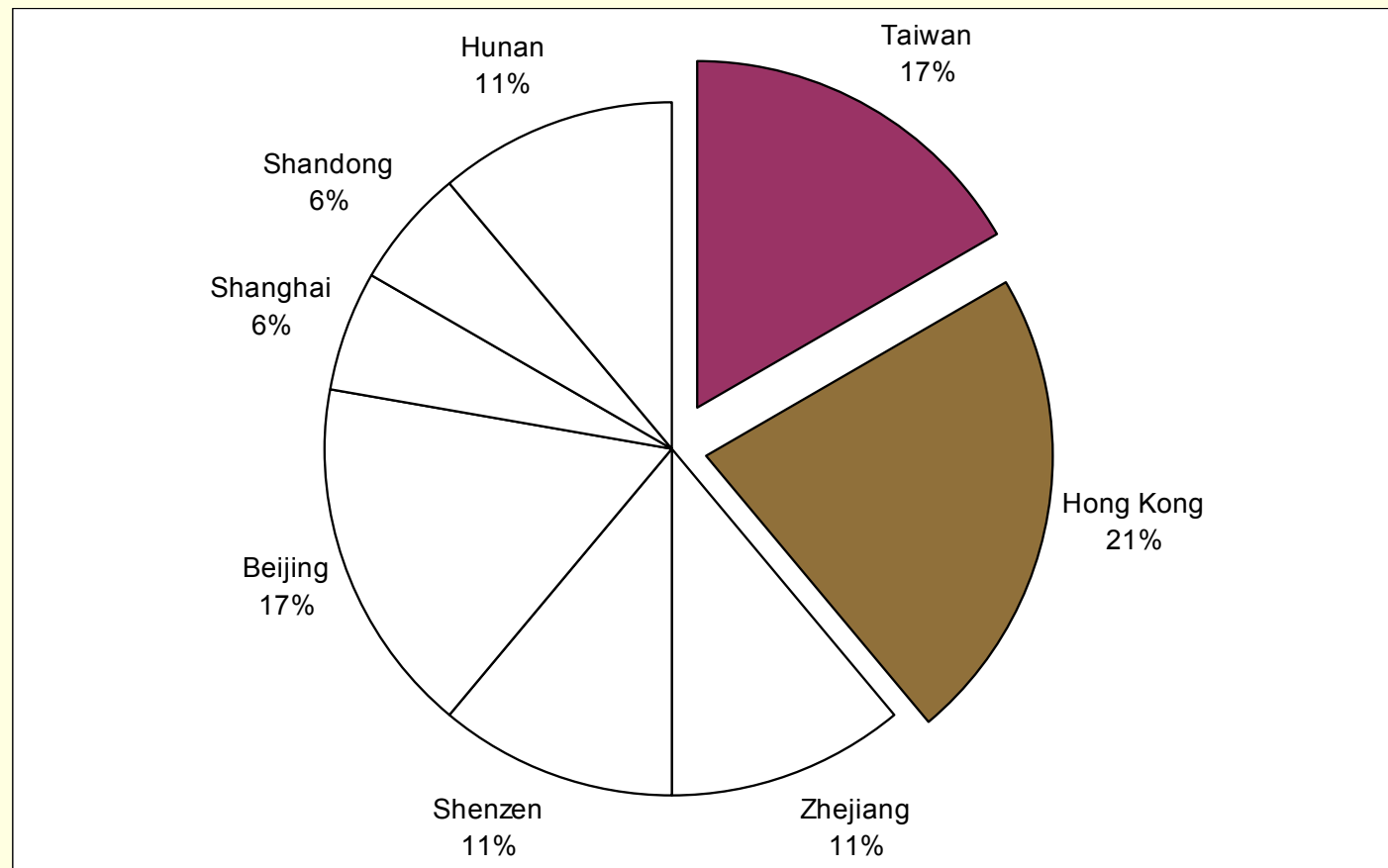
## EMPIRICAL ANALYSIS – results (2)

Industry of the parent company



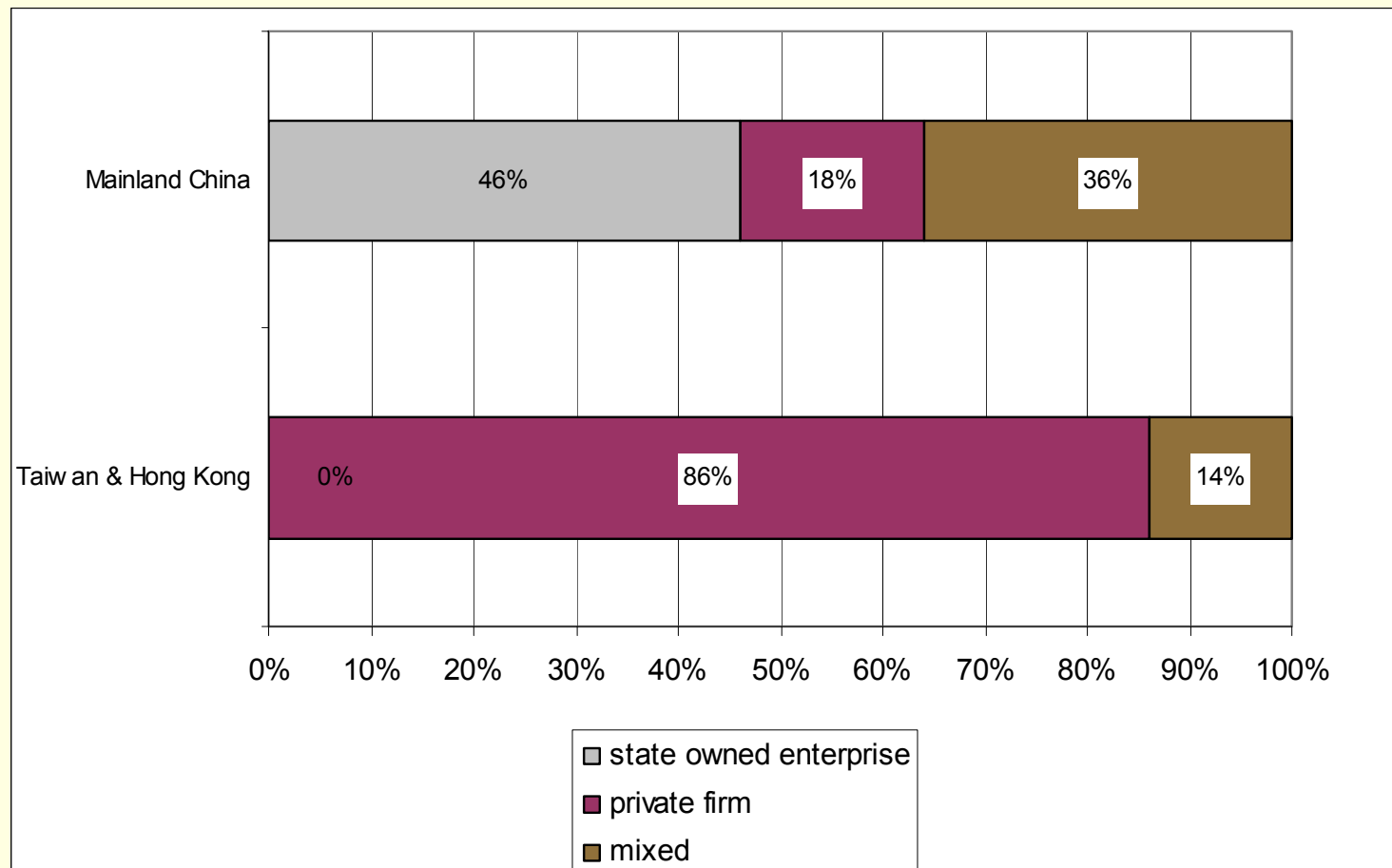
## EMPIRICAL ANALYSIS – results (3)

Province of origin of the parent company



# EMPIRICAL ANALYSIS – results (4)

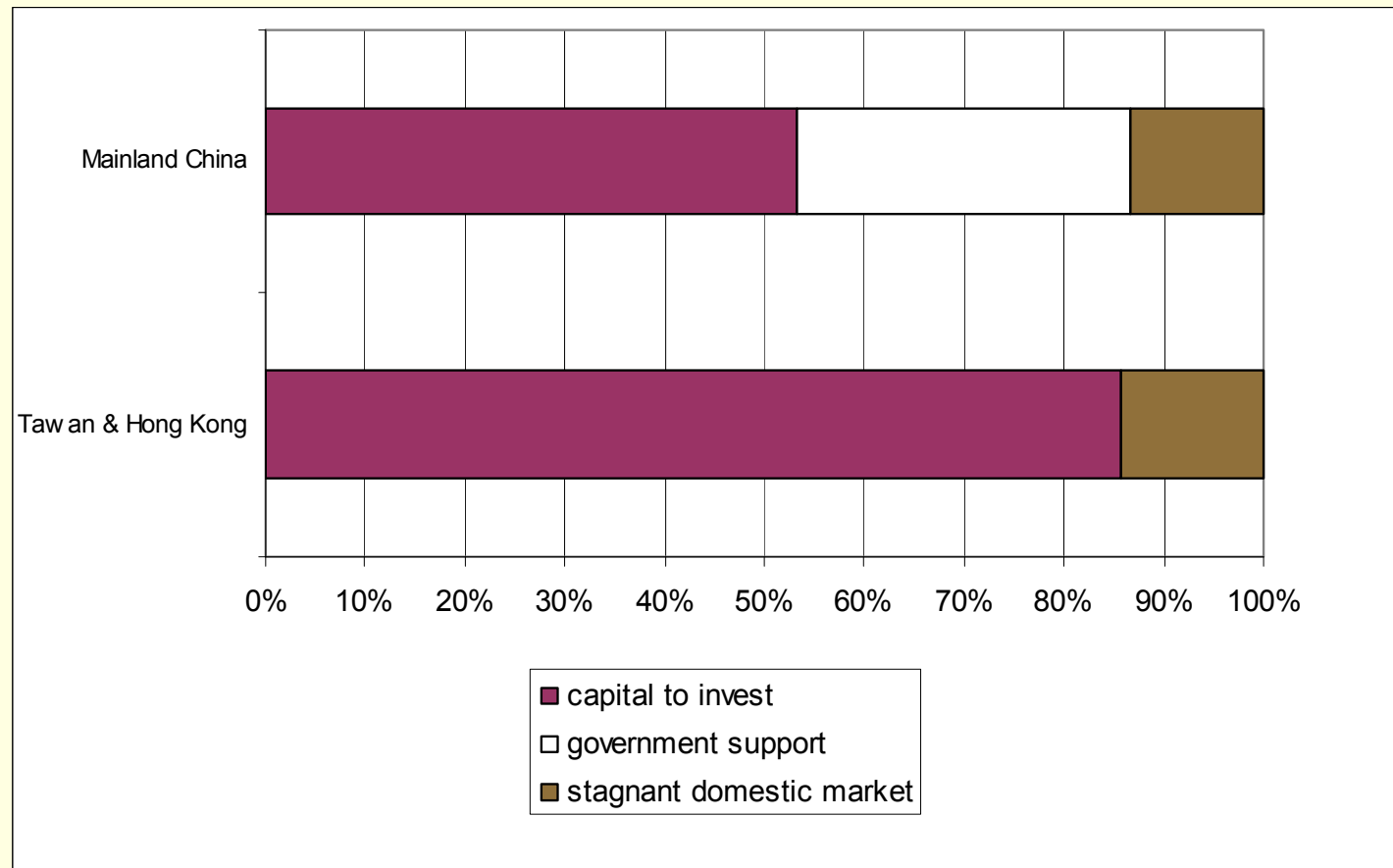
Type of the parent company, by region of origin





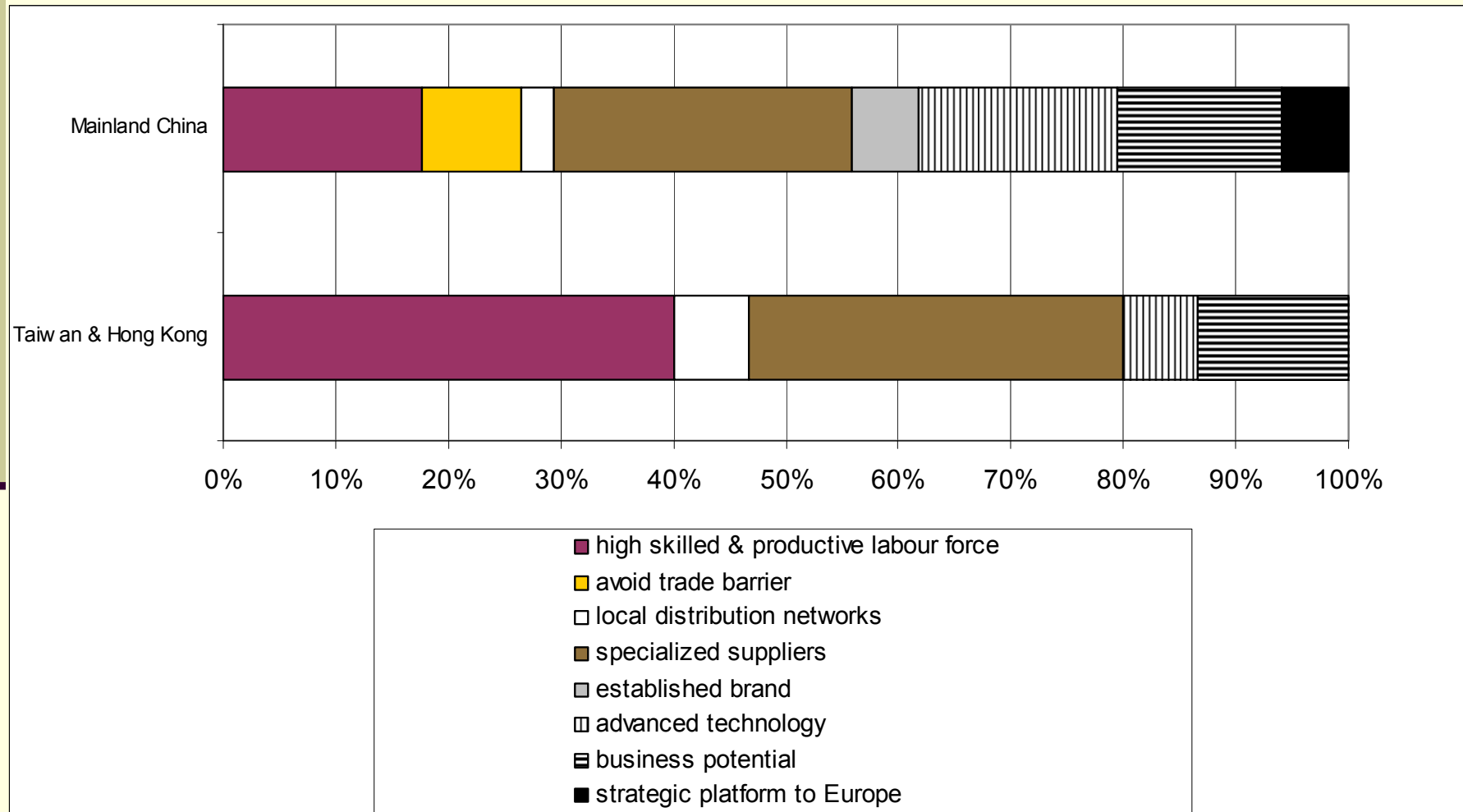
# EMPIRICAL ANALYSIS – results (5)

Push factors, by region of origin



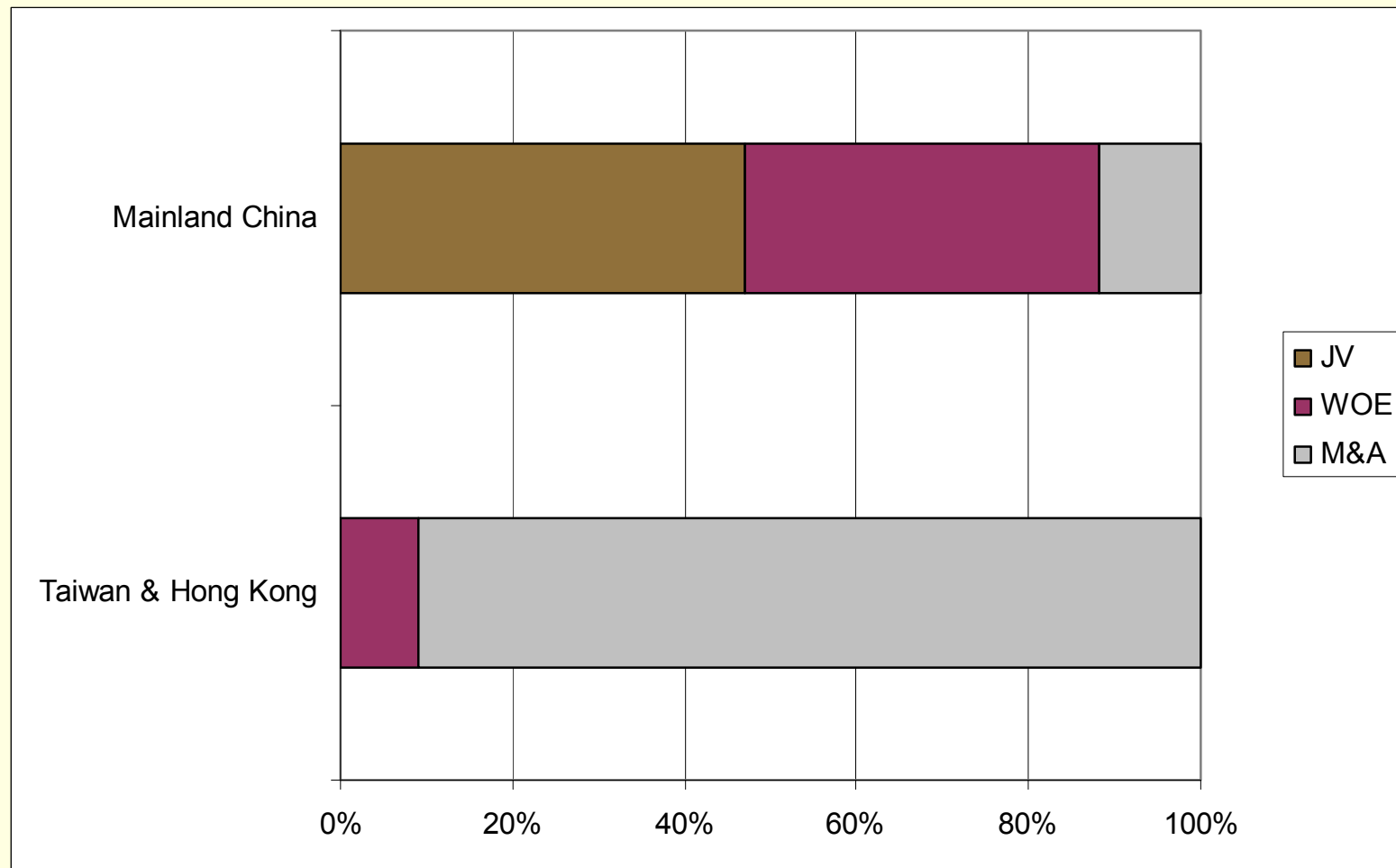
# EMPIRICAL ANALYSIS – results (6)

Pull factors, by region of origin

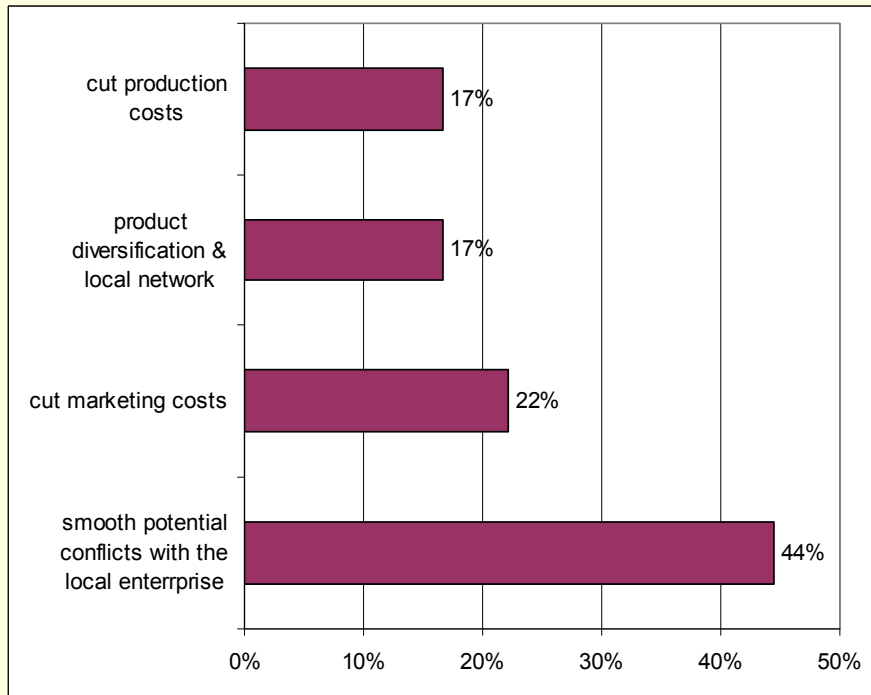


# EMPIRICAL ANALYSIS – results (7)

Entry mode, by region of origin

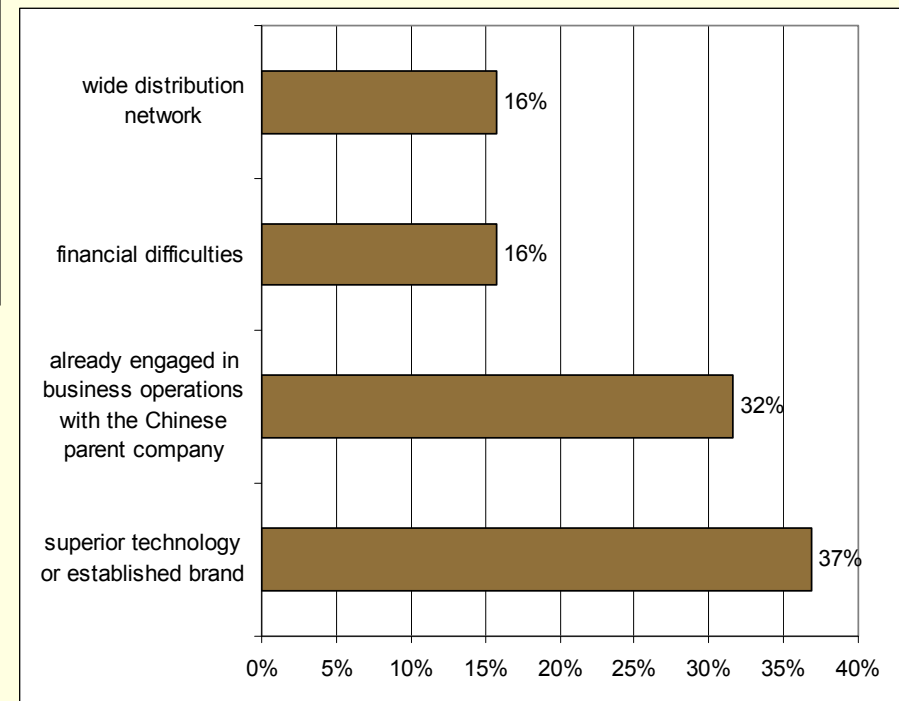


# EMPIRICAL ANALYSIS – results (8)

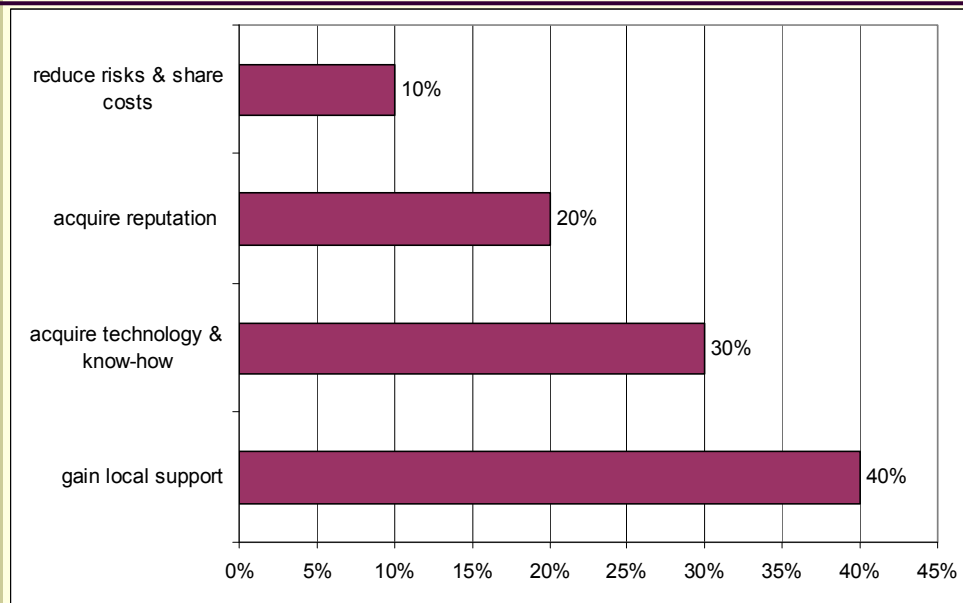


Reasons to choose M&A

## Target firm for acquisition

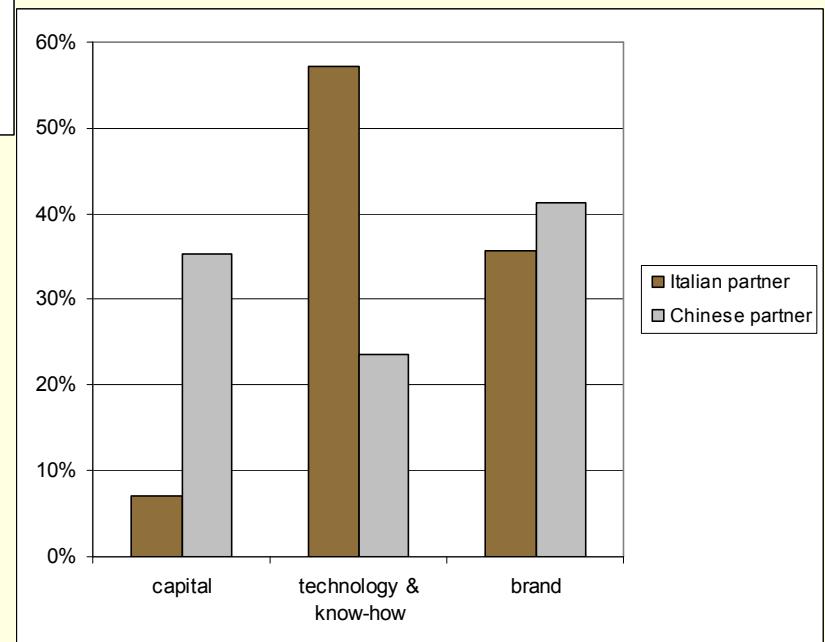


# EMPIRICAL ANALYSIS – results (9)



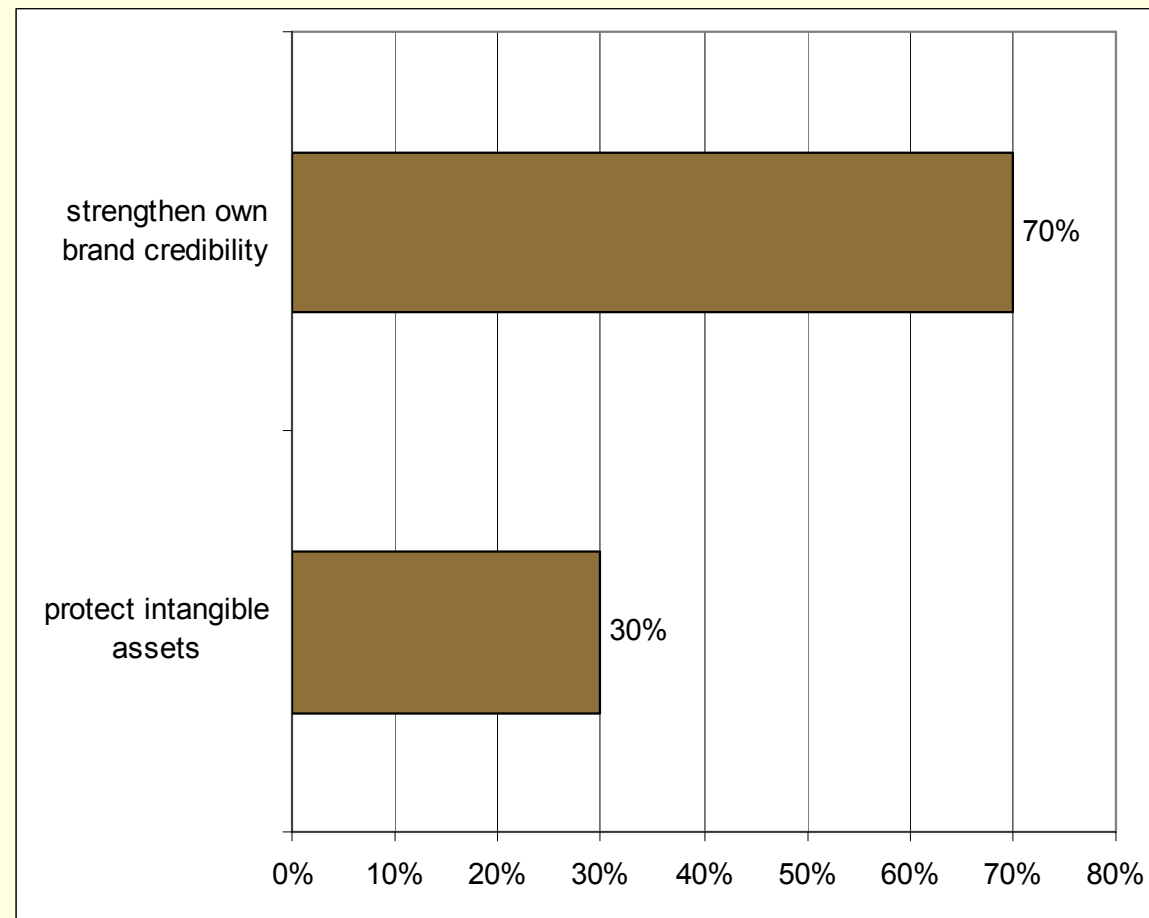
Reasons to choose JV

## Contributions of the two partners



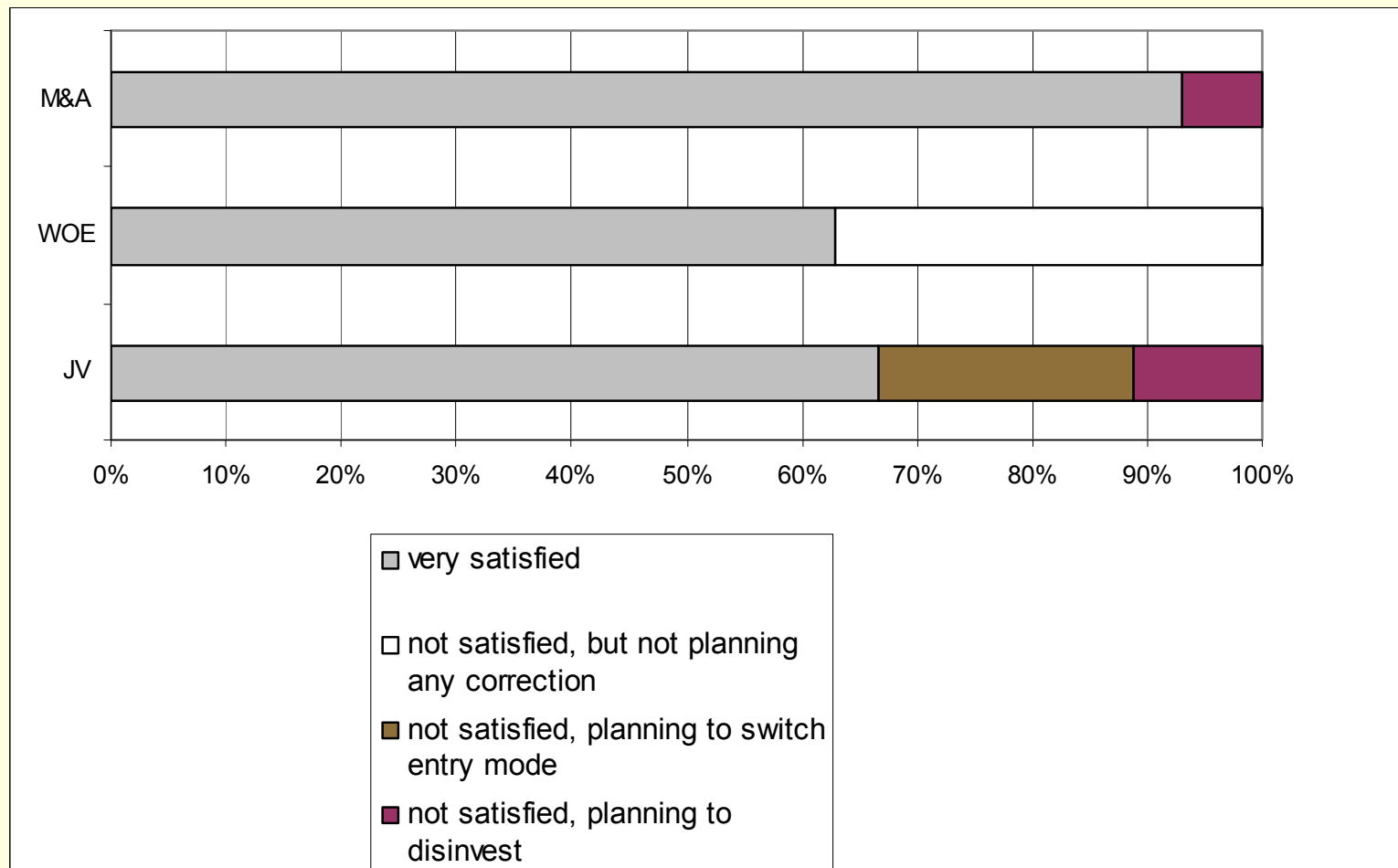
# EMPIRICAL ANALYSIS – results (10)

## Reasons to choose Wholly Owned Enterprise

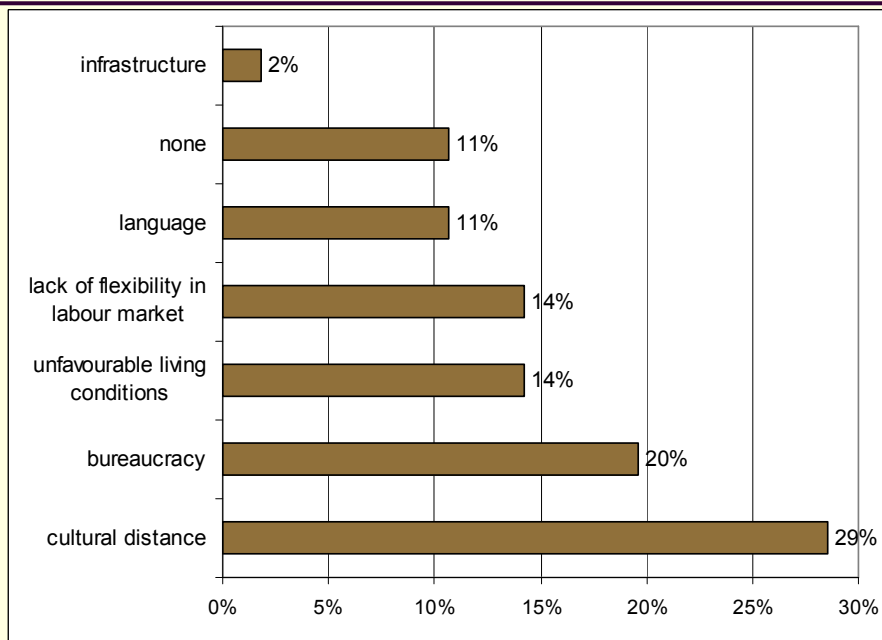


# EMPIRICAL ANALYSIS – results (11)

Satisfaction, by entry mode

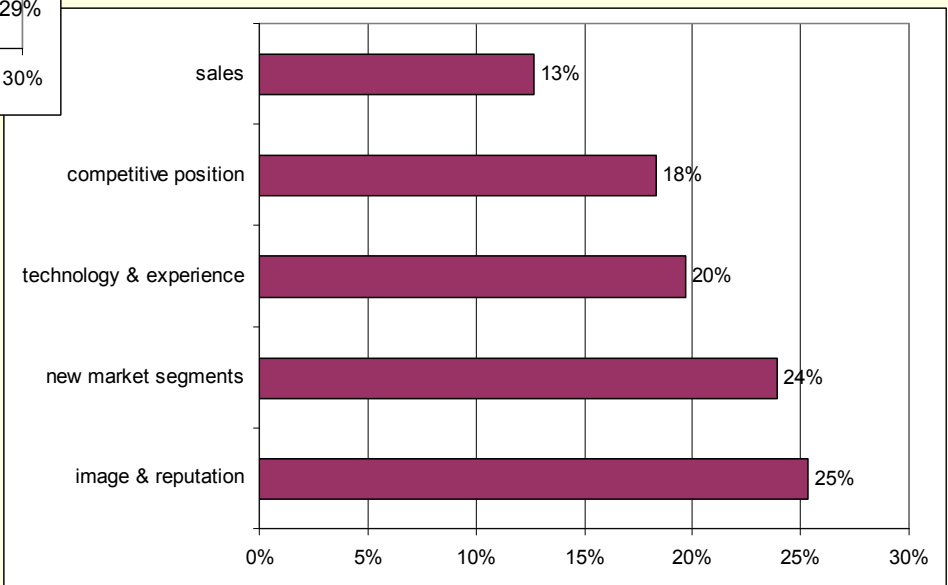


# EMPIRICAL ANALYSIS – results (12)



Main problems

## Main returns





# CONCLUDING REMARKS

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## **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

→ extend the survey to Indian MNEs in Italy

→ extend the survey to Chinese MNEs elsewhere in Europe