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Supervisor
Ch. Prof. Andrea Pontiggia

Assistant supervisor
Ch. Prof. Tiziano Vescovi

Graduand
Matteo Passarella
Matriculation Number 824438

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ABSTRACT

This thesis aims to study the acquisitions performed by Chinese multinational enterprises in Italy between 2008 and 2017. This topic is of interest because in recent years there have been a surge in Chinese foreign investments, and especially acquisitions of developed markets' firms, both in North America and Europe. The needs to understand this phenomenon are many. First of all, it is a new phenomenon, as traditionally developing markets' firms did not invest heavily in developed countries, and thus the study of the motivations and characteristics of such investments are important to deepen the understanding of firms' internationalization processes and widened the international business literature. Second, it is important to understand the implications of such investments for the countries receiving them, as effective policies need to be put forward by the governments. In Europe this is especially important because it has traditionally been an open market, that has encouraged strongly international capital flows and investments, because considered beneficial both for the investing country and for the European countries. On this point though, recently discording opinions have been raising, with capital coming from China as the target, calling thus for a better understanding of the phenomenon.

This thesis mainly focuses on the first matter, comparing the traditional theories of firms' internationalization, with what is observed in the case of Chinese firms. Their behaviour is indeed quite different from the patterns identified for developed countries' firms. Recently new theories purposely constructed to read the phenomenon of emerging markets' firms internationalization have been developed and are taken as the reference points in the following of the research. In order to give support to such theories, which are in need of empirical evidence, a study on the cases of acquisitions from Chinese companies in Italy has been conducted, covering the years between 2008 and 2017. This period has been chosen because the global financial crisis is considered an event of such magnitude that have been an effect also on Chinese companies' internationalization strategies, and thus the expectation is to find a behaviour of Chinese firms quite different before and after 2008.

To introduce this research at best, chapter 1 explains the development path of China, showing specifically how the development of the country is strictly linked to the opening of its economy to the world, and this surge of foreign investment is just a new phase of

such development. Chapter 2 gives an overview on the different internationalization methods a firm has at its disposal, and how it chooses among them. Chapter 3 lies the theoretical foundations, the reasons, and the characteristics of firms' international expansion, differentiating between traditional theories that have been constructed observing developing world's firms, and the new theories that have been constructed to read the internationalization of emerging markets' firms. Chapter 4 proposes a digression on Chinese history of outward foreign investments, showing how the characteristics of the phenomenon and the motivations have changed over time, and proposing an analysis of China's stance on the global scenario, providing also an estimation of future flows. In the end chapter 5 proposes the research based on the cases of Chinese acquisitions in Italy, measuring the motivations for the investments, among other different variables. The findings can help shed light on the phenomenon of Chinese firms' foreign acquisitions, and provide support or update the results of the theories presented in chapter 3. In the end some conclusions from the research are derived, as well as some hints for future research.

CHAPTER 1. THE DEVELOPMENT PATH OF CHINA

Paragraph 1.1 Introduction

China today is one of the most important economy in the world for size, it has a great political power, with a strengthening global influence, and is getting richer year on year at a pace that is hard to compare with any other country in history, and it has no precedence among comparable size countries.

If looking for the causes of such a successful story, it is not necessary to go back a long time in history. The most important date and event for the transformation of China in today's global power is the year 1979, when the reforms began. In this year, Deng Xiaoping, one of the leaders of the People's Republic of China, started his reforms that aimed to achieve what is known as "socialism with Chinese characteristics". This new way of thinking combined in a new mixture socialist ideology with pragmatic market economy.

The result of the efforts started in 1979 has been an extra-ordinary GDP growth, that went from USD 316 Billion in 1979, to USD 9.595 Billion in 2016.[1] It is a thirty-fold increase, in less than forty years. Looking at this figure in perspective, during the same period, USA's and Italy's GDPs have increased two and three times respectively. Furthermore, also other indicators are aligned in demonstrating the success of Chinese reforms. The GDP per capita has improved constantly, and if in that period the aggregate figure globally has less than doubled, China started from USD 326, to reach USD 6.893 in 2016.[2] The international presence of China has grown as well, starting with irrisory figures, now it is the biggest world's exporter, with USD 2.097 billion of export last year, and import for USD 1.588 billion.[3] The industrial growth has been extraordinary, and from being a mostly rural economy, it has become a world economic power, first with export oriented basic manufacturing industries, and now developing high-tech, innovative firms, as well as a strong tertiary sector. Foreign direct investments (FDI)[4] also grew substantially, first

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[1] World Bank data, in constant 2010 US Dollars;
[2] World Bank data, in constant 2010 US Dollars;
[3] World Integrated Trade Solutions data, 2016;
[4] FDI are investments made by a firm or an individual in a foreign country, through the acquisition of another firm or the establishing of new business. FDI are different from portfolio investments as they establish effective control, or at least strong influence over the foreign firm. Usually the threshold after which a foreign firm is considered to exert substantial influence on a firm is the ownership of at least 10% of the capital;

inward FDI (IFDI) rose dramatically, and in the last years outbound FDI (OFDI) are on the surge.

This first chapter proposes an historical overview of the development path of China, and the results achieved in the 40 years of reforms. Knowing China's path of development is necessary to understand its current situation, as well as the OFDI and acquisitions surge that occurred in recent years. The first paragraph analyses how China developed so fast and achieved such extraordinary results in short time, covering the period from 1979 to 2001. The second paragraph instead analyses the change in the development model that China undertook since the first years of the new millennium, departing from the entrance of China to the WTO (2001) and the presidency of Hu Jintao (2003). The last paragraph describes recent history, since the settlement of president Xi Jinping's government in 2013, as well as possible scenarios for future development.

Paragraph 1.2 The early reforms: from 1979 to 2001

During the 19th century, two important transformations occurred in China, that changed consistently the future development of the country. One is the coming to power of the Communist Party in 1949, and the other is the series of reforms started by Deng Xiaoping in 1979.

The coming of communism in China can be traced back to 1921, official founding year of the Communist Party, which later took power in 1949. The importance of this event though, does not lie on the economic benefits that brought to the country, but rather on the political foundation that it gave to it. Indeed, since the first quinquennial plan in 1952, through the Great Leap Forward of 1958, to the Cultural Revolution of the 1960s', China underwent a period of moderate economic growth. As a result, by the end of the 1970s', China was still an agriculture-based economy, with insignificant levels of international trade, and a low GDP. All of this despite the party's claim of pursuing the long-term objective to transform China into a modern, industrialized, and socialist country. One of the main reasons for the economic stagnation was that economic goals were underprioritized to political goals. Looking at the political side of the event, this is indeed of major importance, as it started a structure that today is at the core of China's identity, and it is of paramount importance in all aspects of Chinese economy, policies, and people's lives.

As above said, an important stepping stone for the development of the Chinese economy, are the reforms of 1979, year in which Deng Xiaoping took power, after the death of Mao Tse Dong, and after winning a struggle between him and Hua Guofeng, the nominated successor of Mao. Deng's ideas were different from the traditional communist way of thinking. This has been source of critics from the more radical members of the party, but it has also brought to new and unexplored policies. In his opinion, the communist ideology and the capitalistic markets were not incompatible, but instead it was a mix that should have been encouraged, in order to push the country towards a "socialist market economy". Therefore, and as stated by Deng Xiaoping himself in a speech of 1979, [5] economic considerations should be prioritized to political considerations.

As a consequence, in those years, China not only underwent some important economic reforms, but also started opening to the world. As a proof of that, Deng's numerous visits to south-east Asian countries are a first example of such opening. He visited Singapore and Thailand, to understand how those countries were changing and how especially Singapore had known a huge development. From there, also relationships with the US began to develop, and in 1979 he officially visited the US president, as well as some major US companies such as Coca-Cola or Boeing, that had express interest in investing in China. Others two major events have been the negotiation with UK and Portugal of the return of Hong-Kong and Macau in 1984 and 1987 respectively.

Regarding the economic reforms Deng Xiaoping introduced different policies to sustain growth. He inherited a country that had different problems, typical of the communist regimes, being an unbalance towards heavy industry, and a preponderance of State Owned Enterprises (SOEs) in the market, which did not shine for efficiency. To understand why having a preponderant heavy industry was a problem at that time, a look at the neoclassical economic theory can be of help. According to this theory, each country is endowed with some factors of production, being land, labour, and capital, that generate the output, or GDP. China in 1979 had a huge endowment in terms of land and labour, but not so much in terms of capital. This should have led the country to use that endowment in labour, and thus build a strong light industry (production of clothes, shoes, home appliances, furniture etc.). From this follows the need to rebalance light and heavy industry as the first was much more suitable to China's current conditions. Furthermore,

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[5] Deng X., 1984, Selected Works of Deng Xiaoping (1975-1982), Translated by The Bureau for Translation of the Works of Marx, Engels, Lenin and Stalin, Foreign Languages Press, Beijing;

it is well known that when there is a big disproportion in the endowments of the factors of production, the marginal utility of the factor of production missing is much higher compared to its marginal utility when the factors are more balanced.[6] Also for this reason, as it will be shown later, the reforms put great emphasis on attracting capital from abroad. Departing from this situation, some measures were taken to take China to the next level of that "socialist market economy" that was the ultimate goal of Deng Xiaoping and set it on track to develop a modern industry. The two main points of Deng's policies were:

1. The transition away from a communist command economy, by gradually introducing more market-oriented mechanisms, following his ideas of mix between socialism and capitalism;
2. The adoption of the "east Asia country development strategy". Many countries in east Asia, namely Japan, South Korea or Taiwan, employed this strategy that was based on the development of export-oriented industries, while protecting their house markets from the competition of foreign firms, that brought an incredible growth since the 1970s'.

More in detail, the specific policies employed to achieve these two goals have been:

- Gradually increase the role of the market in the Chinese economy;
- Reduce the weight of SOEs and foster the growth of private enterprises;
- Develop more labour-intensive industries instead of capital-intensive ones;
- Foster the export of Chinese firms, in order to raise foreign currency, that could be then used to purchase foreign technology;
- Attract FDI, in purposely created Special Economic Zones. [7]

As for the first two points, both are clearly aiming to open China to a more market-oriented economy. The third and fourth point are pursuing the "east Asian countries development strategy". Regarding the last point, it is peculiar to China, and it was not a policy employed by other Asian countries. Indeed, the FDI in China's development have been much more important compared to its GDP figures, than it has been in Japan or Taiwan during their high-growth period. Between 1985 and 2005, IFDI flows averaged about 3% of the GDP in China, instead in a comparable high growth period in Taiwan and Japan, between 1970 and 1990, FDI accounted for less than 1%. Another important

[6] For a thorough discussion on the topic see Krugman P.R., Obstfede M., 2017, International economics: Theory and policy, Pearson;

[7] Kroeber A. R., 2016, China's economy: What everyone needs to know, Oxford University Press;

characteristic was the destination of those IFDI, that went into export-oriented industries, so much that these firms produced a big part of the Chinese export. This is different from Japan or Taiwan, in which export champions have always been domestic firms. The reason behind this policy derives from different factors. First, for political reasons, China could not benefit of the same conditions other Asian countries could have, because more politically aligned with western-world countries such as the US, that guaranteed them access to their markets, as well as protectionism to the domestic markets from foreign firms.[8] If China wanted to enter the foreign markets instead, it had to open its markets as well. Secondly, capital was much needed back then, since it was a scarce factor of production. Thirdly, foster IFDI would increase the relative export, that would allow China to gain foreign currency, with which buy foreign machinery and technology, that could help industrialize the country rapidly. Furthermore, if buying foreign technology was difficult, letting foreign companies invest in China would mean let them bring technologies and resources there, from which Chinese companies would benefit in the long period, especially because many sectors were regulated and did not allow foreign companies to act without a Chinese partner.[9]

After the first decade of reforms, the growth has been impressive. GDP grew from USD 316 billion to USD 798 billion.[10] Export boomed from USD 9 billion to USD 44 billion, and IFDI flows grew from less than USD 400 million to more than USD 3 billion.[11] Despite the huge achievements though, China was still poor overall, plus some new problems raised, such as corruption. As an example of the most felt problems at the time, inflation raised dramatically, as a consequence of the liberalization of the prices for some products. In different industries, this gave raise to two different markets, one with prices controlled by the government, and one with market prices. Corrupted officials took advantage of this situation, and started earning from arbitrage on these products' prices. This problem, along with others, led to the turbulences of the 1989 that exploded with the protest of Tiananmen Square in Beijing.

Growth slowed for a few years until 1992. In that year then Deng Xiaoping took his famous southern tour, that kickstarted a new reform phase and period of sustained growth. The

[8] Kroeber A.R., 2016;

[9] To see more on the argument, see Xu X., Sheng Y., 2011, Productivity Spillovers from Foreign Direct Investment: Firm-Level Evidence from China, World development, Vol. 40, Issue 1, pp. 62-74;

[10] World Bank Data for China, in 2010 Constant USD;

[11] World Bank Data for China, in Current USD;

result would have been the set of China onto a path that will lead it to become a major industrial and trade power. Planned products' and factors' prices disappeared in most industries, and by the end of the decade most of the consumer goods and agricultural commodities were market priced. The program to reform SOEs increased in pace, and many more opportunities were created for private enterprises, especially in manufacturing. A strong focus of this second phase of reforms was also to attract more foreign companies to invest in China and foster the export. Indeed, IFDI raised from USD 2/3 billion in the 1980s to USD 45 billion in 1997. Between 1994 and 1997, IFDI accounted for almost one-sixth of all fixed investments in China. Between 1990 and 2001, export quadrupled from USD 62 Billion to USD 266 billion.[12] GDP grew rapidly from USD 829 billion in 1990 to USD 2000 billion in 2001.[13] Export continued booming going from USD 50 billion to USD 280 billion. IFDI increased from USD 3.4 billion to USD 47 billion.[14] Nevertheless, despite these benefits, the price China had to pay was high in terms of people's lives, working conditions, environmental consequences, and widening inequality among the population. Indeed, workers' most basic rights were often not respected, factories conditions were below decent levels, and safety measures were not implemented at all. Unfortunately, there have been different cases of disastrous consequences in terms of people's lives that have signed the development history of China.[15] Furthermore, environmental regulations were overlooked, in a rush to achieve economic growth and maximize profit, with the consequences that nowadays are well-known to the world and China is still dealing with. At last, inequality constantly raised, reaching a peak in 2008, as signed by the Gini Index, an indicator used to measure the level of inequality in a country.[16]

During the period covered by this paragraph, China thus knew two phases of development, with the 1992 as a watershed. They are described together as they have a common thread and allowed China to raise from a third world country, to one of the most important economic powers in the world. Of course, what has been depicted here, is a fraction and just a summary of the much more complex development of China, but it is useful to allow

[12] Kroeber A.R. 2016;
[13] World Bank Data for China, in 2010 Constant USD;
[14] World Bank Data for China, in Current USD;
[15] If interested in the topic see: Napoleoni L., Maonomics. L'amara medicina cinese contro gli scandali della nostra economia, Milano, Rizzoli, 2010;
[16] World Bank Estimate, https://www.indexmundi.com/facts/china/indicator/SI.POV.GINI;

the reader to understand the peculiar path of development of the country, and put the mark on the important role played by foreign companies, exports and IFDI.

Paragraph 1.3 The change in the tide: from 2001 to 2013

With the beginning of the presidency of Hu Jintao in 2003, China policies started to become more static. In particular, there has been an effort to initiate large scale projects to build infrastructures, to raise protectionist measures for the SOEs, to slow the pace of market reforms, and to make possible for domestic firms to regain the market share that has been lost in the previous years because of the preponderant entrance in China of foreign firms. These efforts, jointly with the construction surge, that has been a consequence derived from the privatization of the urban housing market, created a boom in the demand for basic materials such as steel and cement, that in recent years has resulted in an oversupply in many heavy industries.

Particularly important for this thesis, are the policies set forth by the government in 2001 and 2006, that go under the name of "Go Global Policy" and "Indigenous Innovation Policy" respectively. The first had the clear aim of strengthening domestic companies, especially SOEs, pushing them to expand abroad and regain market shares lost in the domestic market on previous years because of the incoming of foreign firms. In other words, the government was trying to create global leaders, that could compete with foreign competitors in the home market, as well as in foreign markets. In the same direction the 2006 "Indigenous Innovation Policy" pushed for firms to be more innovative in the aim to strengthen them in response to an increase global competition. In detail, the government subsidized the expenses in R&D in several industries, rewarded companies to filing patents, and put some constraints on technology transfer to foreign firms as a condition to invest in China. On the topic, an opinion of interest is the critique brought by Kroeber.[17] He argues whether, given the present conditions, Chinese companies will be able to create innovation. He recognizes that Chinese have been quite good in adaptive innovation, which is taking products and services and make them more adapt for the Chinese market. But so far Chinese have shown little ability in developing new products, processes or services that are emulated abroad. This is a substantial difference with the Japanese, who had known a development after 1950, and created companies such as Toyota, Sony, and

[17] Kroeber A.R. 2016;

Canon, all first-class innovators. Plus, in the author's opinion, there is little effort by the government to foster real innovation, which requires wide spreading of ideas, talent, no matters where they come from. The Chinese government instead, for the author, is going the opposite direction with its indigenous innovation policy.

As just shown, the policies of the new millennium differentiated greatly in scope compared to the previous ones. This because the new drivers of growth sought were not anymore IFDI and exports, but rather the research for efficiency, the development of leading global firms, and the increase of consumption, through the development of a strong middle class, points seen more in detail below.

The rationale behind the research of efficiency can be understood by looking at China's changed conditions. If in the first phase it had two drivers of growth, being increasing productivity or factors of production, particularly capital, now it is much more constrained in incremental productivity. Indeed, China entered the new millennium having a much more balanced endowment on the factors of production (capital, land, and labour). This calls for efficiency in the use of resources to increase output, or GDP.

Secondly, Chinese firms struggled to get a hold of the global competition outside its boundaries, and foreign firms were increasingly more competitive in the domestic market as well. Furthermore, following the "Open Door Policy" initiated in 1979, China was expected to be increasingly influenced by market forces also in its domestic market, and its firms must be prepared to survive in that environment. Contrary to economies such as Japan or South Korea, China has not been able to develop a large series of businesses that were global leaders in its growth period. Usually Chinese companies, especially in those years, struggled to access technological and managerial skills necessary to become global leaders. Even when involved in Joint Ventures with foreign companies this was difficult, as those hold tightly the know-how, and wary of not passing it to their partners, that could though easily become competitors. Another common trait is the position on the global value chain of these firms. Analysing their businesses with the concept of the smiling curve,[18] many are in the lowest point, where firms' contribution is considered the one providing the least added value, and thus companies can reap low profits.[19] Brand

[18] The concept of the smiling curve has been introduced to measure the value caught by companies that collocate in different parts of the value chain. For a thorough explanation see: Shih S., 1996, Me-too is not my style: Challenge difficulties, break through bottlenecks, create values, Teipei: The Acer Foundation;
[19] Baldwin R., Tadashi I., Hitoshi S., 2014, Portrait of Factory Asia: Production Network in Asia and Its Implication for Growth — The 'Smile Curve', Joint Research Program Series, IDE-JETRO, 159;

recognition was also poor, and the label Made in China was considered a synonym of bad quality. On the other hand, though, the country was getting richer, leading it to a new peril. The risk for China was being pressed from two sides. The first being the competition of other low-cost developing countries that with recent increasing of Chinese labour costs, were much more competitive than China in this respect, and the second being the competition of developed countries that had more efficient, technological advanced, and innovative industries. For these reasons the policies to strengthen Chinese firms, through the "Go Global Policy" and the "Indigenous Innovation Policy" seen before.[20] Of the same type, a recent and broader policy has been implemented to improve the industry and make it more innovative, this is the "Made in China 2025" policy, that will be analysed more thoroughly in the next paragraph, and represents the stepping stone of a new phase in China's global competitive strategy. The efforts to strengthen Chinese firms, departed slowly, but over time started to show results. One of the most successful cases of such expansion is Lenovo, that managed to become a global leader in the electronic consumer business. Looking at its strategy in the first 2000s', the company provided low-end products, at a cheap price. Lenovo achieved its successful expansion via acquisitions of foreign firms. In 2005 it bought IBM, with the intention to gain technological knowledge, recognition through the brand name, and access to global markets.[21][22] This allowed the firm to expand abroad, access new technology, and finally re-collocating itself in the competitive scenario. And this is exactly what the government policies were pushing for.
The third and last driver of growth pursued, was the rising of a widespread middle class, and the fostering of internal consumption. Still nowadays, people that can be considered middle class, are a minority in China, accounting for roughly 25% of population (in western countries it is 50-60%), and inequality is high. An index used to measure inequality levels is the Gini Index, that in China peaked in 2008, as seen above. Since then though, the growth of income of the poorest part of Chinese population has grown more rapidly than the one of the wealthiest. A reason can be that the balance of capital and labour is nowadays fairer, making it easier for workers to reap higher salaries. When talking about consumption instead, there seems to be much less problems, since the trend

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[20] Kroeber 2016, Pag. 63;

[21] Rui H., Yip G., 2008, Foreign Acquisitions by Chinese Firms: A Strategic Intent Perspective, Vol. 43, Issue: 2, pp. 213-226;

[22] Deng P., 2010, Absorptive capacity and a failed cross-border M&A, Management Research Review, Emerald Publications, Vol. 33, Issue 7, pp. 673-682;

in consumption expenses has consistently been bullish for many years. It is true that in the GDP equation, consumption has historically counted for a minority share in China, but this is because of the huge investments, that dwarfed the consumption's figures. Looking at consumption in absolute terms indeed, figures have risen steadily. In the past 10 years households' consumption in China has increased an average of 10% a year.[23] For the future, it is expected a 9% growth rate up to 2021, and an increase in the consumer base and income.[24] Three drivers are at the fundaments of this projection. First, the emerging upper-middle class and affluent household income levels in China are rising, and so is doing the population-base of these social classes, as previously said. Plus, the Chinese consumers are trading-up in their choices and becoming more sophisticated. This is giving rise to a tougher competition, but also is creating more opportunities, since many times those segments of the market are not covered by local firms yet, because of a lack of competencies suitable for the cases.[25] Second, the spending habits of the younger generations are changing. Chinese are usually known to be savers rather than spenders, this trait is much less marked on the younger generations, which will foster further consumption in the future. At last, the increasing role of the e-commerce will drive consumption because many more households will be reached. In 2016, 70% of the all purchases involved a digital passage, being the act of purchasing itself, or research of information, and it is expected to keep growing.

Funny to say, despite the focus of the new policies and the new drivers of growth sought that have just been described, from 2001 onwards, exports and IFDI grew more rapidly than ever, and so did the GDP. This is largely due to the entrance of China into the WTO in 2001, that allowed Chinese companies easier access to markets. The relocation of Taiwan's electronics-assembly capacity to China also played a big role in this, as it enabled Chinese companies to benefit enormously from the boom in demand for personal computers that followed in the next years. Looking at the figures, the GDP grew 220% in real terms between 2001 and 2013. During the same period, exports went from USD 280 billion to USD 2.354 billion.[26] Incoming FDI instead went from USD 47 billion in 2001 to USD 124 billion in 2013. In those years, contrary to what had happened before, also OFDI started to show some dynamism, showing a good response in the policies set by the

[23] WorldBank Data, Final Consumption Expenditure, Constant 2010 US $;
[24] Walters J. et al., 2017, Five profiles that explain China's consumer economy, BCG;
[25] Zipser D. et al., 2016, The modernization of the Chinese consumer, McKinsey & Company;
[26] Data from World Data Bank, in current USD;

government. From 2003, to 2013, the OFDI went from USD 3 billion to USD 108 billion.[27] The statistics on the OFDI are particularly important, as they show the effort of Chinese firms to open to the world, following the policies of the government, and actively seeking international expansion, whether to target foreign technologies or foreign markets, as it has been the case of Lenovo previously described.[28]

In conclusion, because of these new drivers and conditions, as well as an increasingly open market economy, China started to strengthen and change its industry. The transformation of the Chinese economy into what has been called a "moderately prosperous society" was not yet completed by 2013 though, and it is not yet completed even today. For this reason, there are new policies that push further China to this new path of development, as it will be discussed in the next paragraph.

Paragraph 1.4 A new model of growth: from 2013 onwards

In 2013 there has been the start of the presidency of Xi Jinping. The country in that yeas had different problems, the most important being an excess capacity on many heavy industries, consequence of the infrastructure surge and the urbanization process of the past decade, and too wide weight on the economy of inefficient SOEs. Furthermore, the ability to maintain a sustained growth by increasing the output in many state-controlled industries was growing thin. This called for the need to rethink at China's model of growth. There were some measurements that were important to be taken at that time. [29] Namely to deemphasize the heavy industry and give more space to advanced industries such as the tertiary sectors. Then deregulate the prices of key inputs such as energy, land, and capital, so that investment could become more market driven and efficient. At last make the SOEs more efficient and driven by market forces, and ultimately create more space for private companies.

The implementation of these points though, has been followed partially by the new government. Indeed, some policies follow the path set by former president Hu, which main concerns were the state-sector consolidation, the infrastructure development, and the strengthening of Chinese firms. For example, market reforms and deregulation have been introduced quite slowly, there has been a focus on infrastructure investment within

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[27] FDI flows data before 2012 comes from the UNCTAD/TNC database, after 2012 from the International Trade Centre database;

[28] For a deeper analysis of the phenomenon see chapter 3;

[29] Kroeber A.R., 2016;

China and abroad, that support the heavy industry (as an example the One Belt One Road Initiative), and it seems that the centrality of the SOEs is difficult to overcome. On the other hand, in some policies there is a clearer willingness towards change, as it is the case of the plan labelled “Made in China 2025”.

One of the most important document available to understand the direction of the reforms, is the famous quinquennial plan, that, as the name suggests, it is prepared every five years, the last covering the period 2016-2020. With this plan the government lies the foundations for China’s development and traces its directives. The thirteenth plan of 2016-2020, wants to mark a decisive stage in China’s drive towards a “moderately prosperous society”. As mentioned in the document, its guiding principles call for an approach to development that focuses on innovation, coordination, green development, openness, and inclusiveness, with the core goal of improving the quality and efficiency of growth. The document identifies industrial structural reforms as core area, with the expansion and modernization of the offering, in order to meet the new demand that was rising from Chinese consumers. Overall, three different critical areas can be identified:

1. The promotion of industrial structural reforms. The rationale is to create firms that can meet the new challenges that come from the demand and the global competition, that was increasingly present also in the domestic market. Apart from increasing the value and positioning of its firms, the government will also push for more market-oriented conditions, trying to solve the problems of financing, industrial capacity, and inventory;
2. The improvement of the quality and efficiency of growth. This refers to the research of more productivity in the country’s industries, as well as the fostering of innovation, important because can generate a competitive advantage (CA) so much needed by Chinese firms;
3. The implementation of the five important principles that has been identified as pillars of the future development. The first is “innovation”, because there is the need to foster the CA of Chinese firms. Second there is “coordination”, that refers to the intrinsic need for sustained, healthy development. Third, “greenness” that refers to the struggle to pursuit a more environmental growth model, that can be sustained over the years and ultimately allow people to live better lives. Fourth, “openness” which is inevitable, and has been China’s mantra since the beginning

of the reforms. At last, "inclusiveness" is an essential requirement of the socialism with Chinese characteristics.

Another important document previously mentioned, that contains an important reform, is the "Made in China 2025" plan. Released in 2015, it is a program to improve the quality and technological level of Chinese firms. Similar to the 2006 policy "Indigenous Innovation", it covers a much wider area, since it sets goals for a range of traditional and advanced industries, as well as it addresses the whole chain of manufacturing processes. The plan has the clear aim of making Chinese companies more competitive, to localize production of components and final products, and to have Chinese firms move up the value-added chain in production and innovation networks, and to achieve much greater international brand recognition. In addition, the plan calls for Chinese firms to ramp up their efforts to invest abroad, to do so by becoming more familiar with overseas cultures and markets, and to strengthen investment and operation risk management.

These new policies are a consequence of the different conditions in which China is entering, most of which were already identified during the first decade of the new millennium, but are now starting to show more clearly, and affect the economic indicators, as well as the willingness to bring China to the next stage of development. Regarding economic indicators, first, there has been a slowing down of the GDP growth rate, that after 2011 has constantly been lower than 10%. Despite being a rate of growth unreachable for developed countries, it shows a slowdown from the 10 plus % rates achieved until then. Regarding exports of goods, there has been a flattening in the growth rate, and from 2013 to 2016 in went from USD 2.354 billion to USD 2.200 billion.[30] Inwards FDI also started to enter a flat trend, since 2013, year in which they peaked with more than USD 290 billion being invested in China. On the contrary, OFDI have surged since the first years of the new millennium, and have increased steadily until today, reaching an astonishing level of USD 128 billion in 2015 from the USD 107 billion of 2013.[31] Of those OFDI, a substantial part can be referred to acquisitions of foreign firms. As reported by the Rhodium Group, greenfield investments in Europe have always outnumbered the cases of M&A transactions, even if in the recent years this gap has narrowed. Regarding the value of the transactions instead, M&As are consistently bigger

[30] Un Comtrade Data, Exports of Goods from China to the world;
[31] https://data.worldbank.org/indicator/BM.KLT.DINV.CD.WD?end=2016&locations=CN&start=1997

than greenfield investments.[32] This surge of OFDI from China, and especially of M&A transactions of the last years, have been analysed by many authors and the phenomenon has been mapped by different organizations to which studies this thesis redirect to on the specific topic,[33][34][35] and will use as important source of information for the proceeding of the analysis.

In conclusion, China is moving with a well-orchestrated, coherent plan of development, that is leading the way to achieve a new model of growth for the country. All the policies quickly listed here aim at the same objective: the strengthening of Chinese firms, to get them ready for the next stage of the competitive scenario, and to more open market conditions. This is completely coordinated with the recent rising OFDI figures, that show an increasing effort to internationalize operations. Whether the transition will be successfully completed or not, it has still to be seen, the process has started, first slowly in the early 2000s', but nowadays the ball is rolling and gained momentum.

[32] Hanemann T., Huotari M., 2015, Preparing for a new era of Chinese capital, Rhodium Group;
[33] Hanemann T., Rosen D.H., 2012, China invests in Europe, Rhodium Group;
[34] European Chamber, 2013, Chinese outbound investments in the European Union, European Chamber of Commerce in China;
[35] Hanemann T., Huotari M., 2015;

Chapter 2. Modes of Internationalization and the Role of FDI

Paragraph 2.1 Introduction

As seen in chapter 1, the development of China is strictly linked with the internationalization of its firms and its opening to the world. First exports and IFDI played a major role, and nowadays foreign investments are on the raise. A study of this last method of internationalization, is thus important as a preamble to understand the phenomenon of Chinese OFDI, and for this reason it will be covered in this chapter. The opportunity will be taken also to briefly introduce all the internationalization modes.

Overall, there are three broad categories among which a company can choose to enter a foreign market. Those are export, contractual arrangements, or direct investments.[36] Export activities, which can be direct or indirect, are those that entail the selling of products or services without having a presence in the foreign market. Contractual arrangements comprise all the methods that do not require the company to have a presence in the foreign country, but at the same time it is based on a long-term contract, thus limiting the company's flexibility. Among these the most important are licensing and franchising. At last, direct investments comprise the methods that require the company to have a stable, legal entity in the foreign country, making the investment more compelling. In this last category there are greenfield investment, mergers and acquisition, and joint venture.[37]

Paragraphs 2.2 to 2.6 introduce briefly each mode of entrance, describing its main traits, advantages and disadvantages. Paragraph 2.7 deals with the choice of entrance mode among direct investments, discussing what are the factors a multinational enterprise (MNE) considers in the choice. Paragraph 2.8 at last discusses the determinants for the choice of ownership mode in the international expansion with direct investments. In detail, it deals with the choice between going solo or with a Joint Venture.

[36] Vianelli D, et al., 2012;
[37] P. Subba Rao, 2010, Introduction to International Business, Himalaya Publishing House;

Paragraph 2.2 Export

The EU SME Centre defines export as: "the shipment of goods, provision of services or transfer of technology across national borders".[38] There are mainly two different types of exporting: direct and indirect exporting. When a firm send products or provides services directly to the final customers located in a foreign country, that is direct exporting. When a firm send its products or services to an intermediary, that will then provide them to the distribution or final customers in the foreign country, that is indirect exporting.

As previously said, exporting is a flexible way to enter a foreign market, because requires low commitment and investments in respect to the next modes that will be analysed. Specifically, regarding direct exporting, there are the advantages of cutting any intermediary, thus increasing the potential profits, have a tighter relationship with customers, thus having the possibility to know their requirements and desires, and ultimately understand better the marketplace. Though, on the other hand, there are the disadvantages of having to handle all the logistic of the transactions, and in this case usually the firm can respond slower to customers' requirements compared to a local competitor. Regarding indirect exporting, the disadvantages are the cost of control of the distributor or agent, the difficulties in learning the features of the marketplace, and the possibility that the agent/distributor might act opportunistically, and selling competitors' products as well. In addition, the distribution method of the products cannot be followed closely, and thus if not done appropriately by the distributors, this can negatively impact the image of the company. One of the most important and controversial aspect of indirect exporting, is the relationship with the partner. Previous studies, have outlined how the choice of partners, especially for cultural distant markets, it is a critical choice and can be one of the causes of failure in entering the market.[39][40]

For all these reasons, especially for being flexible and requiring low investments, export is the mode of entrance most heavily chosen by SMEs.[41] These choice is reasonable when a company cannot bear a high risk, and is at the beginning of the internationalization process, and thus exports with an inquiry and research perspective.

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[38] EU SME Centre, 2015, Exporting goods, services and technology to the Chinese market;

[39] Varis J., Kuivalainen O., Saarenketo S., Partner Selection for International Marketing and Distribution in Corporate New Ventures, 2005, Journal of International Entrepreneurship, Vol. 3, pp. 19-36;

[40] De Luca et al., 2011, The Internationalization of Italian Companies in the Chinese Market: Facilitating Factors and Perceived Difficulties;

[41] Vianelli D, De Luca P., Pegan G., 2012, Modalità d'Entrata e Scelte Distributive del Made in Italy in Cina, FrancoAngeli, Milano;

Paragraph 2.3 Licensing

Licensing falls into the contractual arrangements methods of internationalize operations. The EU SME Centre defines it as: "*a permission granted by an exclusive owner of intellectual property rights (IPR) (Licensor) to another party (Licensee) to use with agreed-upon terms and conditions, while the IPR owner continues to retain ownership of the IPR*".[42]

When a company grows, and builds a reputation for its product and services, its intellectual property becomes more valuable. Foreign companies then, might have an advantage in using another company's IPR. For example, a company could commercialize its products or services under the brand name of the Licensor, and thus typically require its clients a higher price. The fee the licensee pays to the licensor is called "royalty" and is usually comprehends a fix amount, and a percentage of sales.

Licensing is a strategically interesting method of internationalization for a company, since it has many advantages.[43][44] A first advantage is the small investment, or even none investment required by the Licensor, which can in this way easily exploit a previously build asset. Secondly, the Licensor can exploit the established connections of the Licensee which has a deeper knowledge of the foreign market. Thirdly, the Licensor can investigate the foreign market prior to make a direct investment. Regarding the disadvantages, the first is the peril that the Licensee can acquire core competencies over time, making it a strong competitor. Secondly, there is a loose control over the Licensee, despite being stronger than the control over an intermediary, still the Licensee is another entity, and thus can act in opportunistic ways or not maintain the quality of the products.

Paragraph 2.3 Franchising

Franchising is a form of licensing, but the Franchisor can exert more control over the Franchised compared to that in licensing. In the contractual arrangement known as franchising, a firm (Franchisor), gives the rights to exploit its commercial formula, brand name, and know-how to some foreign entrepreneurs (Franchisee). The Franchisor does not only give the Franchisee the rights to use its names and part of its know-how, but also needs to provide the partners with strategic consultancy, providing support for a wide

[42] EU SME Centre, 2015;
[43] Hollensen S., 2011, Global Marketing, Harlow, Financial Times Prentice Hall;
[44] Ghauri P.N., Cateora P.R., 2010, International Marketing, McGraw-Hill Higher Education;

range of activities. In respect of those benefits, the Franchisee provides the Franchisor with a fee, typically an initial fee plus royalties over time.
This contractual arrangement is quite common and used for international expansion.
This type of arrangement also has advantages and disadvantages. As mentioned, it allows the Franchisor to expand rapidly in the foreign market, with limited capital, which is provided by the Franchisee. Another advantage is the level of control over the distribution network, which is far stronger than a licensing agreement. Third, the Franchisor can have access to local knowledge, thanks to the Franchisee, and thus start a process of learning from the market.

Paragraph 2.4 Greenfield Investment

This is the first mode of entrance seen here that falls under the category of direct investments. Some companies, when entering a foreign market, do so through one of the previously seen methods, overtime they acquire the knowledge, culture, and expertise of the host-market and then establish properly owned manufacturing facilities in the foreign countries. This process just mentioned is what is prescribed by the Uppsala Model.[45] Some other companies prefer instead entering directly through ownership and control of assets in host countries. The biggest advantage of this mode of entrance is that it allows to be close to the market, and thus produce based on local environment's requirements, and customers' changing preferences. The first disadvantage is that the company has to invest upfront a considerable amount of capital to open its own facilities. Secondly, it is exposed to host country's political and economic risks, as well as to the foreign exchange risk.
Greenfield investment refers to the entrance in a foreign market with a newly created company. Thus, greenfield strategy entails starting a company from scratch in a foreign market. Before entering a foreign market, the company conducts the market survey, selects the location, buys or leases land, creates the new facilities, buy the machinery, remits or transfers the human resources and starts the operations and marketing activities. This entrance mode is often chosen to maximize firm-specific advantages which are deeply rooted in the company,[46] and to maintain a tight control over the subsidiary, by sending expatriates from headquarters. For this reason, in contrast to the acquisition

[45] The Uppsala model prescribes that a company internationalize passing by different stages, starting from export to end up with FDI. For a thorough explanation of the mode see Paragraph 3.1.5;
[46] Hennart J.F., Park, Y.R., 1993, Greenfield vs. acquisition: The strategy of Japanese investors in the United States, Management Science, Vol. 39, Issue: 9, pp. 1054 – 1070;

entrance mode, usually greenfield investments are carried on by companies that have a high technology level.

The advantages of greenfield investments are that a company can choose the best location, from all the different viewpoints. Secondly, the company can obtain the incentives and concessions that usually host governments offer for this type of investments. Thirdly, the company can have its gestation period to adjust to the new environment and culture, thanks to the process of building-up facilities and organize the structure, which does not have in case of acquisition, and thus avoiding the cultural shock. Among the disadvantages, first there is the time factor. Starting a new business requires time, and the successful implementation of the business requires patience and investments. Second, the company has to follow some restrictions or regulations imposed by the host country's government on local people's recruitment and training, in order to obtain the incentives.

Paragraph 2.5 Acquisition

This mode of entrance entails the purchase of an existing foreign company and acquiring its ownership and control. This mode of entrance is chosen usually because it provides immediate access to the market, provides local facilities, manufacturing sites and local networks. More in detail, an acquisition allows a firm to acquire new technological resources, that can substitute their internal development. For this reason, usually firms with low technological capabilities are more prone to obtain technology through acquisitions of other innovative firms.[47] Furthermore, there is a strong belief that acquisitions allow the acquirer to enter local networks of suppliers and clients, which instead would have to be built overtime in case of greenfield investment.[48] This point though must be carefully balanced with the fact that usually after an acquisition, there is a demotivation in the acquired company's stakeholders, which can increase costs on running the business.[49] Indeed it is common that employees are demotivated, as well as clients and suppliers could question the acquisition and the new ownership.

Expanding through acquisition thus is not easy. There are indeed many difficulties to overcome in order to successfully acquire and integrate a company into another one.

[47] Granstrand O., Sjolander S., 1990, The acquisition of technology and small firms by large firms, Journal of Economic Behavior & Organization, Vol. 13, pp. 367– 386;
[48] Caves R.E., 1982, Multinational Enterprise and Economic Analysis, New York: Cambridge University Press;
[49] Ravenscraft D.J., Scherer F.M., 1987, Mergers, Sell-Offs and Economic Efficiency, Berkeley, CA: The Brookings Institution;

Therefore, different studies have proved that there is a greater rate of failure among attempts to expand through acquisition, rather than through greenfield investment,[50] especially if the acquisition is between two firms of culturally distant countries, as there is more room for misunderstandings due to different language, behaviours and rules in personal relationships or work organization.[51][52]

Among the advantages of this mode of entrance, firstly the just mentioned fact that there is an immediate and full access to the market with an already working unit. Secondly, there can be synergies that can be exploited between the two companies, that can leverage them and thus making them more profitable than what they would be if they were two separated entities. Thirdly, if the industry has reached the stage of optimum capacity in the host country, this might be the only feasible way to enter the market. Regarding the disadvantages, first there is the high level of complexity of the task that requires bankers, attorneys, and other specialists. Secondly, usually the acquirer must pay a premium to buy the firm based on the valuation of the business and the possible synergies that can be generated, and thus it might not be the cheapest or optimal way to enter a market.

Paragraph 2.6 Joint Venture

Rao defines a Joint Venture (JV) as a contract by which "*two or more firms invest together to create a new business entity that is legally separate and distinct from them. JV are established as corporations and owned by the funding partners in the predetermined proportions*".[53] JV are sometimes required to enter a foreign market, as it has been the case of China in the past and nowadays for some industries.

The advantages of such mode of entrance are firstly the possibilities to leverage different firms' competencies, in order to achieve a result that would not be reachable by the different firms individually. Secondly, there is a sharing of the risks of the investment, as well as a less requirement for capital. On the disadvantages side, firstly, being based on an

[50] Delacorix J., 1993, The European subsidiaries of American multinationals: An exercise in ecological analysis, in Ghoshal S., Westney E., Organizational theory and the Multinational enterprise, New York: St.Martin's Press;
[51] Datta D.K., Grant J.H., Rajagopalan N., 1991, Management incompatibility and post-acquisition autonomy: Effects on acquisition performance, Strategic Management Journal, Vol.7, pp. 157– 182;
[52] Chatterjee S., Lubatkin M., Schweiger D.M., Weber Y., 1992, Cultural differences and shareholder value in related mergers: Linking equity and human capital, Strategic Management Journal, Vol. 13, pp. 319-334;
[53] P. Subba Rao, 2010;

agreement between parts, there is room for conflicts, secondly, there might be difficulties decision making processes, because of discordance among the partners.

Paragraph 2.7 FDI: Determinants for the choice of entry mode

This paragraph discusses the parameters that determine which entry mode a firm chooses for its foreign expansion. Because this thesis is more interested in strong internationalization modes, only considerations on direct investments will be presented, and the discussion will vert on the choice between acquisition, greenfield investment, and joint venture. Overall there are three sets of variables that affect this choice:[54]

1. Organizational variables, consisting of investment size, technology intensity, and foreign experience;
2. Cultural variables, including market growth and cultural distance;
3. Transaction cost variables, including firm diversity, product relatedness, and uncertainty avoidance.

All of those three categories show a correlation with the choice of entry mode. The most important variables will be briefly described.
The investment size is usually considered in relation to the firm's size. Many authors have found a correlation between this variable and the choice of entry mode,[55] as for example a small firm aiming to create a large greenfield venture will be more likely to experience a shortage of managerial or financial resources. An acquisition instead might not require the same amount of resources, and it might provide even new ones.
Technology intensity is an important variable in the decision, and usually companies with higher levels of technology tend to prefer entrance with greenfield investments.[56] This is due to two reasons. First, it is usually difficult to transfer technology or other know-how in acquired firms, because of organizational inertia. Secondly, it is usually difficult to reap technological benefits from acquisitions, since most often acquired firms have a lower technological level than the acquirer. Another study demonstrates the positive correlation between R&D intensity in firms and their tendency to choose greenfield

[54] Brouthers K., Brouthers L., 2000, Acquisition or greenfield start-up? Institutional, cultural and transaction cost influences, Strategic Management Journal, Vol.21, pp. 89 – 97;
[55] Hennart J.F., Park, Y.R., 1993;
[56] Barkema H.G., Vermeulen F., 1998, International expansion through start-up or acquisition: A learning perspective, Academy of Management Journal, Vol.41, Issue: 1, pp. 7 – 26;

investments. This because such firms wanted to transfer this know-how, instead other firms prefer acquisitions, as it is a mode to acquire different resources.[57]

International experience has also an impact on the choice of entrance mode. According to a research, the more a MNE has international experience, the more likely it is that chooses acquisitions as its entry strategies.[58] This is due to the fact that the more experience has a firm, the more likely it is to be well versed in managing acquisitions, and thus to carry it on successfully, as well as to recognize better the true value of a firm.

Market growth is another important variable. In a high growing market, the capacity created with a greenfield investment can be soon be saturated by the growing demand, but the opposite is not true for a stagnant market.[59] In this last case, the new investment would create overcapacity in the market, that could lead to predatory price competition. For this reason, in this case acquisitions are to be preferred, as they reduce competitors in the market. At the same time though, acquisitions are a fast way to get into the market, compared to greenfield investment, and thus reap the benefits of the growing demand. For this reason, this variable has no clear effect when considering acquisitions. When considering greenfield investment instead those are done just in growing markets.

Regarding cultural distance, with this term differences in language, culture, institutions are considered. Different studies have demonstrated that the biggest the cultural distance between the two firms carrying an acquisition process, the more likely it is to fail. When dealing with acquisition, the acquired firm needs to learn new rules, working methods, organizational cultures, and procedures, and this can easily lead to problems into integration.[60]

Firm diversity is important because diversified firms tend to have more sophisticated management systems which may provide organizational efficiency when making foreign acquisitions.[61] Other authors suggest that diversified firms tend to develop broad expertise and, consequently a preference for the acquisition entry mode.[62] Less

[57] Kogut B., Singh H., 1988, The effect of national culture on the choice of entry mode, Journal of International Business Studies, Vol. 19, Issue: 3, pp. 411 – 432;
[58] Andersson T., Svensson R., 1994, Entry modes for direct investment determined by the composition of firm-specific firm-specific skill, Scandinavian Journal of Economic, Vol. 96, Issue: 4, pp. 551 – 560;
[59] Zejan M., 1990, New ventures of acquisitions: The choices of Swedish multinational enterprises, Journal of industrial Economics, Vol. 38, Issue: 3, 349 – 355;
[60] Barkema H.G., Vermeulen F., 1998;
[61] Hennart G.F., Park Y.R., 1993;
[62] Brouthers, Brouthers, 2000;

diversified firms may lack these acquisition and management control skills and therefore tend to invest in greenfield projects.
Product relatedness might be an interesting factor, since sometimes the entrance into a new market is in pursuit of product diversification goals. Whether the creation of an existing product is the goal, then greenfield investment might be the best solution. In opposition, if product diversification is the goal, then acquisitions can be a good idea, because these can create new opportunities if the firms acquired possess some specific resources or capabilities.
The last variable is uncertainty avoidance. Firms that have a high level of uncertainty avoidance or come from a culture that is high on it, tend to choose greenfield investments more often, because acquisitions entail too much risk, that they cannot bear. It is known indeed that the risks associated with acquisitions are far greater than the ones linked to greenfield investments.

Paragraph 2.8 FDI: Determinants for the choice of ownership mode

What factors influence the decision of a MNE to enter a foreign market with complete control or instead prefer a partnership? The most important factors identified by literature that influence this decision are the resource sufficiency, market growth, corruption level in the host country, and the level of regulation.
Regarding resource sufficiency, according to the resource dependency theory, [63] a company that secures its critical resources is less dependent on the external environment and to its turbulences, and this gives the company power over relationships with other companies. This is especially important for firms operating in resource-intensive industries, for which securing natural resources is critical for corporate survival. In this case thus, a MNE will tend to secure control, as much as possible, choosing direct ownership methods. When a company is unable to secure the critical resources for itself though, it will try to make alliances and joint ventures with someone that has direct access to those resources.[64]

[63] Pfeffer J., Salancik G.R., 1978, The External Control of Organizations: A Resource Dependence Perspective, New York: Harper & Row;
[64] Hennart J.F., Reddy S., 1997, The Choice Between Mergers/Acquisitions and Joint Ventures: The Case of Japanese Investors in the United States, Strategic Management Journal, Vol. 18, pp. 1 – 12;

Market growth is an important factor as companies seek to enter markets with high growing potential, and this relationship has been proved by different researches.[65] Furthermore, when entering such a market, the costs quickly drop with the increasing demand, and economies of scale can be reached quickly, increasing thus profits. Consequently, companies prefer higher ownership modes when entering a big promising market.

Corruption level is another critical variable, which has been found to have a great effect on FDI flows. Many MNEs find corruption morally wrong, and thus stay away from countries in which the level of corruption is high. Those MNEs do not like the fact that corruption distorts market's mechanisms, and thus competition cannot happen fairly. There are different studies that have demonstrated how there is a negative correlation between level of corruption in a country, and its attraction to FDI.[66] The level of corruption can though have another effect, as MNEs tend to invest in countries where the cultural distance is not too big. MNEs coming from corrupted economies will tend more to invest into similar economies, as it has been demonstrated it is the case of China.

Regarding the level of regulations, MNEs tend to dislike host countries that have a high level of regulations. When government control exceeds certain boundaries, it puts on MNEs too much pressure and increasing costs that can slow down business. Extensive regulatory control increase transaction costs, limits firms' strategic options and decreases efficiency, thus reducing the feasibility of making profitable investments in the host country.[67][68]

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[65] Terpstra V., Yu C.M., 1988, Determinants of foreign investment of U.S. advertising agencies, Journal of International Business Studies, Vol. 19, pp. 33 – 46;

[66] Habib M., Zurawicki L., 2002, Corruption and Foreign Direct Investment, Journal of International Business Studies, 2002, vol. 33, issue 2, 291-307;

[67] Brouthers, Brouthers, 2000;

[68] Loree D.W., Guisinger S.E., 1995, Policy and non-policy determinants of U.S. equity foreign direct investment, Journal of International Business Studies, Vol. 26, issue: 2, pp. 281 – 299;

CHAPTER 3. FIRMS' FOREIGN DIRECT INVESTMENTS: A THEORETICAL APPROACH

Paragraph 3.1 Introduction

OFDI from China have been increasing consistently in the last decade, starting from USD 52 billion in 2008 to USD 183 billion in 2016.[69][70] This steep increase is caused by Chinese companies' strong will to internationalize their operations, sustained by a push from different forces, among which the government policies outlined in chapter 1. To understand better why and how firms internationalize operations, this chapter presents the main theories on the topic.

Such studies started around the 1960s', based mainly on observations on wester-world MNEs. These will be referred along the chapter as the traditional theories. What is striking is that Chinese MNEs, as well as other EMNEs, do not follow the traditional paths of internationalization described by these consolidated theories, calling thus for a new study of the phenomenon. It is argued that these differences are due to specific institutional conditions, and to a peculiar path of development that renders EMNEs completely different from their developed brethren.

Paragraph 3.2 introduces the traditional theories of internationalization, and thus goes into the analysis of the reasons why a firm internationalize operations. Paragraph 3.3 reviews why there is the need to develop new theories to read the phenomenon of EMNEs. Paragraph 3.4 presents these new theories, focusing the attention on the springboard perspective.

Paragraph 3.2 Traditional theories on MNEs internationalization

The first studies on the MNEs' internationalization processes are relatively recent. The first to propose a model of explanation of the firms' internationalization was Hymer with his dissertation in 1960, published later in 1976. Before this pioneering study, firms' foreign operations were seen merely as portfolio investments, with the main rationale

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[69] United Nations, 2009, World Investment Report 2009: Transnational Corporations, Agricultural Production and Development, New York and Geneva;

[70] United Nations, 2017, World Investment Report 2017: Investment and the Global Economy, New York and Geneva;

behind them being to benefit from countries' differences in interest rates and financial conditions.

Since then, a wide range of research has deepened the knowledge of the phenomenon, and different schools rooted in the most important economic theories have developed. Approaches such as the transaction cost theory (TCT), the resource-based view, and the institutional theory (IT) provide the solid ground for the development of international business (IB) studies.

Historically, the first studies on internationalization had roots in the TCT, and in a strong economic perspective, making choices based on costs. A second stream of research, is the one developed with John Dunning's eclectic paradigm, [71][72] that widened the considerations on internationalization, bringing other variables under the microscope. Dunning found two different motives behind the internationalization of a company's operations, being market seeking, and resource seeking motives. Third, there is the development of studies based on the resource-based view, and at last, starting from the early 2000, there is a new field of studies that has its roots on the IT, reflecting a shift in the previous misbalance towards economic and financial considerations. It will be argued though, how these traditional theories in their purest form find it hard to explain the internationalization of Chinese MNEs. New considerations will help in the task, many authors have proposed modifications to such theories so that they can be more of use when looking at EMNEs, others have developed completely new theories, such as the springboard theory, that is presented in paragraph 3.3, and also a new field of study has emerged that is focused on the developing world's economics, from where the name "developing economics".

Subparagraph 3.2.1 Transaction-Cost Theory

The TCT is fundamental in economic studies, and in internationalization studies as well. One of the first authors to focus on transaction costs has been Roland Coase. [73] He identifies a transaction cost as the higher cost a firm suffers, when buying a specific factor of production in the market, because of the need to organize and manage this specific transaction. The transaction costs can be divided into three broad categories. First there

[71] Dunning, J.H., 1981, International Production and the Multinational Enterprise, London: George Allen & Unwin;
[72] Dunning, J. H., 1993, Multinational enterprises and the global economy. Reading, MA: Addison Wesley;
[73] Coase R.H., 1937, The Nature of the Firm, Economica, New Series, Vol. 4, No. 16, pp. 386-405;

is the cost of information, which is the burden suffered to analyse the market and discover the relevant information needed to make the decision. Second, there is the cost of negotiation of the contract for each transaction. Third, there is the cost related to uncertainty. For example, a fashion firm that needs supply of yarn to produce its clothes, needs to research in the market the suppliers of the material, and that action leads to a cost in terms of time and money required, then, once found a supplier, the firm must negotiate the terms and conditions of the contract. At last, there is the role of uncertainty, as the shipment can be lost, or there might be problems with the quality of the material.

What Coase theorized, on a purely economic basis, is how a firm decides which activities to internalize, and which to outsource. Both options indeed give raise to some costs, the first being costs of organizing the activities inside the firm, and the second being the transaction costs. The choice of internalization or outsourcing depends on what option generates the lower cost.

Another important author on the argument is Williamson.[74] He thinks at transaction costs as the frictions that can arise in a market transaction,[75] such as misunderstandings, conflicts between the parts, or product malfunctioning.

Williamson aims to identify how transaction costs influence the choice of the optimal governing body for each specific transaction, as his predecessor Coase. When making the decision, he identifies three important variables to consider, being uncertainty, the frequency with which the transaction recurs overtime, and the degree of asset specificity required. An asset is considered highly specific when the next best use for it implies a considerable loss for the holder of the asset. For example, let's imagine the needs of a client imply that the supplier develops a new machine in-house, that can be hardly reallocated if the client is lost. That machine has a high degree of asset specificity, and due to this situation, the relationship with that client will be carefully controlled. Williamson focuses attention especially on asset specificity, because of its great influence in rising the governance costs of a relationship. In the example just made, the supplier might try to enforce some control on the client, and the relationship is more subject to opportunistic behaviours, with the following rising costs that this entails in terms of risk and control.

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[74] Williamson O.E., 1981, The economics of organization: The transaction cost approach, American Journal of Sociology, Vol. 87, No. 3, pp. 548-577;

[75] Ibid;

In Williamson's work, no semi-proprietary means are considered, either the component is produced inside, or bought in the market. This is a limitation of the study, but the theoretical framework can nonetheless be applied and extended to other forms of organizations, each of which gives raise to different transaction costs.

What explained so far is the TCT, but now its relationship with the studies on internationalization will be outlined. Actually there is quite a controversy open on who has been the first to apply the TCT to the studies of firms' internationalization.[76] To some, it is Hymer the one who first had this insight, in his Phd thesis, where he studied the reasons why firms engage in FDI.[77] As already mentioned, before his dissertation, MNEs were just considered to expand abroad to take advantage of an arbitrageur of capital, and thus merely for financial reasons.[78][79] This happened because MNEs activities fits hardly in the traditional economic paradigm, which basic assumptions are that markets work in perfect competition, there is a perfect mobility of products, immobility of factors of production, and no transaction costs are considered.[80] Hymer's theory instead took into considerations market imperfections, and departed from organizational considerations, rather than financials'. Indeed, the structure of his argument is based on the oligopoly theory. Thus, distortions such as the reduced number of buyers and sellers in some markets, the existence of entry barriers, the mobility of factors of production and knowledge, and the transaction costs were now part of the equation.

Even if the range of the ideas proposed by Hymer was very broad, as to give raise to the controversy above mentioned, he mainly introduced two ideas that could explain why firms invest abroad. The first is to attenuate competition by buying out competitors. In an oligopoly structure, a firm actively defend its position, and the buying out of possible future competitors is one of those. The second is to exploit the firms' CAs in new markets. MNEs internationalize if they possess some advantage over foreign firms in a specific activity, that gives them the possibility to enter the market in a strong position.[81] Of course the firm can export the products, or license it to a foreign partner, but costs linked

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[76] Horaguchi H., Toyne B., 1990, Setting the record straight: Hymer, internalization theory and transaction cost economics, Journal of International Business Studies, Vol. 21, No. 3, pp. 487-494;

[77] Hymer S.H., 1976, The International Operations of National Firms: A Study of Direct Foreign Investment, PhD Dissertation, Published posthumously, The MIT Press, Cambridge, Mass;

[78] Teece, 1985, Transaction Cost Economics and the Multinational Enterprise, Journal of Economic Behaviour and Organization, Vol. 7, pp. 21 – 45;

[79] Hennart, 2010, Transaction Cost Theory and International Business, Journal of Retailing, Vol. 86, pp. 257 - 269;

[80] Ibid;

[81] Teece, 1985;

to the risk of misappropriation of the technology, haggling between licensee and licensor, and others, are at the core of the choice of the right mode of organization.

So Hymer thought that MNEs would not arise in perfectly competitive markets. The main conclusion is that the market is better in handling transactions when it is working close to perfect competition conditions, and thus there are a lot of buyers and sellers. In opposition, when the market is working under what can be called oligopoly conditions, and there are complex products, high recurrence of transactions, and high environmental uncertainty, internalization is more appealing.[82]

Worth mentioning is the work of Teece,[83] who employed a transaction cost perspective much more directly than Hymer. He gives to the nature of the transaction much closer scrutiny, based on the work of Williamson. Teece studies when a specific transaction needs a different governance system, relatively to the market. He suggests that this happens when there is high asset specificity,[84] since in this case the value of those assets is much greater than it would be if the transaction would not happen.[85] If such a relationship arise, then the parties are locked-in, since the exit barriers are consistent. This lock-in phenomenon, can give rise to opportunistic behaviours, which in turn make it convenient to internalize the transaction, or build some other governance structure to control the relationship.[86]

Accordingly, and probably tapping into Dunning's work,[87] a firm is likely to internationalize operations, and build its own facilities abroad, if there is high asset specificity in the transaction considered, if these assets are best utilized in different parts of the world beyond home market (location advantages, that derives from transportation costs, tariffs, factor costs), and if the best way to obtain full value from these assets is to internalize them. From the TCT point of view, only this last choice is important, as determines the boundaries of the firm.[88] The question thus is whether it is better to open a facility abroad (internalization), or license (market). In case of licensing there are the following hurdles, or transaction costs, that arise: there is the need to find a partner, to negotiate an agreement, to put all of it into a legal contract, to control the correct execution

[82] Ibid;
[83] Ibid;
[84] Williamson, 1979, Transaction Cost Economics. The Governance of Contractual Relations, Journal of Law and Economics, Vol. 22, Issue 2, pp. 233-261;
[85] Teece, 1985;
[86] Williamson O.E., 1982, Corporate Governance, Faculty Scholarship Series. 4392;
[87] Dunning 1981;
[88] Teece, 1985;

of it, and to enforce it whether necessary. These costs are context specific. For example, in its article Teece underlines the importance of the level of complexity on the technological transfer: the more complexity increases, the more convenient it will be to internalize.
If considering internalizing a transaction that regards the upstream or downstream activities of a firm (suppliers, clients) then internalization is more appealing the higher is the assets' specificity required, the higher are switching costs created in the relationships with the suppliers or clients, and the criticality of the suppliers/clients for the firm.
In conclusion, especially by looking at the work of Teece, it is clear that the influence of TCT on internationalization theories is of primary importance, and this is not surprising since IB scholars study the institutions used to organize international economic interdependencies.[89]

Subparagraph 3.2.2 Resource-based view

The resource-based view (RBV) approach, is one of the most important economic theories of the firm. According to it, a firm is a bundling of resources. For Wernerfelt resources can be defined as *"anything which could be thought of as a strength or weakness of a given firm. More formally, a firm's resources at a given time could be defined as those (tangible and intangible) assets which are tied semipermanently to the firm"*. [90]
Wernerfelt has been the one preparing the ground for the development of the RBV theory. The author suggests how firms can build-up their CA, by owning some critical resources, either by acquiring them, or developing them in-house over time.[91] Despite being the first to mention the heterogeneity of resources of a firm, as a source of CA, a clear model is not elaborated.
Instead, Barney [92] goes more in depth on the matter. He departs from the same assumptions just mentioned above, but going further into the development of a model, that is the RBV approach. Specifically, the author introduces the concept that resources, to be eligible to generate CA, must have four characteristics. They must be valuable, rare, inimitable, and difficult to substitute.[93]

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[89] Hennart, 2010;
[90] Wernerfelt B., 1984, A Resourced Based View of the Firm, Strategic Management Journal, Vol. 5, Issue 2, pp. 171-180;
[91] Ibid;
[92] Barney, 1991, Firm Resources and Sustained Competitive Advantage, Journal of Management, Vol. 17, Issue 1, pp. 99 – 120;
[93] Ibid;

The point of departure of Barney's conceptualization is Porter's SWOT analysis, and specifically the analysis of the external environment with its threats and opportunities. The argument is then further developed, with the Porter's five force model, that theorizes how to study whether an industry has some attractiveness or not, and thus can lead firms in the industry to enjoy high profits. On these theories though, the side regarding firms' strengths and weaknesses is, in Barney's opinion, overlooked and oversimplified. In his paper he thus proposed new, wider concepts to analyse firm resources, departing from the assumptions that resources are heterogeneously distributed in firms, are not perfectly mobile, and definitely can be a source of sustained CA for a firm, thus distinguishing them among the others in the industry.

It is important to point out that in those early researches, only tangible resources were considered, but in the following years there has been a growing interest towards intangible resources as well. It is around the year 2000 that intangible resources started gaining the strong interest of the researchers, that demonstrated how they could contribute to the construction of a sustained CA.[94]

The pervasiveness of the RBV has spread to IB studies too. Especially after 1995, there has been a consistent number of IB studies built on the RBV theory.[95]

From the RBV perspective, a firm's internationalization process is seen as an attempt to transfer the firm's resources to the new market and thus exploit its CA, or acquiring new resources, enhancing its overall CA. Other previous authors, such as Dunning with his ownership advantages requirements[96], or Buckley and Casson[97] with their TCT based theory, already had considered the importance of having an advantage over local firms when expanding abroad. This consideration originates from the awareness of the disadvantages that foreign firms have when entering a market, which is called "liability of foreignness".[98] To explain the existence of MNEs thus, those authors recognized that the firm should have some advantages, at least important enough to cover for that "liability of foreignness". The contribution from the RBV theory is to specify the nature of these

[94] Villalonga B., 2004, Intangible resources, Tobin's q, and sustainability of performance differences, Journal of Economic Behaviour and Organization, Vol. 54, Issue 2, pp. 205-230;

[95] Peng M.W., 2001, The resource-based view and international business, Journal of Management, Vol. 27, Issue: 6, pp. 803-829;

[96] Dunning, 1993;

[97] Buckley, Casson, 1976, The Future of the Multinational Enterprise, Palgrave Macmillan UK;

[98] For a thorough explanation see: Stening B.W., Zhang M.Y., 2017, Ethics and the liability of foreignness: the case of China, Journal of management, Vol. 42, Issue 2, pp. 3 -15;

resources.[99] It helps thus identify the resources that can give raise to a CA in a foreign market, begin for example organizational capabilities, bargaining power, or brand recognition.

In more detail, RBV has been used to read different phenomenon, some of which will be outlined now, with a list that is not comprehensive though. First, it shed light on the fact that internationalize operations can respond to reasons of CA exploitation, as outlined by previous theories just mentioned, or also to enhance the competitiveness of the firm, using a subsidiary to tap into knowledge based in a precise area of the world. Thus, starting a process of organizational learning, that is not unidirectional from the headquarter to the subsidiary, but it is bidirectional.[100] It is the concept of the mirroring back effect, studied in organizational theories, and useful especially when approaching highly distant and different markets.

RBV highlighted also the importance of international experience of a firm, as a source of CA when internationalizing. Such an attribute represents a firm's specific tacit knowledge that fulfils the four requirements needed for being a source of CA. In particular, it is a resource that, if possessed by the managers, it is difficult to access by other MNEs, thus leading the former firms to a higher performance.[101] Another proof of that is the demonstration that managers with important international experience are able to obtain higher wages.[102]

Again, RBV brings the attention to the fact that strategic alliances, despite being a way to overcome some of the firm's disadvantages, such as the lack of knowledge in a market, or in the production of a component, they are also a potential source of organizational learning. Thus, the capability to learn from alliances is a tacit source of CA.[103] This has been seen in China in the past decades, when the government in some sectors forced foreign companies to enter the market using Joint Ventures with local firms, in the hope that the latter will benefit of spill over effects.

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[99] Peng, 2001;

[100] Peng M.W., Wang D., 2000, Innovation capability and foreign direct investment: Toward a learning option perspective, Management International Review, Vol. 40, 1st Special Issue, pp. 79–93;

[101] Carpenter M., Sanders W.G., Gregersen H., 2001, Building human capital with organizational context: The impact of international assignment experience on multinational firm performance and CEO pay, Academy of Management Journal, Vol. 44, Issue: 3, pp. 493–511;

[102] Ibid;

[103] Hamel G., 1991, Competition for competence and inter-partner learning within international strategic alliances, Strategic Management Journal, Vol. 12, Summer Special Issue, pp. 83–103;

Particularly interesting is then the contribution of RBV to the choice of entry mode. This topic has been one of the most heavily studied by researchers, and one of the most influenced by the TCT. This theory considers the choice of entry mode as a one-time decision between the two extremes being market and FDI. The optimal choice is the governance method that reduces the transaction costs. The RBV raises the level of analysis from the transaction, to the firm. Therefore, the decision's impact must be considered at a firm's level, and its implications on the overall firm's strategic posture.[104] RBV differs from TCT in three important ways.[105] First, where TCT predicts the choice of entrance mode based on market failures, which is linked to agents' opportunism considerations, RBV attributes the decision to avoid market and internalize operations, based on consideration of "firm's heterogeneity". In other words, RVB choose to internalize operations not because of considerations of opportunism of market agents, but because the task can be achieved better by the firm itself. The firm is supposed to be better in managing the resources than market agents.[106] Second, as mentioned above, TCT considers the entrance choice as a one-time decision, based on static conditions, whereas RBV highlights a dynamic, longitudinal process in which multiple entries take place each building on learning from the previous experiences.[107] [108] [109] The third difference, already mentioned, is that TCT is more concerned with exploitation of ownership advantages in internationalize operations, whereas the RBV introduces the fact that firms can internationalize to gain resources that can boost CA.[110]

From these considerations is clear both the importance of the RBV for IB studies, and the change of point of view on the matter that it brought to the discipline, as well as that no specific theory on its own is able to explain the process of internationalization of firms, since many factors are under studying. The RBV peculiar characteristic is that it is helpful

[104] Hill C., Hwang P., Kim W.C., 1990, An eclectic theory of the choice of international entry. Strategic Management Journal, Vol. 9, pp. 93–104;
[105] Peng, 2001;
[106] Madhok A., 1997, Cost, value, and foreign market entry mode: The transaction and the firm, Strategic Management Journal, Vol. 18, Issue: 1, pp. 39–61;
[107] Chang S.J., 1995, International expansion strategy of Japanese firms: Capability building through sequential entry, Academy of Management Journal, Vol. 38, Issue: 2, pp. 383–407;
[108] Chang S.J., Rosenzweig P., 2001, The choice of entry mode in sequential foreign direct investment, Strategic Management Journal, Vol. 22, Issue: 8, pp. 747–776;
[109] Kogut B., 1997, The evolutionary theory of the multinational corporation, In: B. Toyne & D. Nigh (eds.), International business: An emerging vision (pp. 470–488), Columbia, SC: University of South Carolina Press;
[110] Shan W., Song J., 1997, Foreign direct investment and the sourcing of technological advantage: Evidence from the biotechnology industry, Journal of International Business Studies, Vol. 28, Issue: 2, pp. 267–284;

in giving an answer on strategic considerations. On a second stage though, it needs to be backed up with calculations of feasibility and economic rationality. In other words, strategic considerations, and CA exploitation or research, are only part of the factors to be taken into consideration when making decisions of internationalization, for example also economic feasibility must be accounted for. This comprehensive model, is what Dunning has developed with his Eclectic Paradigm, and this is also the why it is one of the most important in IB studies. Because it combines different dimensions that needs to be considered when making choices of internationalization. Peng goes further, foreseeing in 2001, that RBV in IB studies would be much more integrated with different perspective, which are covered in this thesis, such as the IT and TCT. [111] This is a consequence of the complexity of the topic and the "eclectic" nature of IB studies.
Indeed, even though RBV has been used heavily in researches about internationalization, there has been some critics regarding its acceptability. The most interesting critic regards the transferability of a CA based on certain resources of the firm, from the home country, to the host country.[112] And this is exactly the point of interest for the topic of the thesis. RBV has been considered in the past one of the most suitable theories in explaining the internationalization of emerging markets' MNEs.[113] In achieving this result though, the RBV alone cannot succeed. To understand the phenomenon of emerging markets' MNEs, an institutional perspective needs to be employed, in order to seize the differences in institutional environment between China, or other developing countries, and the western world, which is the one upon which all the economic theories have been constructed on. This because what is an advantage in a context, can even be a disadvantage in another. Thus, the importance of contextualization of the resource-based advantages, when firms need to make internationalization decisions, both in terms of entry mode and post-entry

[111] Peng, 2001;
[112] Brouthers K.D., Brouthers L.E. and Werner S., 2008, Resource-based advantages in an international context, Journal of Management, Vol. 34, pp. 189-218;
[113] Hoskisson R., Eden L., Lau C., Wright M., 2000, Strategy in emerging economies, Academy of Management Journal, Vol. 43, Issue: 3, pp. 249–267;

strategy.[114] RBV need so to capitalize on the findings of institutional theories on emerging markets.[115][116][117]

Subparagraph 3.2.3 Dunning's Eclectic Paradigm

At the beginning of the 1980s', Dunning elaborates what has been called the Eclectic Paradigm. The importance of this theory is that brings together under one theory different considerations a company needs to make when internationalizing operations. It is one of the most important theories on the topic, and it has studied and reviewed multiple times over the years. There are three important aspects to take into consideration for a successful internationalization:

- O, which stands for ownership advantages;
- L, which stands for location advantages;
- I, which stands for internalization advantages.

Dunning in its first article proposing the theory says that none of these three aspects by itself can explain the internationalization of a company's operations. But it is the combination of these three conditions that make that possible. First, a company needs to have some ownership advantages when entering a foreign market over its local competitors. The degree of these advantages must be big enough to cover the liability of foreignness that the firm has over local competitors. Second, a firm will internationalize operations only if there are some benefits in doing so. This means that the firm needs to have a direct benefit by being present in the foreign country, such as access to material resources, or cheap labour. Third, a firm will open facilities abroad only if this option is more convenient than the organization of a market transaction. This point deals with the choice of make or buy, described when introducing the TCT. If it is more convenient the "make" choice, the firm will internationalize, if it is more convenient the market, then the firm will organize a market transaction, that can take the form of a licensing contract. This is done especially in highly complex industries, when the quality, communication of the brands and the products are of paramount importance, and thus the firm wants to take

[114] Brouthers K.D., et al., 2008;
[115] Panibratov A., 2017, International Strategy of Emerging Market Firms. Absorbing Global Knowledge and Building Competitive Advantage, Routledge, New York;
[116] Peng M.W., 2000, Business strategies in transition economies, Thousand Oaks, CA: Sage Publications;
[117] Peng M.W., 2002, Cultures, institutions, and strategic choices: Toward an institutional perspective on business strategy, In: M. Gannon & K. Newman (eds.), Blackwell handbook of cross-cultural management (pp. 52–66), Boston: Blackwell;

care of those directly, because considered to be better in handling the tasks than any possible partner.[118]

Why there is the need for the combination of these three factors for the firm to internationalize operations? First, if the firm has ownership advantages, but not location or internalization advantages, export is the best method of entrance. In case there are ownership advantages and location advantages alone instead, licensing is the path chosen. And only when all the three factors are present the opening of facilities happen.

It is interesting to note that, despite the uniqueness of the theory, also the Eclectic Paradigm is based on basic economic perspectives. The ownership advantages indeed recall the RBV considerations on the firm's resources. The location advantages instead provide some adjustment in accordance to the differences in the environment, and thus recall the arguments brought by the IT. At last, the internalization advantages are clearly tapping into considerations taken from the TCT.[119]

Dunning links the market imperfections with the factor endowments that allow the firm to develop internationally. Regarding the market failures, two different kind of failures are considered: the structural failure, and the intrinsic failure. The first can be compared with the failure of the market described by Hymer. In his opinion the market fails because it allows the creation of monopolies. This allows firms to create barriers, and in case acquire international competitors that might be dangerous. The second can be linked to the inability of the market to organize production in an efficient way, which is caused by three reasons. The first is the information asymmetry, the second is the inability of the actors to calculate benefits and costs of the market, and thus prefer the hierarchy, so limiting uncertainty. The third cause is the demand that is too low and does not allow the optimal exploitation of economies of scale and scope. Basically, the market is not able to organize the transaction in a cheaper way than the hierarchy.

Regarding the reasons for the investments instead, according to Dunning, [120] internationalizing MNEs can be:

1. Market seeker, when they try to find new customers and new markets for its products;

[118] Dunning, 1980, Toward an Eclectic Theory of International Production: Some Empirical Tests, Journal of International Business Studies, Vol. 11, Issue 1, pp. 9 - 31;
[119] Krober A.R., 2016;
[120] Dunning, 1993;

2. Resource seeker, when they invest abroad to acquire some specific type of resources that are not available at home or are cheaper abroad;
3. Efficiency seeker, when the firm aims for a division of labour, or specialization of an existing portfolio of assets that are more efficient;
4. Strategic assets seeker, when they invest abroad to acquire resources that are difficult to build inhouse and can enhance the firm's CA. This last category has traditionally been used as a residual one, where all cases of internationalization that could not be explained otherwise were reconducted here.

Dunning's paradigm has been widely used to explain FDI from developed countries, which until 15 years ago, represented the large majority of the total global FDI. This is because of the eclectic nature of the theory, that covers different aspects of the issue of internationalization. At the same time, different aspects, even if considered, are not thoroughly studied. For example, looking at the considerations in ownership advantages, if it is true that those can be linked to the RBV, it is also true that the Eclectic Paradigm study the problem in a static way, not comparable to what the RBV does.

Subparagraph 3.2.4 Institutional theory

Institutionalism is a broad field of research, and it studies the processes by which structures, including schemes, rules, norms, and routines, become established as authoritative guidelines for social behaviour.[121]

One of the most important author on Institutionalism regarding organizations, the branch of the theory closer to management studies, is William Richard Scott. When defining institutions, Scott argues how there is no agreed-upon on definition, because it depends on the purpose of the study.[122] Nonetheless, he attempts to definite them as "*social structures that have attained a high degree of resilience. [They] are composed of cultural-cognitive, normative, and regulative elements that, together with associated activities and resources, provide stability and meaning to social life. Institutions are transmitted by various types of carriers, including symbolic systems, relational systems, routines, and artifacts. Institutions operate at different levels of jurisdiction, from the world system to*

[121] Scott W.R., 2004, Institutional Theory, Encyclopedia of Social Theory, George Ritzer, ed. Thousand Oaks, CA: Sage, pp. 408-414;
[122] Aoki M., 2001, Toward a comparative institutional analysis, Cambridge, MA: MIT Press;

localized interpersonal relationships. Institutions by definition connote stability but are subject to change processes, both incremental and discontinuous."[123]

There are several elements of interest in this definition. First, institutions are not organizations, but are social structures that have attained legitimacy by the groups' members. Second, they are composed of cognitive, normative, and regulative elements or norms. Cognitive elements are values and beliefs of the individual or the group, and find their legitimacy in culture. Normative elements are work norms or habits legitimized by moral and ethical systems. Regulative elements are policies and work rules, legitimized by laws and regulations.[124] Third, institutions are transmitted through some carriers outlined in the definition. Fourth, Scott explains how institutions operate at all levels of society, both informal and formal, structured or not. Fifth, the definition closes with the element of stability. Institutions indeed are structures that are persistent, and not easily changed. This brings an element of immobility, that when applied to organizations and businesses can also result in organizational inertia, and sub-optimization of resources.

From this last consideration in particular, derives the pervasive contribution of the IT to management studies. This element of immobility in institutions, which organizations are part of, call for a comparison with the RBV, that is based on the concept of firm's heterogeneity. On the argument, Deng[125] points out indeed how RBV studies why firms' behaviour is heterogeneous, and how this heterogeneity drives CA, while institutionalism, in opposition, try to explain why firms tend to be homogeneous in behaviours and organizational structures.[126] In fact it has been observed that organizations tend to act similarly in a context, employ the same resources and types of organizational structures. This happens because organizations are supposed to conform to a series of cognitive, normative, and regulatory elements, or institutional constraints. This homogeneity is searched because earns to the firms their legitimacy,[127] [128] which derives from the perception or assumptions that the actions undertaken are desirable, proper, or right in

[123] Scott W.R., 1995, Institutions and Organizations, Thousand Oaks, CA: Sage;
[124] Palthe J., 2014, Regulative, normative, and cognitive elements of organizations: Implications for managing change, Management and organizational studies, Vol. 1, Issue: 2, pp. 59-66;
[125] Deng P., 2009, Why do Chinese Firms Tend to Acquire Strategic Assets in International Expansion?, Journal of World Business, Vol. 44, Issue: 1, pp. 74-84;
[126] DiMaggio P.J., Powell W.W., 2000, The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields, American Sociology Review, Vol. 48, Issue 2, pp. 147 - 160;
[127] Meyer J.W., B. Rowan, 1977, Institutionalized Organizations: Formal Structure as Myth and Ceremony, The American Journal of Sociology, Vol. 83, Issue 2, pp. 340 – 363;
[128] DiMaggio P.J., Powell W.W., 2000;

the context of reference.[129] This legitimacy is far from being an abstract, irrelevant concept, but it affects directly a firm's performance and survivorship.[130] For example, considering a private clinic, it is expected that the doctors and nurses, treat patients with care and attention. This is a schema, something taken for granted and expected when receiving the cures. If the clinic for some reasons of pure efficiency, decides that doctors and nurses have to be more productive, by also proving less attention to patients, in the long run also the performance of the firm will take the hit.

All organizations have a formal structure, a sort of blueprint that explains the tasks and roles of the employees, the relationships between the parts, and the objectives and results expected from each unit or person. What the IT brings to light, is that activities are then actually carried on in different ways, depending on institutional constraints and opportunities. Of course, there are different types of organizations, depending on the wideness of the discrepancies between the blueprint and the real activities. At one extreme, there are tightly coupled organizations, and at the other there are loosely coupled organizations. Tightly coupled organizations are organizations that set clear and defined blueprints of the organization, and put in place tight control and coordination mechanisms. At the other end there are loosely coupled organizations, that are better under conditions of uncertainty, and thus have been increasingly used by firms today, where the blueprint of the organizations, even if set, does not have stringent roles, clearly defined objectives. In opposition to targets such as a certain amount of sales, the satisfaction of the customer can be preferred, and instead of defining the tasks of the employees clearly, these can be judged on the results they bring. This loosely coupled organization thus create a space, a sort of gap that give rooms for adjustments and dynamicity.

An interesting study showing the importance of institutionalism for management research, is the work of Christine Olive[131], which develops a model for the study of CA based on both RBV and the IT. The author argues indeed how the exploitation and possession of some peculiar resources is not enough to guarantee a CA, it must be put into context on the basis of the institutional factors and constraints each firm has to face. From

[129] Suchman M.C., Managing Legitimacy: Strategic and Institutional Approaches, The Academy of Management Review, Vol. 20, Issue 3, pp. 571-610, p. 574;
[130] Meyer J.W., Rowan B., 1977;
[131] Oliver C., 1997, Sustainable competitive advantage: Combining institutional and resource-based views, Strategic Management Journal, Vol. 18, Issue: 9, pp. 697-713;

the management and elaboration of the exchange of resources and institutional constraints, derives a peculiar organization that on it builds its CA.[132] By institutional factors the author considers both factors at firm level, such as corporate's culture, well-established processes and routines, and external factors, that comprehend all the influences from regulators, culture, social and professional relations and so on. Institutionalism brings another point of view in management studies, uncovering elements that before were being neglected.

The IT is also useful to explain and support organizational change.[133] Organizational change has usually been conceptualized as a problem of changing technologies, structures, and employees' skills.[134] From the point of view of IT, also legitimacy from the institutional environment of the firm should be a variable to consider though.[135] Indeed effectiveness of the change process depends also on the values, norms, and obligations of the change agents in their response to change. The stronger the resistance to change, and the more a company is embedded into an institutionalized environment, the greater the possibility that the change process fails, or that the firm loses its legitimacy. Plus, the greater a firm is tightly coupled with its environment, the more probable is the resistance to change.[136] [137]

The contribution of IT to IB studies is thus pervasive, since a firm, when internationalizing operations, enters a completely different institutional environment. This has direct consequences on the firm expected behaviours and thus results, as seen just above. The difficulty of knowing the institutional constraints of a certain place of course is not easy, since these are not easily accessible. From this the importance of institutionalism for the studying of Chinese MNEs internationalization processes, that can give a decisive contribution in explaining why some behaviours occurred, based on peculiar institutional constraints.

One of the first, and most important articles that theorized a model of OFDI for Chinese firms that included elements derived from the IT, is the one proposed by Buckley et al.

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[132] Ibid;

[133] Greenwood R., Hinings C.R., 1996, Understanding radical organizational change: Bringing together the old and the new institutionalism, Academy of Management Review, Vol. 21 Issue: 4, pp. 1022-1054;

[134] Ogbor J., 1990, Organizational Change within a Cultural Context, Sweden: Lund University Press;

[135] Palthe J., 2014;

[136] Weick K.E., 1995, Sensemaking in Organizations, Thousand Oaks, CA: SAGE;

[137] Meyer J.W., Rowan B., 1977;

The authors explain how Chinese OFDI are influenced by home country institutions in their choices, which modify considerably the otherwise expected flow of capital. [138]

Among other authors that wrote on how institutional factors influence the internationalization decisions, [139] [140] there are Rui and Yip. Their specificity is the proposition of a model that poses the emphasis on the strategic intent perspective of the firms, while at the same time exploiting institutional advantages and constraints. The SIP can be defined as the active and rational management process of focusing the entire organization on a long-term goal.[141] Institutional factors that are argued to influence more the internationalization of firms are the difficulty in developing new resources in-house, and thus the attractiveness in buying them through acquisitions, plus there is a rising in-house competition, and thus the requirement to keep pace with aggressive competitors, both national and international. Government constrains and facilitations, such as control over FDI, and the providence of funds with low cost of capital is another major factor in shaping Chinese OFDI, especially of SOEs. Previous researchers have identified different ways in which government provides support to firms that are internationalizing. It can provide diplomatic and financial assistance, allow access to state-supported technological and scientific research, provide rules and regulations to manage OFDI.[142] [143] [144] These factors are also used to explain the rise and preference of Chinese MNEs for international M&A, that provides an easy and fast solution to fill the gaps above mentioned.[145]

Another important, focused contribution comes from Deng.[146] The author analyses the internationalization through M&A of Chinese firms, through the lenses of pure IT, and finds a correspondence between the theory's prescriptions and the phenomenon observed. Again, it seems that Chinese MNEs actions are influenced by different factors:

[138] Buckley et al., 2007;
[139] Oliver C., 1997;
[140] Child J., Rodrigues S.B., 2005, The internationalization of Chinese firms: A case for theoretical extension?, Management and Organization Review, Vol. 1, Issue: 3, pp. 381-410;
[141] Hamel G., Prahalad C.K., 1989, Strategic Intent, Harvard Business Review, Vol. 67, Issue: 3, pp. 63-76;
[142] Cai K.G., 1999, Outward foreign direct investment: A novel dimension of China's integration into the regional and global economy, The China Quarterly, Vol. 160, pp. 856-880;
[143] Child, Rodrigues, 2005;
[144] Deng P., 2004, Outward investment by Chinese MNEs: Motivations and implications, Business Horizons, Vol. 47, pp. 8-16;
[145] Rui, Yip, 2008;
[146] Deng, 2009;

1. Government regulations and incentives. Industries where the government offers support, which can be found on the quinquennial plan that is published by the Chinese government, are positively correlated with outward M&A activity;
2. The lack of legal protection for property rights, poor enforcement of laws, underdeveloped factor markets, and inefficient market intermediaries push firms to go global.[147] This is the other side of the coin, according to which firms internationalize to escape home constraints and difficulties in developing strategic assets in-house.
3. The culture of the firm. Indeed, Chinese firms have still a strategic management that is leadership oriented, and not institutionalized within the firm. Combined with the relative concentration of many Chinese firms in the domestic market, derives a strategic orientation that makes firms gain knowledge in the national market before going abroad.[148] Thus internationalization of Chinese firms is positively correlated with the higher entrepreneurial orientation.[149]

In conclusion, IT is bringing an important contribution to IB studies, because it brings in the equation factors that were not considered in previous models. Furthermore, as mentioned before, institutionalism is particularly important for the explanation of OFDI from emerging economies. It is no surprise thus the big impact of the IT on the developing of theories on the subject.

Subparagraph 3.2.5 Uppsala Model

In the 1970s', the gradualist approach to internationalization emerges. This stems from the observation that many MNEs follow a path to internationalization, going over different stages, starting from exports and ending with FDI.

The most important model in this approach, is the Uppsala Model, developed in 1977 by Johanson and Valhne.[150] The model departs from the assumption that in order to internationalize successfully, a firm needs to have knowledge of the foreign market. This

[147] Khanna T., Palepu K.G., 2006, Emerging Giants: Building World-Class Companies in Developing Countries, Harvard Business Review, Vol. 84, Issue: 10;
[148] Nadkarni S., Narayanan V.K., 2007, Strategic schemas, strategic flexibility, and firm performance: the moderating role of industry clockspeed, Strategic Management Journal, Vol. 28, Issue 3, pp. 243-270, p. 163;
[149] Deng, 2009
[150] Johanson J., Vahlne J., 1977, The internationalization process of the firm – A model of knowledge development and increasing foreign market commitments, Journal of International Business Studies, Vol. 8, No. 1, pp. 23-32;

knowledge can be acquired through operations abroad. For this reason, the process of internationalization is considered a step-by-step process, in which the company internationalize as it becomes acquainted and knowledgeable to the new markets. The choice of internationalization mode thus, it is not the outcome of a well-thought strategy, but rather of the decision to explore the different opportunities and risks in the market, committing to it increasing resources, whether considered useful during this discovery path.

The model specifically identifies four stages of internationalization:

1. Non-organized export level. The internationalization of the firm is at its beginnings, and it is usually triggered by a foreign client order;
2. Organized export level. After a first period of exports, just as a respond to the coming demand, the firm decides to be more active and to structure its sales force.
3. Opening of branches or commercial subsidiaries abroad.
4. Realization of production facilities in the host country.

Traditionally when firms internationalize, they act accordingly to this model, which has been built on observations from MNEs behaviour. Recently though, this theory has been subject of discussion because of the different cases in which it was not respected, among all of them, the case of the Born-Global firms.[151]

Accordingly, Johanson and Valhne in 1990, widened this theory, providing three cases in which the internationalization process of a firm might not respect the just mentioned step-by-step process.[152] First, when a firm has important financial resources might jump to more advanced stages; second, the same can happen for firms that have a consolidated experience in similar countries, and thus are confident in directly invest large capitals; and third when the market conditions are stable, and the knowledge of the country can be obtained even without a direct experience.

Paragraph 3.3 EMNEs: The need for a new theoretical approach

As previously mentioned, traditional theories have found difficulties in explaining the internationalization of EMNEs, that according to several authors, do not fit into their

[151] Born Global firms are those firms that internationalize immediately in their start-up phase;
[152] Johanson J., Vahlne J., 1990, The Mechanism of Internationalisation, International Marketing Review, Vol. 7, Issue 4;

perimeters.[153][154][155][156] By a revision of previous literature, the following aspects are the ones that cause the biggest concerns for the applicability of traditional theories to read EMNEs' international expansion.

First, EMNEs not usually internationalize to exploit some ownership advantage and expand their markets, and thus they do not respect the Dunning's Eclectic Paradigm proposition. Usually EMNEs start their internationalization process to gain access to resources or critical knowledge, which could be technological know-how, human resources, managerial skills, global brands or R&D capabilities.[157] Especially firms with high R&D expenses expand aggressively in international markets, with those overseas locations perceived not as simple addition to the company, but rather as an important component of a global presence. One of the commonly accepted point of views, is that EMNEs are looking for learning opportunities rather than for strategic investments.[158]

Second, they often internationalize in an aggressive manner, leapfrogging to advanced forms of internationalization, and thus they do not respect the prediction of the Uppsala model. It has also been observed that EMNEs frequently internationalize through acquisitions over greenfield investments. This is probably a result of the need to improve quickly their knowledge and resource based, and thus increase their CA. Regarding M&A, EMNEs investing in institutionally distant markets, tend to acquire more control over the firm, in opposition to what is usually done by developed markets' MNEs, that tend to give more autonomy to their acquired firms.[159]

Third, the foreign investments are recurrent and revolving. Recurrent because one foreign acquisitions may improve brand awareness, another a technology gap, etc. They are also revolving because acquired firms are strongly integrated to the headquarters, in order to improve the whole MNE.[160][161] Indeed when EMNEs internationalize through

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[153] Child, Rodrigues, 2005;
[154] Luo Y., Tung R.L., 2007, International expansion of emerging market enterprises: A springboard perspective, Journal of International Business Studies, Vol. 38, Issue: 4, pp. 481-498;
[155] Ramasamy B, Yeung M., Laforet S., 2012, China's Outward Foreign Direct Investment: Location Choice and Firm Ownership, Journal of World Business, Vol. 47, Issue: 1, pp. 17-25;
[156] Berning S.C., Holtbrugge D., 2012, Chinese outward foreign direct investment – a challenge for traditional internationalization theories?, Journal für Betriebswirtschaft, Vol. 62, pp. 169-224;
[157] Tsa, Eisingerich, 2010;
[158] Narula R., 2010, Multinational Enterprises, Development and Globalization: Some Clarifications and a Research Agenda, Oxford Development Studies, vol. 38, issue 3, 263-287;
[159] De Beule, F., Elia, S. and Piscitello, L., 2014, Entry and access to competences abroad: Emerging marker firms versus advances market firms, Journal of International Management, Vol. 20, pp. 137– 52;
[160] Panibratov A., 2017; Luo Y., Tung R.L., 2007;
[161] Madhok A., Keyhani M., 2012, Acquisitions as entrepreneurship: asymetries, oppotunities, and the internationalization of multinationals from emerging economies, Global Strategy Journal, Vol. 2, pp. 26-40;

M&A, the shareholders tend to receive abnormal positive returns.[162] This because the firm usually take this acquisition as a chance to transform the whole structure of the company and increase its CA.[163]

Fourth, compared to MNEs from the developed world, there are different institutional forces that make the EMNEs behave differently. One of these motives commonly specifically recognized for the internationalization of EMNEs, is the international expansion to escape the constraints and limitations of their domestic market, which is usually referred to as "stability-seeking" or "system-escape" motivation.[164][165]

But the main fact brought to support the point that EMNEs are peculiar, is that they have a substantial disadvantage over their developed countries' brethren.[166] They are seen less efficient, innovative, with less financial resources and technological know-how. Because of this important difference, they should supposedly find difficulties in internationalize their operations, according to some different traditional theories, as explained in detail below.

The first argument is made departing from the model proposed by Vernon.[167] In his product-life-cycle theory, he explains how in the early stage of a product's life cycle, the innovativeness and differentiation of the new product allows them to be produced in a developed country, since the market's focus is not on price, and thus relatively high prices and margins are sustainable. In a later phase, when the product becomes commoditized, the focus shifts to price, and production starts to move to developing countries, where the costs are lower. In this phase, only the firms that can stay competitive on price will survive. Accordingly, when EMNEs are internationalizing, they are likely to do so only through exports, rather than establishing production facilities, that would require investments, that are difficult to cover with lower margins that characterize this segment of the market. And as a conclusion, when an EMNE internationalizes through FDI, the most important challenge is to increase margin, and quality of the products.

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[162] Gubbi, S., Aulakh, P., Ray, S., Sarkar, M.B., Chittoor, R., 2010, Do international acquisitions by emerging economy firms create shareholder value? The case of Indian firms, Journal of International Business Studies, Vol. 41, Issue 3, pp. 397– 418;

[163] Gubbi et al., 2010;

[164] Bulatov, A., 1998, Russian direct investment abroad: Main motivations in the post-Soviet Period, Transnational Corporations Vol. 7, Issue: 1, pp. 69– 82;

[165] Kalotay K., 2003, EU enlargement: More FDI? The challenges for accession countries and the "new frontier", Presentation at the Eastern European Investment Summit, October 14– 15, Bucharest, Romania;

[166] Panibratov A., 2017;

[167] Vernon R., 1966, International Investment and International Trade in the Product Cycle, The Quarterly Journal of Economics, vol. 80, issue 2, pp. 190-207;

A second argument is brought to attention by Tsang and Yip.[168] They explain how a company from a developed country, when investing in a developing country can exploit its resources, but the same is not usually true in the opposite case. When a EMNEs internationalize to a developed market, it is very unlikely that it is approaching it to exploit resources, but it is much more likely and in line with its characteristics, that it is in a phase of exploration. Different authors have studied this. Starting from the assumption that China is a relatively new industrialized nation, and thus it has less efficient companies compared with old industrialized countries of the European Union and the United States, they argue that many Chinese firms invest abroad to acquire strategic assets or resources that they lack, that can boost their CA or reduce their competitive disadvantages if acquired.[169][170][171] Thus, these companies are not really exploiting any ownership advantage, as instead usually prescribed by the Dunning's Paradigm. Chinese MNEs internationalization seems to agree more with the asset seeking category in Dunning's paradigm, which instead had been proposed by Dunning as a residual one.[172]

Because of all these peculiarities of EMNEs, the traditional theories find it difficult to fully explain their behaviours. This calls for the development of new theories that are more suitable for the situation and can read better the phenomenon.

Paragraph 3.4 New theories for EMNEs' internationalization

The first researches EMNEs internationalization paths, have roots in the 1970s and 1980s, when third world's MNEs, as they were called back then, started to gain interest from the academic scholars. Those first studies were concentrated on south-south operations, which are those between MNEs from two different third world's countries. Over the year though, the phenomenon of the so called south-north investments has gained increasing

[168] Tsang E.W.K., Yip P.S.L., 2007, Economic distance and the survival of foreign direct investments; Academy of Management Journal, Vol. 50, Issue 5, pp. 1156-1568;
[169] Deng, 2009;
[170] Rui & Yip,2008;
[171] Amighini A., Rabellotti R., Sanfilippo M., China's outward FDI: An Industry-level Analysis of Host Country Determinants, 2011, CESifo Working Paper N. 3688;
[172] Franco, Rentocchini, Marzetti, 2008, Why do firms invest abroad? An analysis of the motives underlying Foreign Direct Investments, University of Bologna;

interest, as well as the studies on the differences between those MNEs and developed markets' MNEs.[173][174] The theories presented here are an example of such researches.
Two different studies will be presented, the first one stems from the conjugation of the RBV with the IT, and it is discussed in subparagraph 3.3.1, the second is the springboard perspective, an approach that in recent years have gained recognition among scholars on the subject and will be taken as a reference point for the following of the thesis. The springboard perspective is discussed in subparagraph 3.3.2.

Subparagraph 3.4.1 RBV and IT as support to understand the internationalization of EMNEs

In this subparagraph, some new approaches will be introduced to the reader, that have the peculiarity of being strongly based on previous theories, of which they represent a sort of update. The RBV and IT are considered here the most important to explain the internationalization of Chinese MNEs, because they can capture the essence of the phenomenon. Departing from the assumption that the success of a business, and thus its profitability, is linked to its CA, a thorough study of the CA of EMNEs, and Chinese MNEs specifically, is requested. Furthermore, since the peculiar environment in which those firms operate, consistently different from the one of developed economies, the IT is a worthy ally, that can further explain the behaviour of those MNEs. It will be studied especially how the IT is useful to better analyse the overall CA of a firm, and the factors that contribute to it, in an international environment.
Accordingly, a new approach, is to consider both firm specific advantages, and country specific advantages of an internationalizing firm, thus considering both the RBV and IT point of views. So, when a Chinese MNEs internationalize not only the firm specific CA should be consider, but also the CA that derives from the institutional environment in which it is immerse, that have been called here country specific advantages. At last, also the problem of the transferability of such CA should be clarified, since what is a strength in a context can be a weakness in another.
CSA are unique for each country and can come from a wide range of factors, such as resource endowments, labour force characteristics, country brand, or technology.

[173] Ramamurti R., 2008, What Have We Learned about EMNEs, In Ravi Ramamurti and Jitendra Singh (eds.) Emerging Multinationals from Emerging Markets, Cambridge UK: Cambridge University Press, 2008, Chapter 13;
[174] Panibratov A., 2017;

Regarding the FSA, those are all the factors that can boost a firm's CA. They can be identified accordingly to the traditional schema proposed by the RBV. As mentioned, then these sources of CA must be studied dynamically, since what can be a source of disadvantages in an environment, can become even a source of CA in another or vice versa. Let's take the example of corruption in China. Corruption might disadvantage some businesses in the domestic market, but when those firms internationalize to a developing market with similar traits, the firm has a CA over developed countries' MNEs, since it is more used and better suited to operate in such an environment. These differences in CSA and FSA, and the study of how emerging market firms can leverage advantages affected by both CSAs and disadvantages, allow a deeper understanding of the phenomenon. The beauty of this approach is that it has a great explanatory power, but at the same time is consistent with the RBV approach.[175]

How can a MNE recognise whether a foreign environment will be supportive, or detrimental to its CA, and how can it recognize what are the sources of CA that can be exploited given the home and host country institutional contexts? Different frameworks to analyse such a problem have been developed.[176] In short, if a firm is able to properly analyse the situation, then it should be able to adapt to the foreign environment to enhance the advantages and tackle the disadvantages that derive from the home country environment, using the best combination of its resources. The challenge thus is to be able to thoroughly analyse the situation and act consistently.

The RBV and IT can help also understand where the sources of CA for EMNEs come from. Departing from the pattern defined above, it seems that there are peculiar traits that contribute to the CA of EMNEs, specifically they are able to transform market difficulties to their advantage thanks to a greater familiarity with more complex institutional settings and their expertise in managing that kind of environment.[177] Those firms are just best adapted to other developing markets, and they recognize and manage better clients' needs, distribution networks, and production facilities.[178] As previously said, EMNEs are also best suited for challenging institutional environments, where there is a lot of

[175] Porter, 1985, Competitive advantage, New York: Free press;
[176] Thompson A.A., Strickland A.J., 1999, Strategic management: concepts and cases, Boston: Irwin Mc Graw Hill;
[177] Cuervo-Cazurra A, Genc M., 2008, Transforming disadvantages into advantages: Developing country MNEs in the least developed countries, Journal of International Business Studies, Vol. 39, Issue: 6, pp. 957-979;
[178] Lall S., 1983, The new multinationals, New York: Wiley;

corruption, flawed operating mechanisms, inefficient law enforcement, bureaucracy, and bribery.[179] On the other hand, the opposite is true for developed markets' MNEs, that usually encounter difficulties in markets where intellectual property rights are not easily protected, there are not good infrastructures and market mechanisms.[180] Another factor important is the help that many EMNEs, and especially Chinese, receive from the government, through easy access to cheap finance. Also, many companies suffer from lagging technological capabilities, but some are able to be disruptive, and generate innovation nonetheless.

Perhaps one of the best framework developed to understand the EMNEs sources of CA, is the one of Ramamurti.[181] He suggests the following five points that can boost a firm's CA. First, the ability to adapt products to developed markets' needs, keeping them affordable. Second, they can enhance efficiency by simply use more labour and less capital in production. Third, they can access privileged resources, as is the example of Chinese MNEs using cheap financing provided by the government. Fourth, as previously said, those firms are better suited to operate in difficult environments. Fifth, some of them have strong assets such as brand and technologies.

Subparagraph 3.4.2 The springboard perspective

Yet another approach, called the springboard perspective, brings other elements under the microscope, and remodels the considerations seen up till now. The springboard perspective is one of the most important theories to study the internationalization of EMNEs. It was developed by Luo and Tung in 2007, as a consequence of the observed steep increase in emerging markets' OFDI of those years.

Getting straight to the point in order to give the reader the main proposition the springboard perspective holds, at the very beginning of the article, the authors state how in their opinion "*emerging markets' MNEs use international expansion as a springboard to acquire strategic resources and reduce their institutional and market constraints at home. In so doing, they overcome their latecomer disadvantage in the global stage via a series of*

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[179] Ghemawat P, Khanna T., 1998, The nature of diversified business groups: A research design and two case studies, Journal of Industrial Economics, Vol 66, Issue: 1, pp. 35-61;
[180] Prahalad C.K, Liberthal K., 1998, The end of corporate imperialism, Harvard Business Review, Vol. 76, Issue: 4, pp. 68-79;
[181] Ramamurti R., 2009, What have we learned about emerging market MNEs?, in Ramamurti R., Singh J.V., Emerging multinationals in emerging markets, Cambridge: Cambridge University Press;

aggressive, risk- taking measures by aggressively acquiring or buying critical assets from mature MNEs to compensate for their competitive weaknesses". [182]

Three points are worth underline from this short paragraph. First, there are clear references to the RBV and IT, since considerations of strategic advantages and disadvantages, and institutional constraints are enunciated. Second, the authors depart from the assumption that EMNEs start from a weaker position in respect to developed markets' firms, for the reasons described in the previous paragraph. Third, there is emphasis on aggressive foreign acquisitions, and not an evolutionary path of internationalization.

The authors' framework can be organized around three broad topics, that can help to explain the theory's propositions more clearly. First the motives, or determinants of the foreign investments are clarified. Second, the strategies, activities, or mode of actions of EMNEs are presented. Third, the external forces that push firms to follow this path of action are discovered.

The authors suggest that EMNEs use international expansion systematically and recursively as a springboard to acquire critical resources needed to compete with their rivals at home and abroad, as well as to reduce their vulnerability to institutional and market constraints. These efforts are systematic because there are conducted with the long-term objective of facilitate growth and establish a strong global presence. They are also recursive because different acquisitions or investments can be made in order to achieve different results. For example, one acquisition can be done for efficiency seeking motives, while another one to increase the brand recognition. Al last, these investments are revolving, because the new resources and capabilities acquired are strongly integrated at the home headquarter, because most of the time the domestic market is still the most important focus of the MNE, as well as because there is the effort to improve the whole company. These characteristics are important as it differentiate the firms that act accordingly to the springboard theory from those that are just pursuing a leapfrog strategy, which is usually done by firms that are late entrants in the market, and with a bold acquisition they try to get ahead of the competition.

Overall, there is the identification of two broad categories in which to divide the different motives that can push MNEs to expand abroad, being strategic asset seeking, and opportunity seeking. These two categories are not peculiar to MNEs from emerging

[182] Luo Y., Tung R.L., 2007;

economies, but they articulate specifically in different contexts. It appears that the first category is the most important, and the more specific, as all motives that can be reconducted to an increase in the CA or competitive disadvantage of a MNE fall into this category, whilst the second one seems to have a more residual character. The assets sought by MNEs from emerging economies may include technology, brands, consumer bases, distribution channels, managerial expertise, and natural resources. These assets are necessary to meet different objectives, being foster economic and social development in the home country, or compensating for firm's level competitive disadvantages. Because of high invasiveness in business decisions by the governments in developing economies, and especially in China, sometimes behind some firms' internationalization choices, there are both considerations of the first category, as well as of the second. Regarding the opportunity seeking motives, as seen above it is a more residual category, and can comprehend motives of expansion in order to:

- Tap niche opportunities in advanced markets that complement their strengths;
- Gain preferential financial and non-financial treatment offered by home or host country governments, point important in case of China;
- Increase company size and reputation;
- Escape from market or institutional constraints in the home market, as it is the case of firms that want to be innovative in China, but face difficulties in protecting their intellectual and scientific discoveries because of a weak patent system;
- Bypass trade barriers into advanced markets, as it is the case of some Chinese textile companies investing in Turkey in order to get easier access to the European market;
- Take advantage of opportunities in unrelated but promising areas in high-income countries.

Clearly, these considerations come from an analysis of FSA and CSA, as outlined above, and thus RBV and IT continue to be the main theories of reference.

In more detail, the authors identify seven motives, specific for EMNEs, because such a firm might internationalize operations:

1. To compensate for the firm's competitive disadvantages;
2. To overcome the firm's latecomer disadvantage;
3. To counterattack global rivals that are increasingly present in the domestic market;
4. To bypass stringent entry barriers;

5. To alleviate domestic institutional constraints;
6. To ensure preferential treatment from the government;
7. To exploit their CA in other countries.

Regarding the strategies, or activities undertaken by EMNEs, the authors identify three of them connected with international springboarding.

First, it is argued how those firms, before internationalizing, are likely to have enjoyed cumulative benefits from inward foreign direct investment (IFDI). Many firms, especially in China because of past government policies, have cooperated with foreign firms, if not participated directly in Joint Ventures with them, and thus they could accumulate financial as well as operational assets, technological capabilities, and management skills. Thus, even if this is an indirect experience, this passive internationalization has deepened the knowledge of international markets of those firms, and helped them develop international experience. China has been particularly brilliant in the task of attracting IFDI, as outlined in the first chapter, and thus many of its firms enjoyed the benefits of passive internationalization, and this might be one of the reasons why the quick increase in OFDI of the past and present years. Furthermore, this passage of knowledge cannot just allow firms to internationalize, but sometimes it can allow even firms to compete on a global scale with their previous partners.

Second, the leapfrogging characteristics of their internationalization path. This point has two different declinations. Emerging firms' MNEs tend to internationalize rapidly, and without respecting the traditional internationalization process theory, or the Uppsala model, that prescribes a stage model of internationalization. This happens because, as those firms are latecomers in the global scene, they need to accelerate their internationalization process, to catch up with developed markets' MNEs. And indeed, there are several examples of firms that jump directly from exporting, to high-risk, high-control direct investments and acquisitions. Acquisitions are particularly interesting, as they allow the firm to secure brands, and technologies quickly. Thus, to the cost advantages typical of EMNEs, these acquisitions add innovation, differentiation, and brand awareness. The second declination, deals with the choice of the location. Traditional theories argue that a firm usually internationalize to neighbouring countries first, and countries that are perceived less distant in terms of culture, business practices, language and so forth. This is not what has been observed in EMNEs, since many firm directly invest in distant countries, and thus do not respect the traditional model. At last, and in contrast with what prescribed by established theories, that argue the higher the resource commitment, the higher should be the control the expatriates' managers exert over the acquired firm. It has been observed instead that EMNEs use more senior local managers than expatriates to organize operations.

Third, EMNEs seem to use simultaneous competition and cooperation strategies with the other players in the market, from which the term "coopetition". Of course, these firms do not compete in the same field in which they cooperate, but they might cooperate in an industry, in which they can benefit of complementary resources for example, and compete in another one, in a flexible way, creating the biggest opportunities in each single case.

The third and last big block of analysis is the study of the forces that push these new MNEs to go global. These are called "critical forces", and the authors outline:

- The push from the government for going global, through liberalization of country's policies, and relaxation of regulations on offshore investment. Emerging economies, and China especially, are characterized for having a high level of control on capital movements by their governments. As of today, China outbound investments, need to be approved by the government before they can take place. Nonetheless, since the start of the Go Global Policy of 1999, China has encouraged strongly its firms, following a well signed path though, to go abroad, incentivizing them with low-interest loans. Apart from institutional factors pertaining the government policies, then there are also the ones relative to the environment. As mentioned before, difficulties in protecting property rights, weak judicial systems, and weak property rights protection.
- The willingness of global player to share or sell strategic resources and technology. Obviously, because a transaction can occur, two parts are required, and the willingness to sell a business unit, brand, technology, or any other asset, is required for it to take place. Why should Italian, German or any other developed country entrepreneur be willing to sell his / her assets? The reasons can be many, for example it can be to cash in on slower growing businesses, to reallocate resources more productively, or to improve financial position of the firm and increase share price.
- The strong corporate entrepreneurship and strong motivation to enter key foreign markets. It has been seen how emerging markets' MNEs that are proactive in their internationalization choices, are often led by executives that who have a sharp

vision and that can spot foreign markets' resource-seeking or asset-seeking opportunities. These executives want to serve global customers, and the springboard perspective offer them a good point of view to overcome the latecomers' disadvantages of their firms in the international context.

- The increase of competitive pressure from global rivals in the home-market. This is especially true for China, as many global firms see big opportunities there, and in some industries the market has become overcrowded. Furthermore, the government, as seen in chapter 1, is slowly opening the country to more market oriented forces, and thus competition from abroad is increasingly threatening the survival of Chinese firms, that start to see a lack of protection. These developed markets' firms have usually advanced technology and strong brands, that can cause local firms to suffer. Apart for the opening of the market in China, another important factor is the changing needs of Chinese customers. As mentioned in the first chapter, customers are evolving in China, and becoming more sophisticated, demanding products and services, that Chinese companies are not always able to satisfy as well as foreign competitors.
- The quick changes that happen in technology, and an increasingly borderless world thanks to globalization, digitalization, and transportation innovation. This call for companies to enter the global stage, and international springboarding can then be viewed as a strategic response to new competition and globalization.

Summarizing what has been written so far, the springboard theory studies the peculiar internationalization path of EMNEs. In their work, Luo and Tung, develop a framework that analyses this path based on three different topics. It is recognized how emerging markets' MNEs have peculiar determinants, or motives, to go abroad, follow certain strategies or set of activities, and are usually pushed to them by some critical forces. The opportunities these new MNEs are trying to grasp through international expansion are many, but so are the risks, which are peculiar to the specific nature of the EMNEs.

First, many EMNEs suffer of weak corporate governance. This limitation can derive from a lack of transparency, poor accountability, and underdeveloped stock markets. This puts these firms in a disadvantageous position, since trustworthiness is regarded as a source of CA from the RBV. Secondly, there is the risks that derive from post-acquisition complications. Those complications are often perceived by all MNEs, but are exacerbated in case of MNEs from emerging markets, that many times lack international experience and organizational expertise in handling such issues. It appears that the best way to prevent such difficulties, is to plan ahead the global resource-flow, and product-flow systems, even before embarking in the foreign investments. These recommendations anyway are mostly consistent with post mergers and acquisitions practices. Third, as above mentioned, many times emerging markets' MNEs lack international experience and organizational capabilities, that are difficult to obtain if not through direct experience. At last, there is the risk derived from inability to generate innovation. This is an important point, since emerging markets' MNEs acquire strategic assets and technology, but those are able to leapfrog them to a new stage of development, but in the medium term, this innovation capabilities on the sources of CA, must be generated inside, and thus the firm must be able to make the "engine of innovation" start from within the firm at a certain point. No company can survive in the long run by relying merely on external acquisitions.

Subparagraph 3.4.3 Conclusions

This chapter has presented the theoretical foundations of the IB studies, that can help to read the internationalization paths of MNEs. It has been argued how there are some traditional theories, mainly developed studying MNEs from developed countries, but they find difficulties in fully explain the internationalization of EMNEs. Because of this difficulty, since the years 2000s', many scholars have engaged in the elaboration of more suitable approaches, that could give a deeper insight in the EMNEs international behaviours. It has been argued how the most important contribution derived from the RBV and the IT, and it has been presented the springboard perspective. The main point proposed by this approach is that EMNEs are internationalizing operations in a new way, leapfrogging to aggressive forms of investment, with the main objective of increase their CA, or find solutions that can cover their competitive disadvantages, while reducing their home institutional constraints. The strong point of the springboard perspective is that it provides a comprehensive framework to read the phenomenon of EMNEs internationalization. Differently other theorizations do not provide such comprehension but have studied the phenomenon seizing one aspect at a time.

CHAPTER 4 AN ANALYSIS OF CHINESE OUTWARD INVESTMENTS

Paragraph 4.1 Introduction

This fourth chapter studies more directly the internationalization of Chinese firms through the analysis of the OFDI flows. The phenomenon is thoroughly considered, but the motivations of the investments have a special stand in the discussion. On the topic academic research details numerous reasons because firms decide to go abroad. Microeconomic explanations of OFDI, based on the Dunning's paradigm, focus on four motives: securing natural resources, exploring new markets, buying strategic assets, and improving the efficiency of operations across borders.[183] It is argued that all of these motives apply to China's MNEs, both in the past and today, but are changing over the years. Past investments were focused on trade facilitation and natural resources but macroeconomic adjustment in China and firm-level pressures today are increasingly forcing Chinese firms to look abroad for deeper market penetration, service provision opportunities, and assets that can give them a competitive edge at home and abroad. From this consideration follows the importance to contextualize the analysis in a specific time frame, as there is an evolutionary path in China's OFDI.[184][185] Each time frame is then carefully studied through the gathering of data and the support of previous literature.

Paragraph 4.2 provides a historical digression into the development of Chinese OFDI, identifying the important dates set as watershed for changing of OFDI characteristics. Paragraph 4.3 elaborates on the previous paragraph's explanation, reading it through the lenses of the internationalization theories presented in the previous chapter. Paragraph 4.4 covers the specific role of acquisitions in Chinese OFDI and highlights their peculiar traits. Paragraph 4.5 analyses China's stance in the global scenario, departing from the OFDI figures, and at last provides an estimation of their future development.

Paragraph 4.2 The evolution of Chinese OFDI

Before 1990, there were insignificant levels of OFDI, because China had scarce reserves of foreign exchange, and there was the need to control capital flying out of the country in the

[183] Dunning, J.H., Lundan S.M., 2008, Multinational Enterprises and the Global Economy, 2nd ed., Edward Elgar, 2008;
[184] Hanemann T., Rosen D.H., 2012;
[185] Amighini A., et al., 2011;

form of illegal transactions by corrupt officials and SOEs executives, and thus a lot of restrictions and bureaucracy pulled the breaks to the flight in OFDI. Furthermore, few firms had the capabilities to invest abroad in those years. Therefore, foreign investments were initially limited to a handful of specific SOEs, mainly foreign trade corporations and foreign business-oriented corporations. These firms invested usually in Hong Kong or other parts of Asia, mainly to promote trade and upgrade technology, or made politically motivated investments in developing countries considered strategically important.[186]

From the second half of the 1980s, OFDI started growing slightly, when China became woven into the Asian manufacturing networks. This event gave a new incentive to invest abroad to Chinese firms, being trade facilitation and access to new markets. Policy makers also began recognizing the economic benefits of overseas investment and started actively encouraging, but sizing carefully, OFDI. Furthermore, easing foreign exchanges pressure accelerated the process. However, concerns about capital flight and illicit motivations of OFDI led policy makers to tightly control the capital flows, as previously mentioned.

Beginning with the 1990s, OFDI expanded further, with the old forces pushing it, as well as the new goal of increasing competitiveness of some selected SOEs. During these years thus, despite motivations of access foreign markets for commercial reasons remained high, access to technology and know-how to enhance competitiveness gained ground. Furthermore, facilitation of imports emerged as an additional motivation.[187]

With the years 2000s a new period started, in which China's OFDI became more consistent. Behind this expansion, there were different drivers. The first one can be identified by looking at the steep increase of China's trade in those years. This led to China's increasing economic interests in many parts of the world, from which followed the need felt from Chinese firms to expand their operations abroad, in order to seek a closer relationship with new markets and to facilitate their export, managing to avoid import tariffs through their subsidiaries, or being closer to their clients. A second driver of OFDI's expansion, probably the bigger one in those years, was the increasing necessity to secure raw materials needed to the infrastructure and housing boom that began in the late 1990s. The steep increase in OFDI derived from the fact that the government had previously maintained an autarky policy in resources provision, but this demand boom gave no choice but to import the needed materials. Within just a few years, China became a net

[186] Hanemanm T., 2012;

[187] To see a study on the first two decades of Chinese FDI, see Cai, 1999;

importer of many core commodities such as oil, iron ore, soybeans, copper and coal, and made raise their prices vertiginously. Today, China is the world's single most important consumer of many hard and soft commodity groups. As a result, China's SOEs operating in those sectors were caught off guard by this situation, as years of autarky left them laggards when considering overseas expansion and foreign reserves. In the mid-1990s, China's big three oil companies [188] had virtually zero stakes in overseas resources extraction. Thus, because of the new dependency on import of materials, these companies found themselves dependent from price volatility, market power of foreign suppliers and global shocks. For these reasons, taking control of the upstream phases of the value chain was a good way to keep profitability to high levels in those years and reduce the just mentioned risks. China's national oil companies were the pioneers in this overseas resource investment, and since years 2000s, they have emerged as major players in global oil and gas M&A, competing with traditional buyers from Europe and North America, as seen in figure 3. For these reasons, OFDI started to raise. Investments in the capital-intensive resources sector pushed up the total headline figure of China's OFDI from an average of USD $2 billion in the late 1990s and early 2000s to more than USD $20 billion in 2006 and more than USD $60 billion in 2010 and 2011, as shown in figure 1. A third driver pushing for an increase in OFDI in the first 2000s, was the entering of China into the WTO. This fact grew awareness on politicians and business owners of an imminent increase competitiveness in the home market, as a consequence of the continuously opening of the Chinese market to global forces. From this followed the "Going Global" policy of 1999, that eased the hurdles firms had to sustain when investing abroad, in an effort to encourage them to globalize their operations.

Since the late 2000s, China's OFDI changed skin once again as environmental conditions evolved. Over the years, it became plain that the country could not depend anymore on the old model of growth, based on exports and fixed investments. Prices of input factors were rising, especially labour costs and land prices, risking affecting China's competitiveness in the global scenario. Regulatory compliance costs were rising quickly as the government was forced to address air pollution and other environmental damages. And at last, capital costs were being pushed up as China was forced to reform its financial system to end financial repression of households, improve the allocation of capital to

[188] China National Petroleum Corporation (CNPC), Sinopec, and China National Offshore Oil Corporation (CNOOC);

higher-return investments, and prepare for a gradual opening of the country's capital account. For these reasons, a new model of growth focused on domestic consumption, higher value-added manufacturing, and service sector activity needed to be sought. Pursuing this new path though entails competitive pressures arising from this rebalancing process, that forces Chinese companies in all sectors to fundamentally adjust their business models, including greater internationalization and reorientation of global business strategies.[189][190] Another important characteristic of these years is the big foreign exchange reserves that have been built, mainly thanks to the positive trade balance. After this surge in reserves, China passed from having not enough capital to having too much. Greater OFDI to balance the direct investment account is one way to slow down the accumulation of new reserves.

Paragraph 4.3 Analysis of Chinese OFDI in a dynamic perspective

The digression into the evolutionary path of China's OFDI just proposed shows that there is an increase complexity on Chinese capital flows over the years. If indeed until the early 2000s the motivations to venture abroad were restricted to a handful, over time many others added up. This paragraph tries then to identify clearly the determinants of Chinese OFDI over the years in a dynamic perspective, using the lenses provided by the internationalization theories seen in the previous chapter. Other characteristics of Chinese OFDI are also discussed, such as the industries targeted, the institutional constraints that Chinese MNEs face, in order to have a better understanding of the phenomenon. From this effort, there are some propositions that can be derived and that will be discussed afterwards:

1. Market access seeking motives are likely to be a constant search for Chinese MNEs over the years, first because of necessities to follow clients abroad, and to avoid import tariffs, nowadays because many Chinese MNEs want to diversify their incomes, as a response to a domestic market that is growing more slowly;
2. Strategic assets seeking motives are expected to be growing over time, because of the increasing pressure on Chinese firms from foreign competition, opening of the domestic market, and change of China's conditions;

[189] He, Jianwu, and Louis Kujis, 2007, Rebalancing China's Economy—Modeling a Policy Package, World Bank China Research Paper No. 7;
[190] Lardy, Nicholas R., 2012, Sustaining China's Economic Growth after the Global Financial Crisis, Peterson Institute for International Economics;

3. Resource seeking motives are likely to keep an important role, but will probably diminish in relative importance, as this is not anymore the most important driver for international expansion, as it was in the first 2000s;
4. There is the expectation that developed economies will have an increasing role as a recipient for Chinese OFDI, because looking for more technological advanced resources;
5. There is also an expectation of higher diversification in the industry mix of the OFDI, because of a sort of democratization of the phenomenon, where not only SOEs, export oriented, or energy companies can participate;
6. There is the expectation that M&A will play a bigger role than in the past, because of the increasing need of Chinese firms to acquire technology and know-how to increase competitiveness;[191]
7. Institutional constraints are likely to be found to play a big role in the internationalization decisions of Chinese MNEs, because of the preponderant role of the government, as well as the peculiar conditions of the Chinese market.

Regarding the propositions 1, 2, and 3, different studies have investigated the phenomenon. Buckley et al. in 2007,[192] researched the determinants of investments from China, and found that those changed over time. The research covers a period that goes from 1984 to 2001. The results are that market seeking motives have been important for the whole period under studying, while resource seeking motives, and asset seeking motives, measured by looking at the correlation between OFDI flows and countries natural resources endowments and ownership advantages endowments, measured with the number of patents per country, have been insignificant. Regarding the resource seeking motives, this variable started to become important after 1992, and showing correlation with the OFDI flows, as a consequence of the Chinese run to secure the furniture of raw materials. This study covers what has been here classified as the first period of Chinese OFDI, and thus the results that show no evidence of strategic assets seeking, constant importance of market seeking, and importance of resource seeking motives since 1992, are in line with the first three propositions.

[191] For an analysis of the reasons why M&A is more likely to be used in these circumstances see paragraph 3.4;

[192] Buckley P.J., Clegg L.J., Cross A.R., Liu X., Voss H., Zheng P., 2007, The Determinants of Chinese Outward Foreign Direct Investment, Journal of International Business Studies, Vol. 38, Issue 4, International Expansion of Emerging Market Businesses, pp. 499-518;

In another study, Amighini et al., inquire again a sample of Chinese firms on the objectives of their FDI between 2003 and 2008.[193] These authors' work is of interest because it studies how determinants for FDI by Chinese companies can differ if considering the industry, and the specific country of destination. The findings brought to light a diversified and complex situation. Strategic assets seeking motives have been found to be a driver of relevant importance, when considering investments in developed countries, especially in the manufacturing and services providers' industries. At the same time though, this evidence has not been captured with the aggregate analysis, showing that overall these motives behind Chinese OFDI are still a minority. This is not a surprise, since in those years, as it will be seen in chapter 5, Chinese OFDI going to developing country were much more important than the flows going to developed countries. These discoveries were though in discordance with the widepread arguments made by more qualitative analysis based on case studies.[194][195] It is worth to point out that in this research, only greenfield investments were considered, leaving out M&A, which are usually more direct ways to gain access to strategic assets, if that is the scope of the investments. Transfer of strategic assets, being material or immaterial, is indeed more easily done through M&A rather than greenfield investments. Regarding the market seeking motives, the study by Amighini et al., confirms the preponderance of this aim for many Chinese MNEs, with companies that tend to locate mainly in large markets. These results are important for OECD countries, but have not been found the same for non-OECD countries.[196] Of the same opinion, another research by Cheng and Ma, that studying a period between 2003 and 2006, found a positive correlation between market size and China's OFDI.[197] This shows that market seeking motives were a major driver for Chinese OFDI in this period.

Additional insights are given by an empirical test covering the period between 2006 and 2008 proposed by Ramasy et al.[198] The study is of interest because analyses the different objectives of Chinese MNEs, for different categories of firms, using ownership as the differentiating variables. The big distinction is between SOEs and Chinese private

[193] Amighini A., et al., 2011;
[194] Cross & Voss, 2008; Liu & Tian, 2008; Pietrobelli et al., 2011; Deng, 2009;
[195] Deng P., 2007, Investing for strategic resources and its rationale: The case of outward FDI from Chinese companies, Business Horizons, Vol. 50, pp. 71 - 81;
[196] Kolstad, I., Wiig A., 2010, What Determines Chinese Outward FDI?, Journal of World Business, in press;
[197] Cheng L.K., Ma Z., 2008, China's outward foreign direct investment, Paper presented at the Indian Statistical Institute, 12 December 2008, http://www.isid.ac.in/~pu/seminar/12_12_2008_Paper.doc;
[198] Ramasy B., Yeung M., Laforet S., 2012, China's outward foreign direct investment: Location choice and firm ownership, Journal of World Business, Vol. 47, Issue 1, pp. 17 – 25;

companies. The finding are that SOEs firms are less likely to follow Dunning's Eclectic Paradigm. They tend to invest in high-risk countries, mostly seeking natural resources. Plus, when those companies invest in more stable, developed countries, they usually look for strategic assets. Private firms instead follow more strictly Dunning's Paradigm, and the empirical test brings evidence that market seeking is the major driver for FDI, even if there are still an important amount of FDI that are made with the purpose of acquiring strategic unique assets that are hard to deploy at home.

These studies show that when considering strategic asset seeking motives, at least in the period 2003 – 2008, aggregate researches do not find clear evidence for it, but if other variables such as ownership structure, destination of the investment or industry are considered, then the results are different, and thus proposition 3 gains support. The conclusions are that those motives are still not preponderant in the overall Chinese OFDI flows, and in order to catch them, the data need to be differentiated.

For the last period, after 2008, a recent study conducted in 2017 on Chinese MNEs' foreign investments, gives the most updated results.[199] The findings show a positive relation of OFDI with market size, thus confirming the importance of market seeking forces also for this period. A difficulty in finding a correlation with resource seeking and strategic seeking motives is also present. Additional insights come from the European Chamber of Commerce in China, that conducted a survey on 74 cases of Chinese investments in Europe between 2007 and 2012. It found that, despite market seeking motive being the preponderant reason for the investments, strategic asset seeking is the second motivation.[200] Another study covering the same period, shows how Chinese OFDI have been after the market opportunities when considering developed countries, instead it has been after resources when considering developing countries.[201]

In conclusion, it seems that proposition 1 is confirmed, as all previous researchers have found evidence of OFDI and market seeking motives. Proposition 2 is also confirmed, as resource seeking motives have been found important in the early period of Chinese OFDI surge, while in a more recent period this evidence has not been confirmed, if not for OFDI

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[199] Buckley P.J., Clegg L.J., Voss H., Cross A.R., Liu X., Zheng P., 2018, A retrospective and agenda for future research on Chinese outward foreign direct investment, Journal of International Business Studies, Vol. 49, Issue 1, pp 4–23;

[200] European Union Chamber of Commerce in China, 2013, Chinese Outbound Investments in the European Union, Beijing, http://www.europeanchamber.com.cn/en/publications-archive/10;

[201] Mele M., Nicolai F., 2015, On the Determinants of Foreign Direct Investment in Emerging Countries: The Case of China, Rivista Italiana di Economia Demografica e Statistica, Vol. 69, Issue 1;

targeting developing countries, which how it will be seen, they have known a reduction in Chinese OFDI compared to developed countries. Proposition 3 instead is more problematic, as many researches that study the phenomenon using a statistical relevant sample, found no evidence for this motivation in the past. Here though, the results seem no definitive, as researches based on case studies keep strongly highlighting the importance of such motivations for EMNEs. Furthermore, strategic asset seeking has been found important when differentiating the OFDI by industry or country of destination.[202] On this matter, some insights will be given in paragraph 4.4, when reviewing Chinese cross border acquisitions, and in chapter 5, with the proposed empirical research that analyses the case of acquisitions in Italy from Chinese MNEs.

Regarding the proposition 4, an answer can be sought by looking at the OFDI's official statistics proposed by the Chinese government through its Ministry of Commerce branch (MOFCOM). This institution provides statistics on OFDI divided by country of destination since 2003. By looking at such data, the pattern of investment can be depicted. Data needs though to be organized, as the official statistics are deceiving. In particular there is the problem that most of China's OFDI flows is directed to Hong Kong or other fiscal heavens such as the Cayman Islands or the British Virgins Islands. These are not the final destinations though, and most is then redirected towards other countries. As it is not possible to track the paths of the capital flows so precisely, and assuming that the capital flowing to these destinations will follow similar paths of investments of the rest of the capital coming from China, these destinations will not be counted in the statistics. The flows going to other countries have been reorganized, and the result is shown in figure 4. As it can be seen, before 2008 there was a preference for developing countries destinations, instead the situation has suddenly reversed since 2009. For this reason, proposition 4 is verified, as there is an increase in the weight of developed countries on developing countries since 2009.

Regarding the proposition 5, MOFCOM data can come in support also here, as a division by industry is also available. Figure 5 shows that OFDI related to the mining and energy sectors was preponderant until 2006, but has diminished regularly until today. On the opposite, OFDI related to business services have been on the rise, and today it accounts for roughly 35% of total OFDI. Worth mentioning are also the raising importance of the computer industry, and of real estate in the past years. Thus, despite being still afar from

[202] Amighini A., et al., 2011;

a perfect distribution among the different industries, it seems that proposition 5 can be verified, as there is a trend toward a more balanced equilibrium between the different industries.

Regarding proposition 6, official statistics do not provide a clear distinction between greenfield investments and M&A. The data for the analysis has then to be constructed. For this purpose, the China Investment Monitor tool provided by the Rhodium Group will be employed to study the situation in the US, while a series of reports on Chinese investment will be employed to study the situation in Europe. A worldwide research is not possible, but considering the fact that usually strategic asset seeking investment are made in high income countries,[203] it seems that an analysis of US and Europe is sufficient to understand whether acquisitions are on the raise in such markets. Starting with the US, figure 6 clearly shows a surge in M&A activity. Since 2008 M&A have steadily outpaced greenfield investments in terms of value. The same is true for Europe, as show in figure 7, with 2008 as the year in which M&A have definitely outpaced greenfield investments. From these findings, proposition 6 is verified.

Regarding institutional constraints, Buckley et al. theorize how the differences in FDI aims come from differences in two important factors peculiar to China. First, market imperfections in China provided to SOEs the access to funds and financing below market rates, and second, government policies strongly influence the investment behaviour of firms.[204][205] In another article, Khanna & Palepu try to answer to the question why Chinese MNEs need to acquire strategic assets abroad so heavily. They argue that the only reason is that Chinese firms find it difficult to develop those assets or capabilities at home. They find these difficulties come from the weak legal framework in which they operate in China, that do not provide patents protection, or copyrights, making it hardly convenient to pursue innovation, and leading to an imitative strategy, that makes difficult for companies to exit the low-end segment of the market, whatever industry is considered.[206]

In conclusion, it seems that Chinese OFDI are evolving overtime, with a steady market seeking motivation, but an occasional surge in resource seeking OFDI in the mid-2000s. Regarding the strategic assets seeking motivations instead as previously said, the situation is more controverted, as only when disaggregating the data by industry or target

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[203] Amighini et al., 2011;
[204] Berning S.C., Holtbrugge D., 2012;
[205] Buckley et al., 2007;
[206] Khanna T., Palepu K.G., 2006; Deng, 2009;

countries this hypothesis can be verified. In this thesis, the focus of the research in chapter 4 is on this matter, and it will be studied whether in Italy, there is a search for strategic assets that can boost Chinese MNEs CA, when entering the market through acquisition. Regarding the destination of China's OFDI, there is instead a clear advantage of developed economies in the last years, and an increase diversification in the industries target. In these economies at last, there is an increase preference for M&A as a mode of entrance.

Paragraph 4.4 The role of acquisitions in Chinese outward investments

The researches and figured presented so far have studied the phenomenon of Chinese OFDI, not distinguishing between greenfield investments or M&A. This paragraph instead focuses on the latter, studying the role of M&A in the international expansion of Chinese MNEs. This will give some precious insights in two respects. First because before going into the research proposed in chapter 5, it is appropriate to see the role that cross border acquisitions from Chinese MNEs have played in history. Secondly, the analysis of Chinese cross border M&As can help clarify whether proposition 3 in the previous paragraph can be verified or not, as the findings have been unclear so far. This because usually M&A are more used when the aim of the investment is to acquire strategic assets.

Looking at the cross-border M&A from China, the figures, considering both the number and the value of the deals are staggering, as there has been a steep increase lately. Acquisitions from Chinese MNEs have been growing at a quick pace in the past decade, especially in developed countries, going from USD 400 million in 2000, to USD 61 billion in 2015.[207]

For these reason, in the mid-2000s, different researches have studied the phenomenon. The question that this chapter addresses is mainly why Chinese MNEs use M&A as a mode of internationalization. Previous literature identifies different reasons behind this activity. An interesting categorization of such reasons is proposed by Sun et al., that study them in relation to the main economic theories, namely the industry-based view, the resource-based view, and the IT.[208] The industry-based view departs from the considerations that MNEs from developed countries usually control the high value-added activities, those that

[207] Data from Rhodium Group Research (http://rhg.com/notes/chinas-global-outbound-ma-in-2015) and MOC (Ministry of Commerce and State Statistics Bureau, 2006, Statistical bulletin of China's outward foreign direct investment (non-finance part), Beijing, Ministry of Commerce);

[208] Sun S.L., Peng M.W., Ren B., Yan D., 2012, A Comparative Ownership Advantage Framework for Cross-Border M&As: The Rise of Chinese and Indian MNEs, Journal of World Business, Vol. 47, pp. 4 – 16;

can be allocated in the upper part of the smiling curve. MNEs from developing countries instead usually collocate in the opposite end.[209] So, these MNEs expand through acquisition to update their low end value-added activities. But the first motive for worldwide M&As, according to the industry-based view is efficiency gain, even if many researches demonstrated that the majority of acquisitions fail.[210] The resource-based view instead argues that Chinese MNEs engage in cross border M&As to acquire strategic resources, in an attempt to extract value from the acquired firm.[211][212] It is known indeed that certain assets can be acquired in the market, and M&A transactions are one of the most effective ways to do so.[213][214] As a result the research for strategic assets is recognised as a major driver of M&A.[215] At last, the IT brings other considerations on the table. Chinese MNEs have reasons to acquire foreign companies to respond to pushes from the government that is carrying on a shift of the economy from planned to market oriented. Furthermore, they use cross border M&As to escape home-country institutional constraints. These can refer to lack of legal protection for property rights, poor enforcement of laws, underdeveloped factor markets, and inefficient market intermediaries,[216] as well as difficulties in developing in a timely manner innovation in-house. This is due to the pace and magnitude of technological and organizational change that is required to take advantage of the opportunities that are arising in China. Building capabilities is time consuming and path-dependent upon the firms' existing capabilities, and thus they prefer to acquire those resources onto the market.[217][218]

Focusing on the motivations outlined by the RBV, it has been shown that different researches find out that companies that engage in M&As, do so primarily to acquire strategic assets. This is in contrast to the previous paragraph findings, that when proving proposition 3, struggled to find definitive evidence. Despite the unilateral opinion of

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[209] Morck R., Yeung B., Zhao M., 2008, Perspectives on China's outward foreign direct investment, Journal of International Business Studies, Vol. 39, Issue 3, pp. 337 – 350;
[210] Peng, 2009, 2011;
[211] Luo Y., Tung R.L., 2007, Ramamurti & Singh 2009;
[212] Homburg C., Bucerius M., 2005, A marketing perspective on mergers and acquisitions: How marketing integration affects postmerger performance, Journal of Marketing, Vol. 69, pp. 95 – 113;
[213] Wesson T. J., 2004, Foreign direct investment and competitive advantage, Cheltenham, UK: Edward Elgar Publishing;
[214] Chung W., Alcacer J., 2002, Knowledge seeking and location choices of Foreign Direct Investment in the United States, Management Science, Vol. 48, Issue 12, pp. 1534 - 1554;
[215] Anand, Singh 1997; Wesson 2004;
[216] Khanna T., Palepu K.G., 2006;
[217] Dierickx I., Cool K., 1989, Asset stock accumulation and sustainability of competitive advantage, Management Science, Vol. 35, Issue 12, pp. 1504 – 1511;
[218] Deng, 2009;

previous literature on the strategic asset motives behind cross border M&A activities from China, a weak point is that these researches are all qualitative, and based on case studies, and thus lack of methodological pluralism.[219] As a consequence, generalization of the findings is difficult, despite the convincing points brought by the literature. One of the few studies that has statistical relevance is conducted by Anderson et al., which analyses the Chinese OFDI in US between 2003 and 2011, diving the findings by entrance mode, namely acquisition or greenfield investment. From their analysis, the results are supportive of what described by previous mentioned literature, that sees M&A as a preferential entrance mode when Chinese MNEs invest to acquire strategic assets. When investing for market seeking or efficiency seeking motives instead, greenfield investments are the preferred choice.[220]

Regarding the characteristic of the phenomenon, in terms of industries, and destinations chose as target, they are quite aligned with the OFDI trends previously evidenced. The most important destinations for Chinese MNEs engaging in cross border M&A are developed countries, that in 2015 accounted for almost two-thirds of the total Chinese cross border M&A value.[221] This trend closely follow the findings that has been identified in paragraph 3.2 when considering the aggregate OFDI, and according to the Rhodium Group data, since 2010, value of M&A transactions in developed countries have steadily overtaken the one in developing countries. Regarding the industry mix, also here the results are similar to the findings of paragraph 3.2, as there has been an increase in deal value in all sectors over the years, apart for the energy and materials industries that since 2011 decreased consistently of importance.[222]

At last, it is worth pointing out the great impact that the global financial crisis of 2008 had on the Chinese MNEs and their OFDI choices generally, and M&A activity specifically. After 2008, not only there has been a surge in M&A activity, but also there has been a surge in M&A done to acquire strategic assets.[223] The crisis indeed might have weakened the stance of developed countries' MNEs, and strengthened the position of EMNEs. Yang and Stoltenberg, for example, when considering the impact of the crisis, argue that there are

[219] Easterby-Smith M., Golden-Biddle K., Locke K., 2008, Working with pluralism determining quality in qualitative research, Organizational Research Methods, Vol. 11, Issue 3, pp. 419 – 429;
[220] Anderson J., Sutherland D., 2015, Entry mode and emerging market MNEs: An analysis of Chinese greenfield and acquisition FDI in the United States, Research in International Business and Finance, Vol. 35, pp. 88 – 103;
[221] http://rhg.com/notes/chinas-global-outbound-ma-in-2015
[222] http://rhg.com/notes/chinas-global-outbound-ma-in-2015
[223] Anderson et al., 2015;

important links to Chinese post-crisis policy changes and the propensity to engage in strategic asset seeking behaviours. Furthermore, they note that Chinese MNEs have taken advantage of the momentum, since many global assets became cheaper thanks to the crisis, and thus started leveraging the financial resources that they had accumulated previously.[224]

The reasons behind this is that US and European market might have become less attractive for market seeking, while the erosion of the valuation of many developed countries' firms have sparked interest in the acquisition of them, at a cheaper price. Chinese firms are then taking the chance to increase their competitiveness in this period, employing a "springboard" type behaviour, as long as the asset prices are pressured.

In conclusion, this paragraph showed how the acquisitions from China are increasing steeply in those years, and the most evidenced motive behind those acquisitions, especially in developed markets, is to acquire strategic resources that can boost the MNE's CA. It has been outlined though the problem of scarce direct empirical evidence, as most studies supporting this thesis are of qualitative type. An important watershed in the evolution of Chinese cross border M&A, has been identified in the global financial crisis of 2008, because of sudden drop in developed markets' firms, taken as an opportunity by Chinese MNEs to take the step of "springboarding", without paying too much for it.

Paragraph 4.5 Figures of Chinese OFDI and estimation for the future

It has been seen that FDI have historically played an important role in China's economic development. At first it has been IFDI to play the biggest and most important role, while OFDI were practically inexistent. As a result, today China is the second economy after the US for IFDI stock, that accounts for USD 2.866 billion. The reasons for the lack of OFDI in the early stages of China's development are two. First there are structural motivations, because China had scarce endowment of capital in its early stages of development, and second because of tight control of the government on outbound investments. Fearing the asset stripping and capital flight that had ravaged other communist countries after the breakup of the Soviet Union, China maintained strict controls on financial outflows even when capital was no longer scarce.

[224] Yang X., Stoltenberg C.D., 2014, A review of institutional influences on the rise of made in China multinationals, International Journal of Emerging Markets, Vol. 9, pp. 162 – 180, p. 162;

During the 1980s, official OFDI flows were virtually zero. In the 1990s and through 2004, annual OFDI flows averaged USD $2 billion, except for spikes in 1993 and 2002 from early oil company ventures abroad. This pattern has started to change dramatically in recent years, and it seems that China is now on its way to a new era where OFDI plays a role as important as IFDI. The turning point can be identified in the mid-2000s, when Chinese demand for different commodities made their prices soaring and SOEs started investing abroad in order to secure the supply of materials and the relative profits.[225] This push for natural resources investments boosted Chinese OFDI from less than USD $2 billion in 2004 to more than USD $20 billion in 2006 and more than USD $50 billion in 2008 as can be seen in figure 1. In 2009, outflows somehow slowed down, probably because of the global financial crisis, but reached another record high in 2010 with almost USD $60 billion. In 2011, flows reached USD $50 billion because of renewed global financial instability. Especially since 2014, the rate of growth has been extraordinary, achieving USD 216 billion in 2016, year in which there has been the overtaking of the OFDI flows on the IFDI flows.

How to read these figures? Despite the peculiarity of China's development, the country's path in FDI is actually similar to the one followed by other developing economies.[226] According to this general path of development, in the pre-reform era, there are virtually zero foreign investments, both inward and outward, because foreign investors are not interested in the country, and domestic firms have not the strength and the foreign exchange reserves to invest abroad. This is the first phase. The second phase starts right after the economic reforms, when usually there is a surge in the IFDI, as capital controls are eased, and foreign investors are eager to direct money into a high-growth economy. After a while, when GDP per capita reaches a certain threshold, the third phase begins. Domestic firms start to invest abroad and the OFDI starts to grow, while IFDI remains strong. As OFDI surpasses IFDI, the country's net FDI position turns from deeply negative into positive territory, which is the signal of the entrance in the fourth and last phase of development. In the end, once the country starts to transform into a developed economy, its net FDI position tends to stabilize and to hovers around the equilibrium.

China's path so far closely followed this timeline. Before 1978, China was a closed economy that attracted little foreign investment. As reforms kicked in in 1979, IFDI

[225] Hanemann T., Rosen D.H., 2012;
[226] Ibid;

started to grow while OFDI remained of small size. Since the mid-2000s, China entered the third stage of development, and OFDI grew consistently, even outpacing the inward flows in the last years. It is instead of recent happening the entrance of China into the fourth stage, as in 2016 outward flows have been higher than inward flows as prescribed by the MOFCOM in 2010.[227] Despite this crossing and the rising concerns from both receivers of these OFDI and from the Chinese government for the surge of the past three years, this flow is likely to continue, on the basis of this general path followed by many developing countries in respect to FDI.

The matter can be investigated even further, with an analysis that entails a comparison of some economic indicators with the FDI stocks and flows of China and other countries. This can allow a deeper understanding of the phenomenon. Such a research has already been proposed by the Rhodium Group in 2010. The findings have identified a misalignment in China's position, as Chinese weight in global FDI was tiny, compared to the weight of its economy in other indicators such as GDP or exports.[228] An updating of the outcomes of this research is now paramount, as since 2010 there have been many changes. For this reason, such a study is proposed here.

It is renown that today China is one of the most important players in the world's economy, and this importance is reflected in many economic indicators. In 2016 China accounted for 19% of the global population, 15% of the global GDP and around 10% of the world's imports and exports. In figure 2, there are different indicators of China's weight in the world's economy. If considering the FDI stocks, the IFDI is aligned to the main economic indicators just mentioned, as it accounts for 10% of the whole world's IFDI stock, but OFDI is still relatively tiny, as it accounts for 5% of total world's OFDI stock. Despite the tiny figures, since 2010, time of the Rhodium Group's research, there has been already a growing importance of China in this respect, as the ratio of Chinese OFDI stock to the world's OFDI stock was a mere 1,5% back then.[229] If comparing the OFDI stock with the GDP figure, China in 2016 has a 12% ratio, compared to a ratio of 34% for US, 55% for the EU, and a 34% for the world. In short, according to these measures, China's presence in OFDI is tiny compared to its weight in the global economy.

[227] "Overseas direct investment to grow", China Daily, December 24, 2010, available at: http://www.chinadaily.com.cn/bizchina/2010-12/24/content_11749290.htm
[228] Hanemann T., Rosen D.H., 2012;
[229] Ibid;

Based on the just presented analysis, a possible projection of China's future OFDI flows can be calculated and are presented in table 1. Estimates on GDP growth by the IMF average 6,3% per year until 2022. Based on the assumption that the ratio of the OFDI stock to the GDP will remain the same, thus around 12%, by 2022 China will have USD 600 billion of OFDI flows. Factoring in the consideration that China is still below the world's average ratio of GDP/OFDI stock and thus assuming that in the following years China will align with that average level, by 2022 the OFDI stock will reach almost USD 6 trillion, providing an increase of almost 5 trillion from today's level. Despite the opening of China's market and the forces pushing firms to internationalize, such level will be very difficult to achieve. A realistic estimate could be in the middle, calling for an increase of USD 2 trillion in OFDI stocks in the next 5 years.

Worth noticing is the amount of reserves China has at its disposal, that can give an important boost to its OFDI figures when they will be deployed. Even if in recent years there has been a strong reduction in the amount, as a consequence of the financial tensions that started in 2015 and the efforts to stop the recent depreciation of the RMB, they are still a considerable amount. Those reserves accounted for 40% of world's total reserves in 2010, and nowadays that figure is 26%. As of today, the stock of China's reserves is still the most important in the world, giving China a strong firepower in terms of capability to invest abroad.

Paragraph 4.6 Conclusions

This chapter has analysed the OFDI from China. It has been seen that OFDI grew consistently since the late 1990s, and they have evolved overtime. First foreign investments were restricted to a handful of carefully selected SOEs, then there has been a surge in foreign investment in the energy industries, and after the mid-2000s, there has been a widespread of the phenomenon along all kind of businesses and industries. It has been discussed also how the trend is likely to continue in the future, as China's presence in global capital is still tiny compared to its economic stance.

Regarding the determinants of this OFDI, it has been seen that they follow an evolutionary path, and while market seeking motives was a constant over time, resource seeking motives have spiked for a decade until the late 2000s, and then reducing their importance, while the opposite is true for strategic asset seeking motives, that some studies have found to be more important in the most recent years. In this respect it is interesting to look at the M&A deals, which capture this last trend more clearly, as M&A is a mode of entrance more used by MNEs when internationalizing to capture strategic resources. It has been argued that indeed Chinese MNEs use M&As in particular to overcome their competitive disadvantages or increase their CA, in order to get ahead of global competition, taking advantage of this period of pressured asset prices in developed countries, as a consequence of the crisis of 2008. It is argued that many despite many studies have researched the matter, just few have been studied the phenomenon at aggregate level, the rest of them proceeded by case studies.

Chapter 5 An empirical analysis of recent Chinese acquisitions in Italy

Paragraph 5.1 Introduction

Chinese MNEs invest abroad for a different range of motives, which have changed over time, as analysed in Chapter 4. Using the Dunning's classical categories of investments' determinants, it has been argued that Chinese OFDI nowadays should answer mainly to reasons of market and strategic assets seeking. Despite the wide range of studies proving the market seeking nature of Chinese OFDI, especially in developed countries, few researchers demonstrated the strategic assets seeking nature of Chinese OFDI. For these reasons, this chapter proposes an empirical study that can help understand better whether there is such a motivation behind Chinese OFDI in Italy. In order to assess this, acquisitions have been chosen because it is the preferred choice of entry mode, when strategic assets seeking motives are the reasons for an MNE internationalization, and so there is the expectation to find strategic assets seeking motives as the first reason to come to Italy. Also, in the developed world, it has been argued that M&A deals have increased substantially with more vigour than greenfield investments, and thus this study wants to contribute to a deeper understanding of this phenomenon, that is particularly felt in these years also at political level.[230] At last, the case of Italy is of interest of its own, because the country shares a similar productive structure with China, mainly based on traditional manufacturing industries.

Paragraph 5.2 gives an overview of the Chinese OFDI and acquisitions in Italy, that allow to picture a framework for the understanding of the phenomenon. Paragraph 5.3 states the research questions, what are the focus points under studying. Paragraph 5.4 introduces the research and the data collection methods used. Paragraph 5.5 goes in depth into the analysis of the results of the data collection. Paragraph 5.6 provides a discussion of such results and some conclusions.

Paragraph 5.2 Italy in the context of Chinese OFDI

In the past years China has invested heavily in Italy and the European Union. The biggest interest of Chinese investors in Europe is toward developed countries, with Germany,

[230] For considerations on the effects and implications of FDI from China see Hanemann T., Huotari M., 2015;

United Kingdom, France, and Italy receiving the bulk of the Chinese capital, while all the other countries lag far behind. This shows the preference that Chinese investors have for the most developed countries in Europe. Furthermore, the preferred entrance mode for western European countries is acquisition, while the preferred for eastern European countries is greenfield investment.[231] This gives a first insight that when investing in western Europe, Chinese MNEs are after technologies and know-how, that cannot be found in less developed countries. Regarding the industry mix instead, Chinese MNEs preponderantly invest in the machinery, IT, utilities, transport, automotive, and real estate sectors.[232]

Focusing on the role of Italy, today it is the third recipient of Chinese investments after Germany and the United Kingdom, just in front of France, with almost EUR 13 billion of investments received since 2000.[233] Italian role is thus of primary importance, as it is also confirmed by the report "Italia Multinazionale", which shows that FDI coming from eastern Asia are the ones that have known the largest percentage growth between 2008 and 2015 in Italy, right after FDI coming from other European countries.[234] Today there are 235 registered firms in Italy controlled by Chinese investors, that give a contribution of EUR 5,5 billion to Italy's GDP.[235] Chinese capital in Italy has become famous in the latest years for important acquisitions, such as the acquisition of FC Inter by Suning in 2016, of AC Milan by a group of Chinese investors, or the acquisition of the fashion group Krizia in 2014 by Shenzhen Marisfrolg Fashion, or again the acquisition of Pirelli by the state controlled ChemChina, in one of the biggest deals in Europe of the past years. In addition to these and other famous cases of acquisition, also many smaller companies have been acquired over the years, some of which cases are difficult to trace because these deals are carried on in unconventional ways. Furthermore, also minor investments, that are not big enough for Chinese investors to exert control over the company, have increased incredibly in number. Today companies such as Unicredit, Intesa, Monte dei Paschi di

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[231] Hanemann T., Huotari M., 2012;
[232] Ibid;
[233] Hanemann T., Huotari M., 2016, Record flows and growing imbalances. Chinese Investments in Europe in 2016, Rhodium Group;
[234] Mutinelli M., Mariotti S., 2016, Italia Multinazionale 2016, Le partecipazioni Italiane all'estero e estere in Italia, Soveria Mannelli, Rubbettino;
[235] Pira M., Carreras S., 2017, Fozza Cina. Dalla Pirelli alla moda al calcio. L'Italia sta diventando una colonia Cinese?, Baldini e Castoldi, Milano;

Siena, Generali Assicurazioni, Eni, Enel, Prysmian, Mediobanca, just to name a few, have all some Chinese capital.[236]

Chinese capital in Italy is moving and spreading fast, in a pervasive manner. It is interesting to note this fact, because usually Italy is not a favourable destination for FDIs within Europe. Looking at the latest UNCTAD data, Italy position as a gatherer of FDI is steadily behind countries such as Germany, France, UK, Spain, Ireland, and Luxembourg, and accounting on average of roughly 5% of total investments in Europe.[237] This is not surprising if looking at some competitiveness rankings of Italy. So why the importance of Italy when considering investments from China? This can be explained by the size of the domestic market, by the lower labour costs when compared to other developed economies, and by the presence of the Italian districts, that give opportunities to exploit economies of agglomeration. Furthermore, the Italian specialization in a different range of industries such as fashion, automotive, machinery, and home appliances represent a factor of attraction for MNEs interested in investing abroad, including for Chinese MNEs, that, according to what it is argued in this thesis, are trying to upgrade their competitiveness and know-how in such fields.[238]

Again, the main reasons for Chinese investments in Italy seem to be the willingness to improve Chinese firms' competitiveness, as well as the willingness to expand to new markets.[239][240] Considering the last motive, an important distinction is between Chinese MNEs that are looking to enter the Italian or European market, and those that are mainly targeting the Chinese market, with new acquired and more sophisticated products and services, that are better in responding to the changing consumers' needs at home. In this last case, usually preponderant among acquisitions, the benefits can be mutual as the Italian firm can get a preferential way to enter the Chinese market. A widely cited example of such case, is the acquisition of CIFA in 2008 by the Chinese conglomerate Zoomlion. Both firms obtained their advantages from this marriage, Zoomlion obtained the Italian excellence in production and know-how, while CIFA obtained the finances and efficiency of the Chinese partner, that allowed the company to consolidate its presence globally, and

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[236] Ibid;
[237] WIR, 2016;
[238] Sanfilippo M., 2014, Chinese investments in Italy: Facing risks and grasping opportunities, IAI Working Papers 14|19, Rome, Istituto Affari Internazionali;
[239] Spigarelli F., 2008, Nuovi Investitori Globali: le Imprese Cinesi in Italia, Working Paper N. 12, Dipartimento di Studi sullo Sviluppo Economico, Università di Macerata;
[240] Sanfilippo M., 2014;

to expand rapidly in China, especially during years of thin demand from more traditional markets. Among the latter case, of Chinese MNEs investing in Italy to get access to important assets, the luxury industry can be taken as a reference, as it is a field of expertise of Italian companies. In many cases, as for the acquisition of Krizia by Marilsfrolg in 2014, the force pushing the acquisition is to gain quickly access to recognized brands and know-how, that can allow the selling of new products to a raising demand in China.[241]
Regarding the industries targeted more heavily by Chinese MNEs, these are in sectors where Italy has a comparative advantage, such as the automotive, home appliances, clothing, and machinery industries.[242][243][244] The research here presented, that tracks the cases of acquisitions between 2008 and 2017, also supports these findings.

Paragraph 5.3 The research questions

The main topic of this thesis is the study of the motivations behind the international expansion of Chinese firms. It has been argued how many theories identify strategic asset seeking forces as a major driver for such expansion, but this has only been verified by a limited number of researches in the field, and the conclusions are not definitive, as there are contrasting evidences. Here it is thus proposed a study that give legitimation to these previous researches and helps build the evidence in support of one or the other proposition, by analysing the cases of Chinese acquisitions in Italy since 2008. As previously mentioned, this date is chosen because of the importance of the 2008's financial crisis in the world's economy, that has also changed the behaviour of Chinese firms.[245]
The following aspects will be subject of questioning during the research:

1. What are the major drivers of Chinese acquisitions in Italy, and is strategic asset seeking as important as it is described by different previous qualitative studies on the matter? Is there also a change in the motives of the investments over the years?

[241] Ibid;
[242] Mariotti S., Mutinelli M., Piscitello L., 2008, The Internationalization of Production by Italian Industrial Districts' Firms: Structural and Behavioural Determinants, Regional Studies, Vol. 42, Issue 5, pp. 719 – 735;
[243] Pietrobelli C., Rabellotti R., Sanfilippo M., "The Marco Polo" Effect: Chinese FDI in Italy, 2011, International Journal of Technology and Globalization, Vol. 4, Issue: 4, pp. 277-291;
[244] Spigarelli F., 2008;
[245] Anderson et al., 2015;

2. Are Chinese firms investing abroad to escape some institutional constraints in their home market? Especially, are they expanding abroad as a response to increasing competition in the home market?
3. What are the reasons why the Italian firms accepted to be acquired? Does the financial crisis of 2008 have an impact on the increase of Chinese acquisitions in Italy? Has this trend changed over the years?
4. What are the main traits of the Italian companies targeted by Chinese MNEs? What industries are more interested by the phenomenon, and what is the size of the company usually targeted?
5. Is it true that usually Chinese firms have little or no experience in international markets, as prescribed by different theories on EMNEs?
6. How much does the Chinese acquirer change and reorganize the business, and is there a strong resistance to change among the acquired company?
7. Among the different problems of post-acquisition integration, one of the most important and mentioned in the literature, is the language and cultural difference. Is this factor problematic and felt in the case of Chinese acquisitions in Italy?

Paragraph 5.4 The research and data collection methods

To answer the research questions, an analysis of 93 cases of acquisitions have been conducted. The research process started with the construction of the database containing all the cases of acquisition from 2008 that could be found. Because there is no comprehensive available database with such information, there was the need to construct it, gathering together data coming from different sources. The bulk of the information came from two platforms, Bloomberg, and Zhepyr, which both have a record of M&A deals. Bloomberg is freely available to all Ca' Foscari's students, while Zhepyr's data have been gently provided by the company itself, after a request. These sources of information have then been completed with a research on different financial newspapers, that might have tracked over the years cases of acquisitions from Chinese companies. After having gathered substantial information, all the cases found have been carefully verified. First it has been verified that the investor was actually from China. Second, there has been the check of the capital requirement, indeed all the investments that did not exceed the 10%

threshold of the capital of the acquired firms were discarded.[246] Third, it has been checked that the deal was completed.

After this screening, 93 cases of acquisitions have been gathered and prepared to be analysed. The method chosen for the analysis has been the distribution of a questionnaire that inquires the respondents, being the Italian acquired company's management, on the research questions, mainly using an ordinal scale from 1 to 5 to ask their opinion on the matter. Because of the relatively small dimension of the sample, each company have been previously contacted telephonically, many of them multiple times over a period of two months, since middle November until the end of January, in order to maximize the number of respondents. The result has been that 30 companies positively completed the questionnaire, a rate of 32%.

Paragraph 5.5 The statistical analysis of the data

Once gathered all the necessary data, the results have been then elaborated with a statistical software, in order to extrapolate as much information as possible from the raw data and identify some patterns not easily recognizable at first sight. The outcome of such elaboration is below presented in the form of figures and tables. The only exceptions, for reasons of space, are the tables showing the correlation between the different variables, which are not inserted in this paper, but can be found online at the address: drive.google.com/open?id=1wMNkqgn0NVVc3fRIYR_fWaO0fXSsB8gi. The paragraph introduces this data, and explains how to read it, dividing the argument by topic.

From the analysis of the motivations that made the Chinese acquiring firm invest in Italy, table 2 below shows the main findings. The level of importance of the following motivations have been tested. First if the acquisition was made in order to provide a market entrance in the European market. Second if it responded to reasons of resources assurance (these resources could be access specialized work, raw materials, cheap labour etc.), that are difficult to find in China. Third, if they were after strategic assets, which are those assets that can boost a company's CA, such as access to technology or specific know-how. Fourth, if the investment had pure financial motives, in order to guarantee a return. At last, if the Chinese MNE targets the Chinese market with new products that are acquired or developed thanks to the acquired firm.

[246] 10% is the commonly recognized threshold after which an investment is considered to exert substantial influence over a company;

		Market entrance in EU	Assure resources	Seek of strategic assets	PTF investm.	Sell products back to China
N	Valid	30	30	31	29	31
	Missing	63	63	62	64	62
Mean		3,00	1,83	4,45	1,62	3,39
Mode		1	1	5	1	4
Percentils	25	1,00	1,00	4,00	1,00	3,00
	50	3,00	1,00	5,00	1,00	4,00
	75	5,00	3,00	5,00	1,50	4,00

Table 2. Motivations of the acquirer
Source: Elaboration of data from the questionnaire

The table shows clearly that the main reason of the investments is to acquire strategic assets, with more than 75% of the firms that have indicated at least 4 out of 5 in a scale of importance for this variable. Follows market seeking motivations, with a more uniform distribution though, as it can be seen the mode for example is the value 1, which shows a scarce interest, but the mean is 3,00. Interesting is to see that usually Chinese investors do not only target the European market, but many of them acquire Italian companies to then sell their products and services back in China. Indeed at least 75% of the firms have indicated that one of the motivations behind the investment is to provide better or more advanced products for the customers in China. Usually this is not the primary or sole reason for the investment, but it is generally quite felt, as indicated by the mode for the variable being 4 in a scale of 5. This is in line with other studies that have identified the willingness of Chinese investors to come to Europe to acquire products and services that can fulfil a changing demand in the Chinese market, which is constantly changing and evolving.[247] Regarding the other two motives of investment, being resource seeking and portfolio investments, the findings show a very tiny importance, with a mean of 1,83 and 1,62 respectively.

Important to track are also institutional factors pushing Chinese firms to internationalize. Accordingly, table 3 shows the importance attributed to two variables, the first the institutional constraints that Chinese firms face in the domestic market, such as a poor protection of patents, unfair competition, strict laws, and the second the increase in competition in China.

[247] Sanfilippo M., 2014;

		Escape home institutional constraints	Increased home competitition
N	Valid	22	23
	Missing	71	70
Mean		1,91	2,74
Mode		1	1
Percentils	25	1,00	1,00
	50	1,00	3,00
	75	3,00	4,00

Table 3: Variables measuring institutional factors
Source: Elaboration of data from questionnaire

The findings on the first variable tell this is not a primary reason for the investment, and in more than 50% of the cases it is not something considered at all. This is not in line with what is prescribed by theories of EMNEs internationalization, that identify this as a major reason for international expansion.[248][249] Regarding the government forces that push Chinese MNEs to internationalize instead, it seems that they directly play a minor role in the acquisitions of Italian companies, as only a minor share of all the deals were conducted by SOEs. At last, Chinese companies felt strongly the increased competition at home, and this is an important force pushing for their internationalization. Indeed, 50% of the firms have indicated this as a relatively important factor. Furthermore, this variable has a positive correlation with the variable measuring the willingness to invest in Italy for asset seeking motives, which is significant at the 10% level. This shows that Chinese firms are actually internationalizing to access assets in order to face a stronger competition, in response to an increasingly open Chinese market. Another motivation could be that they internationalize operations to diversify the sources of income to other countries.

Regarding the motivations of the acquired firms, some variables have been analysed and the results are synthetized in a few indicators presented in table 4 below. The reasons under study are firstly the selling of the company to have new financial resources, secondly to gain efficiency in the processes thanks to the combination of the assets with the Chinese firm, thirdly to enter the Chinese market, and at last for some personal reason of the previous owner.

[248] Yang X., Stoltenberg C.D., 2014;
[249] Berning S.C., Holtbrugge D., 2012;

		Financial resource	Efficiency gains	Enter Chinese market	Personal reason of the owner
N	Valid	30	29	30	29
	Missing	63	64	63	64
Mean		3,63	2,66	3,37	1,79
Mode		5	1	5	1
Percentiles	25	2,00	1,00	1,75	1,00
	50	4,00	3,00	4,00	1,00
	75	5,00	4,00	5,00	2,00

Table 4. Motivations of the acquired firm
Source of data: Elaboration of data from questionnaire

As it was expected, the need to receive financial resources is the most felt by the Italian companies, with more than 50% of the firms that have indicated this as a strong reason, supporting the proposition that Chinese investors are taking advantage of the momentum provided by the financial crisis to acquire stakes in important Italian companies at a discounted price.[250] This variable shows also a significant negative correlation at the 5% level, with the year in which the acquisition was performed, and thus indicating that over the years this need is less felt, as there is a recovery from the financial constraints of the 2008 global financial crisis. Right after the financial needs, the second most important reason is to obtain a preferential access to the Chinese market, with more than 50% of the firms that have indicated this as an important reason, with a value of 4 out of 5. This variable has a strong correlation, significant at the 1% level, with the variable measuring the total employees of each firm, showing that usually expansion in the Chinese market is something carried on by bigger firms. These results also show that the Chinese market still has a strong traction on Italian companies, that consider it as a promising market, where there are possibilities of expansion. At last there are personal reasons of the previous ownership and efficiency seeking motives that explain the investment from the acquired firm's point of view but are usually not important drivers.

Apart for the motivation for the acquisition from both parts, other variables were measured to analyse the acquisition process. Specifically, the ease of agreement and the

[250] It seems though that Chinese investors are anyway willing to pay more than the market price for western companies, and this premium is estimated in a 16%. For more on the topic see: Hope O., Thomas W., Vyas D., 2011, The cost of pride: why do firms from developing countries bid higher?, Journal of International Business Studies, Vol. 42, Issue: 1, pp. 128 – 151;

perceived experience of the Chinese managers have been subject of inquiry, and the results are depicted in table 5 below.

		Ease of agreement	Chinese managers' international experience
N	Valid	29	26
	Missing	64	67
Mean		3,10	3,19
Mode		3	4
Percentiles	25	2,00	2,00
	50	3,00	3,00
	75	4,00	4,00

Table 5: Other ordinal variables under study
Source of data: Elaboration of data from questionnaire

In these fields, the results are somehow innovative. Chinese MNEs and their managers have been depicted by previous researchers as having few international experience, and the springboard theory usually says that many Chinese firms, when investing abroad, are at their first international experience, sometimes even skipping other stages of the internationalization process described by the Uppsala model. The findings of this research instead show a different picture, with the Italian managers indicating that the agreement was usually reached with no particular struggles, and expressing a moderately good judgement on their Chinese counterparts when down to international experience, with an average of 3 out of a scale of 5, and a mode of 4 out of a scale of 5. The answers on this are also quite evenly distributed, showing that there is a great variability among cases, but overall Chinese MNEs and their managers cannot be treated anymore as newbie in the international scenario. The research on the previous FDI and passive internationalization experiences[251] of Chinese firms measured ad hoc with two variables, sustain this finding, showing that the great majority of them had already such experiences, as shown in figure 8 and 9 below. Interesting is the correlation between having had previous FDI experience and investing in Italy for market seeking reasons, which is significant at the 10% level.

[251] Passive internationalization is when a firm collaborates closely with a foreign MNE in the domestic market. Even without going abroad, it can gain some of the benefits usually firm acquire when having international experiences.

Figure 8: Percentage of acquirers with previous FDI experience

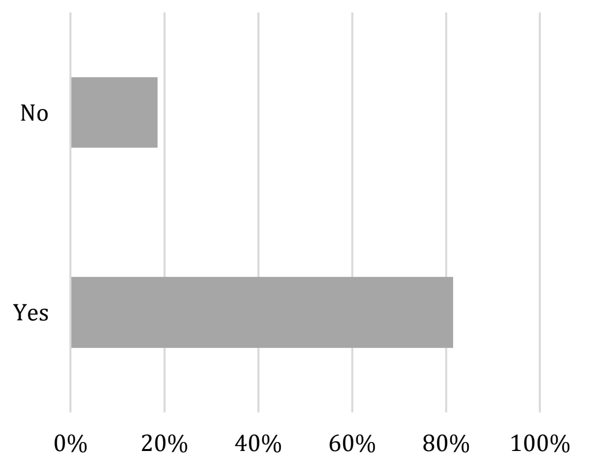

Figure 9: Percentage of the acquirers with passive internationalization experience

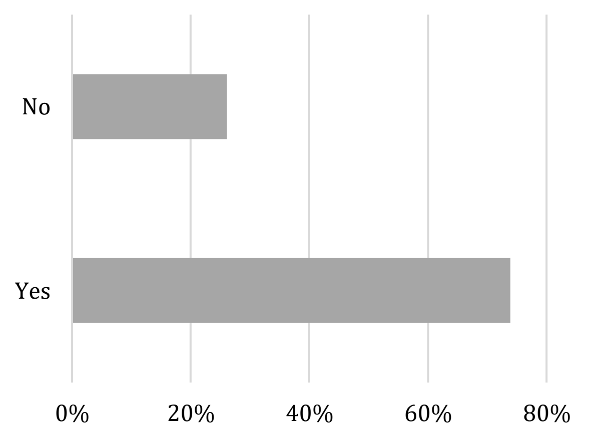

Figure 8 shows the percentage of acquirers with previous FDI experience, and figure 9 shows the percentage of them with passive internationalization experience.
Source: Elaboration of data from the questionnaire.

At last, looking at the post acquisition phase, there are some variables that have measured the most important facts usually found critical, especially in cross border acquisitions, and are shown in table 6 below. It has been measured the entity by which the Chinese acquiring firm is actively learning from the acquired company, how much change it brought to it. Then the grade of the resistance to change from the Italian employees has been subject of valuation, as well as the weight of the language and cultural problems faced. At last it has been asked how much difficulty has been encountered in maintaining the clients after the acquisition.

		Organizational learning	Organizational change	Resistance to change	Language and cultural problems	Difficulty in keep clients
N	Valid	29	30	29	30	28
	Missing	64	63	64	63	65
Mean		3,14	2,30	2,00	2,70	1,86
Mode		4	2	1	2	1
Percentiles	25	2,00	1,00	1,00	2,00	1,00
	50	3,00	2,00	2,00	2,00	1,00
	75	4,00	3,00	3,00	4,00	3,00

Table 6: The variables assessing the post-acquisition phase
Source: Elaboration of data from questionnaire

Regarding the change brought to the organizations, Chinese investors usually are quite mild, showing a tendency to rely on the previous organizational processes and schemas, with more than 50% of the firms expressing a very low value for this variable. This is coupled with a low resistance to change shown by the stakeholders of the Italian companies, as it is shown also by the correlation between these two variables, that is significant at a 1% level. Also, there is a positive correlation between the change brought to the acquired firm's organization and the fact that the Chinese MNE had had already FDI experience, which is significant at the 10% level. This shows that the more a firm has international experience, the more is confident in bringing changes in the organization of the acquired firm.

Regarding the language and cultural problems, they are usually quite felt in cross border acquisitions.[252][253] Thus, they should be quite felt in the case of Chinese firms coming to Europe, as the cultural differences are quite big, as indicated by the Hofstede model, depicted in figure 10. Unexpectedly though, 75% of firms have indicated this as a relatively small matter, which is not cause of problems. This is though strongly correlated at the 5% level with the variable that measures how much resistance of change was felt into the organization, showing that usually those variables move along. This indicates that as soon as there are some problems, they are likely to be reconducted to problems of language and cultural difference.

A not definitive result comes from the variable that measures the degree with which the Chinese are learning from the Italian companies. Indeed, the expectations of such variable are quite high, as also indicated by the motivations to invest here to acquire strategic assets. But the results show a not so definite outcome, describing a quite evenly distributed set of answers, with a median value of 3 out of 5, and a mode of 4. Despite being all but un-important, the results are somehow under the expectations, calling for a deeper research in how Chinese use or benefits from the strategic assets that they acquire in developed countries. The variable furthermore shows no important correlation with the strategic asset seeking motives of the investor. An important correlation significant at

[252] Liu Y., Woywode M., 2013, Light-Touch Integration of Chinese Cross-Border M&A: The Influences of Culture and Absorptive Capacity, Thunderbird International Business Review, Vol. 55, Issue 4, pp. 469-483;

[253] Spigarelli F., Alon I., Mucelli A., 2013, Chinese overseas M&A: Overcoming cultural and organizational divides, International Journal of Technological Learning, Innovation and Development, Vol. 6, Issue 1-2, pp. 190-208;

the 1% level has been found with the home constraints the Chinese companies are trying to escape by investing in Italy.

Regarding variables tracking other characteristics of the Chinese acquisitions in Italy, figure 11 shows that there has been a steep increase in the phenomenon over the years, with a peak in 2015.

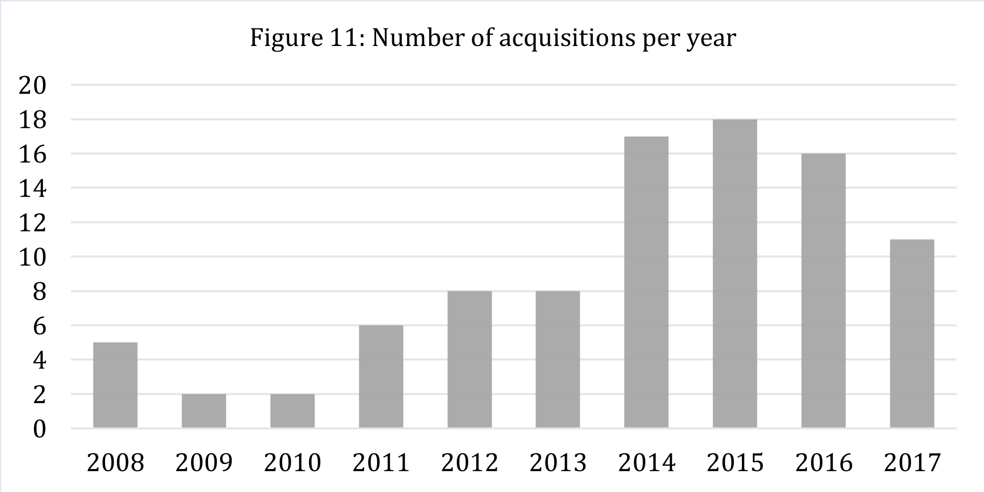

Figure 11: Number of acquisitions per year by Chinese firms in Italy
Source: Elaboration of data from the questionnaire

The industries mostly targeted by Chinese investors are shown in figure 12. As can be seen, the industries mostly targeted somehow follow the Italian industrial specialization.

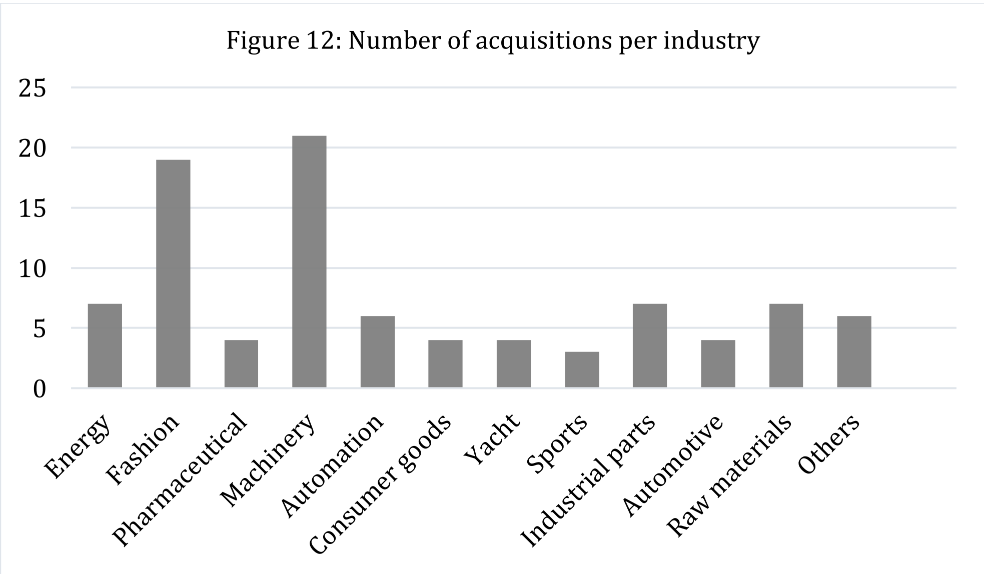

Figure 12: Number of acquisitions per industry
Source: Elaboration of data from the questionnaire

The distribution of the investments shows a strong interest for companies in fashion and machinery building. Other sectors worth mentioning are the automation and robotics industry, energy and industrial parts industries. Incredibly strong it is also the interest towards a very specific sector, which is the yacht construction industry, that show different cases of takeovers in the past years. Regarding deal size, as it could be expected because of the industrial characteristics of Italy, many acquisitions are quite small in size, with a median value of EUR 27 million, and company's employees that count 90 units. The entrance in the capital of the firm instead is quite strong, with a median value of 85%, and a mean of 74%, as it is shown in table 7 below.

		Capital share	Deal value mln	Employees
N	Valid	83	50	77
	Missing	10	43	16
Mean		74%	357	738
Median		85%	27	90
Standard deviation		30%	1228	4220
Minimum		11%	1	0
Maximum		100%	7700	37000

Table 7: Continuous variables under study
Source: Elaboration of data from questionnaire

Paragraph 5.6 Discussion of the results

In conclusions, from the analysis conducted, some points outlined by previous researches are sharable, while others need further study and updating. First, the findings give support to the internationalization theories of EMNEs, regarding their internationalization motives. In literature it is argued that EMNEs when investing abroad, especially in developed countries, do so to gain important assets that can boost their CA or cover for their competitive disadvantages. Accordingly, strategic asset seeking motivations have been found to be the primary consideration for the investment from the Chinese MNE, while market seeking is the second one, giving support also to the third proposition developed in chapter 4. Regarding the evolution of the motivations for the investments over the years, between 2008 and 2017, no significant correlations have been found in this respect, indicating that during this period, Chinese MNEs' motivations to invest in Italy have been constant. It would be interesting though to widen the time of the research, to study if also in the case of Italy there is an evolutionary path on Chinese

OFDI, as described in chapter 4 when Chinese OFDI globally are considered. On the matter, it was argued how investments in energy sectors was a peculiarity of the late 1990s and early 2000s, but looking at the figure 12, it is shown that investments in this industry are still strong in Italy. Despite the undoubtful evidence of it, to a closer look those investments are not to assure the supply of raw materials, as it was in the past, but are into companies that are manufacturer of machinery or plants in the energy business.

Secondly, with some surprise come the results on the institutional constraints and government influence on the acquisitions. While different theories on EMNEs identify institutional constraints as a major driver for international expansion, the findings here are just moderately supportive. A point in disfavour of the results found with the research though, is that here it has been analysed only the factors negatively affecting the institutional environment in the home market, and the push of the government through their SOEs. This though do not take into considerations all the other influences that Chinese institutions can have on their firms, and thus call for a deeper study of the phenomenon to understand better how different institutional forces influence the internationalization decision. One of the other institutional factors pushing Chinese firms to internationalize operations, is the increase of the competition in the domestic market. Here the results are more in accordance with what has been prescribed by previous literature, as different companies surveyed indicated this as a quite strong force. At last, the influence of the government has not been found determinant for a preponderant share of the acquisitions under studying, as only few of them were carried on by SOEs. This brings evidence that private firms are also investing heavily abroad, and the phenomenon is not only limited to big SOEs. Of course, more hidden influences of the government are not to be discarded, for example the provision of easy financing.

Thirdly, the reasons for the investments from the acquired firms' point of view also support the previous researches on the matter, that identified a strong increase in Chinese acquisitions after 2008, and linked this with the opportunity for Chinese companies to buy important assets at a discounted price, compared to the prices before the crisis.[254] Leaving out the price, for sure Chinese MNEs have found managers more willing to sell and to open the capital to foreign investors, as they were under financial constraints. Indeed, this is the first motive for the selling of the company, but it is decreasing over time, because there is a financial recovery from the crisis. At second place there is the

[254] Anderson et al., 2015;

willingness to enter the Chinese market form the main door, with a strong partner sustaining their expansion. The Chinese market indeed is quite difficult to enter, as it has many peculiarities that differentiate it from the western markets. From this the importance of finding a good partner that can ease the entrance in China, which is one of the biggest and fastest growing markets in the world.[255]

Fourth, regarding the traits of the companies that are invested by Chinese capital, the industrial preferences reflect the specialization of Italy, giving support to other previous researches that identified this trend.[256] The deal size also reflects Italian characteristics, showing that the great majority of the deals are of small size. At last there has been an increase in the number of deals per year, with a peak in 2015, that follow the path of development of Chinese OFDI depicted in chapter 4.

Fifth, an update of the previous theories on EMNEs internationalization instead comes from the findings on international experience of Chinese firms and MNEs. It has been found indeed a quite good experience of these actors in international contexts, in contrast with the theories' prescriptions in chapter 3, that leads to a reconsideration of Chinese managers and MNEs, as increasingly knowledgeable in terms of international markets and operations. This can actually be explained by the time of the studies, indeed most theories on EMNEs are of the late 2000s, and nowadays the situation has changed. The findings thus here call for an update of such propositions.

Sixth, particularly interesting on its own, is the fact that the degree of change brought by the Chinese investors and the degree of which they are learning from the acquired firms are not so high. This is the opposite of what had been expected, and thus call for a deeper research of the phenomenon. If indeed the low change brought to the acquired company's organization can be explained by the fact that the Chinese managers might want to just acquire strategic assets and transfer know-how, which is better retained if few changes are brought, it is difficult to explain the moderate degree of learning. Chinese companies indeed should be eager to start learning processes from their acquired firms. This thus call for further research in the field, and a closer look to the methods with which Chinese investors exploit the acquired strategic assets.

At last, the language and cultural problems, at first sight, have also been found in discordance with previous literature, which identifies them as the most important into a

[255] Vianelli D., et al., 2012;

[256] Pietrobelli C., et al., 2011; Rabelotti R., Sanfilippo M., 2008;

cross border acquisition.[257] Instead the surveying results shows for the studied cases of acquisitions, this has not been a difficult problem. Before discarding the previous theories' prescriptions though, it is important to look for the causes of these results. Indeed, language and cultural problems have a strong correlation at the 5% and 1% level with the variables that measure the change in the organization and the ease of agreement respectively. Thus they show that when there was an increase in difficulties with the Chinese counterparts, a stronger weight was given to the language and cultural factors, outlining their importance for the cases of Chinese acquisitions in the western world.

[257] Spigarelli F., et al., 2013.

CONCLUSIONS

The main point this thesis wanted to study concerns the reasons behind the foreign investments from Chinese MNEs into developed countries, and Italy specifically. To do so a first introduction of China and its development path has been presented, highlighting the fact that in this process a major role has been covered by trade and IFDI. Indeed, in the first phase of development, export and IFDI grew at a strong pace, allowing the country to industrialize rapidly and to strengthen its position. Nowadays instead it has been seen how it is OFDI that is on the surge, because of a pressure on Chinese firms to internationalize, that derives from changed conditions in the home market, among competition and demand, that require Chinese firms to change their business models to face global competition, as well as update their position in the market. The government has been playing a strong role in this as well, pushing Chinese firms to internationalize operations since 2001 with it "Go Global Policy". After focusing the point on OFDI and the internationalization of Chinese firms, a study of the theories of internationalization has been presented. The most important economic approaches, such as the TCT, the RBV and the IT have been briefly introduced and it has been explained how they are important for IB studies. Afterwards, the presentation of the Dunning Paradigm as well as the explanation of the reasons why those theories are not completely suitable to explain the internationalization process of Chinese firms have been outlined. Indeed, it has been mentioned how Chinese MNEs usually internationalize without exploiting any ownership advantage, leapfrogging to advanced mode of internationalization without respecting the Uppsala model, with investments in high risk countries, which are most of the times directed by the government. For this reason, some new theories have been presented to read the phenomenon more clearly, one above all the springboard perspective, which main proposition is that Chinese MNEs internationalize to boost their CA, cover their disadvantages, through aggressive modes such as acquisitions. In doing so they try to minimize their home institutional constraints. After this theoretical digression, a direct analysis of Chinese foreign investments has been described. The main point being that Chinese OFDI seem to follow an evolutionary path, and thus different motivations are behind this phenomenon in different points in history. It has been argued how nowadays strategic asset seeking and market seeking motivations should be the most important. Despite the ease to prove the market seeking nature of Chinese OFDI, it has been found a bit more difficult to have a clear proof of the strategic asset seeking determinants, as few studies were statistically significant, and their results were controverted. To shed light on the matter and understand better the flows of Chinese capital in developed markets, a research on Chinese acquisitions in Italy has been proposed. 93 cases were studied, and through an investigation conducted through questionnaire, important data on the Chinese firms' international expansion has been gathered. From this analysis the results have been quite supportive of previous theories, as for motivation of the investor, showing that most Chinese firms are investing in Italy to obtain access to strategic assets. Other variables were also measured in the questionnaire. The importance of the institutional constraints at home on the investment decision of Chinese firms have been measured, discovering a mild effect on them, which is in contrast with what usually prescribed by previous literature. More specifically, an institutional force that is important for the internationalization of Chinese firms, is the increase in competition in the domestic market. Regarding the motivations of the acquired firm, the results showed a preponderance of need for fresh capital, among all, followed by a willingness to enter the Chinese market. Regarding the international experience of Chinese firms, it was shown how they are becoming more sophisticated and upgrading rapidly in this respect. In the end other variables related to the post acquisition phase were measured, such as the change brought to the organization, the learning process started by the Chinese firm, and the language and cultural difficulties encountered during the integration phase. These findings are of interest because they build on previous researches on the topic, sustaining or confuting some of their propositions, which are anyway in need of empirical evidence, as well as updating some of the results that do not find correspondence in today's changed environment. A point particularly interesting is to understand how Chinese MNEs take advantage of the strategic assets they have acquired, as it has been here found that the organizational learning is not always strong.

TABLES AND FIGURES:

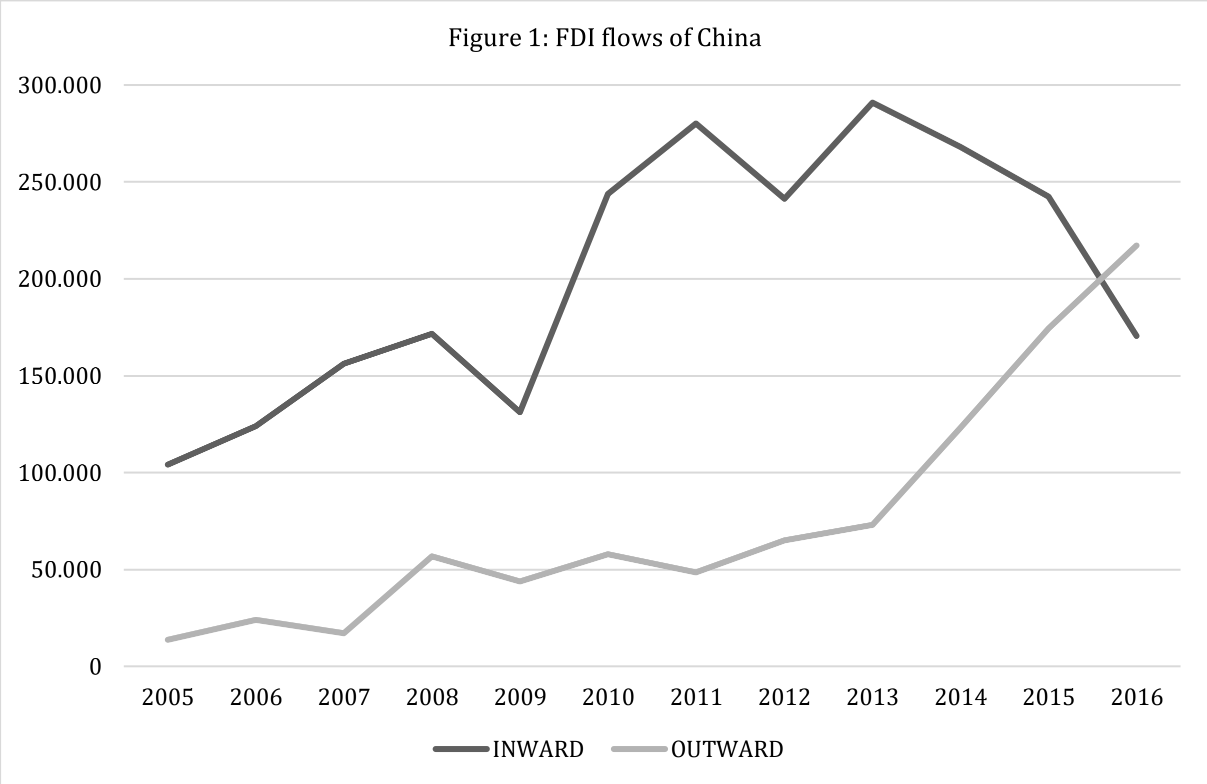

Figure 1. FDI flows of China in Million USD.
Source: OECD Data.

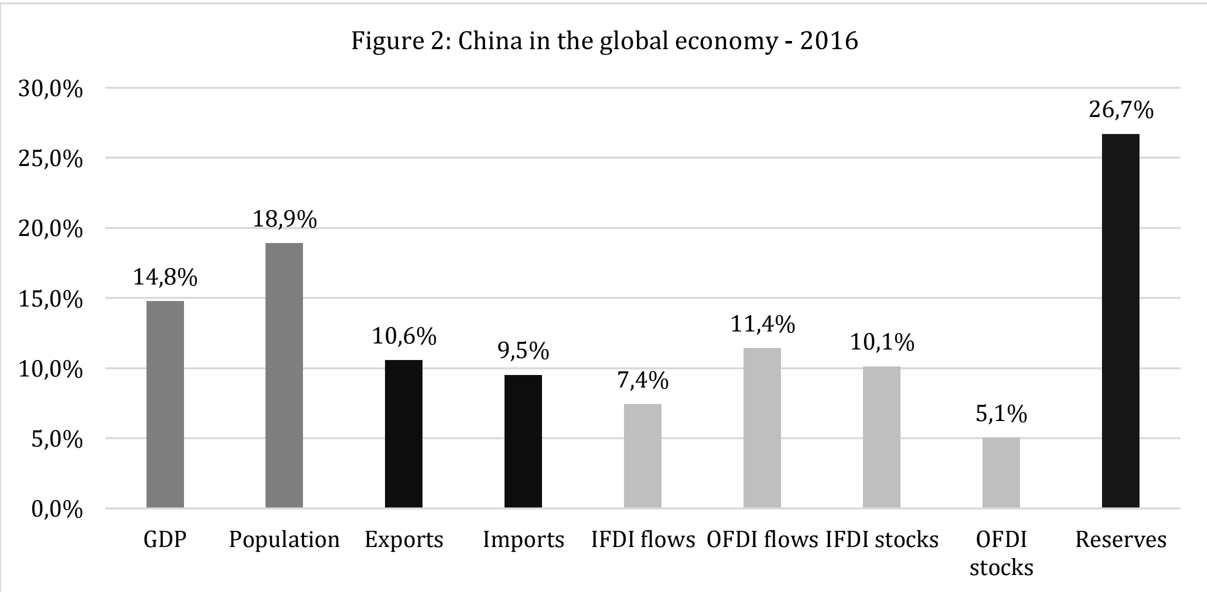

Figure 2. China presence in the global economy.
Source: Data from Unctad, OECD.

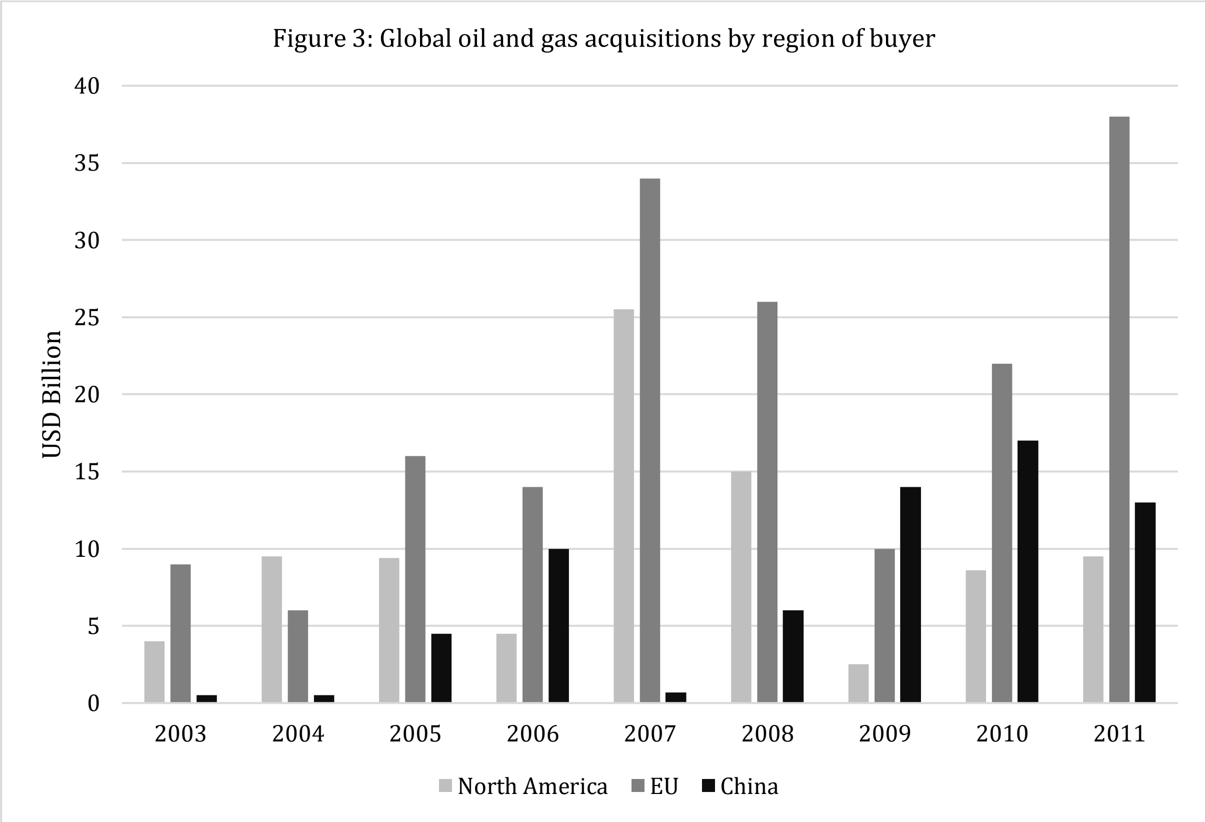

Figure 3. Global Oil and Gas acquisitions by region of Buyer
Source: Data from Bloomberg

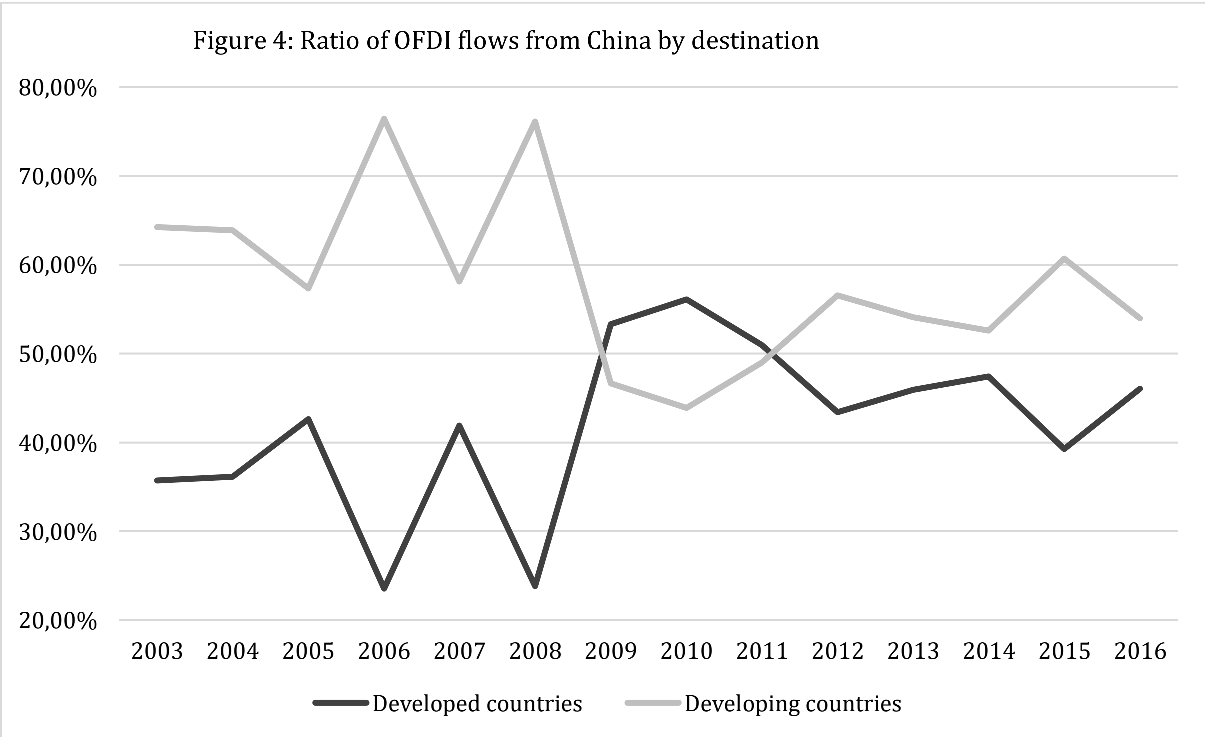

Figure 4. Ratio of FDI flows from China for developed and developing countries
Source: Elaboration of MOFCOM data

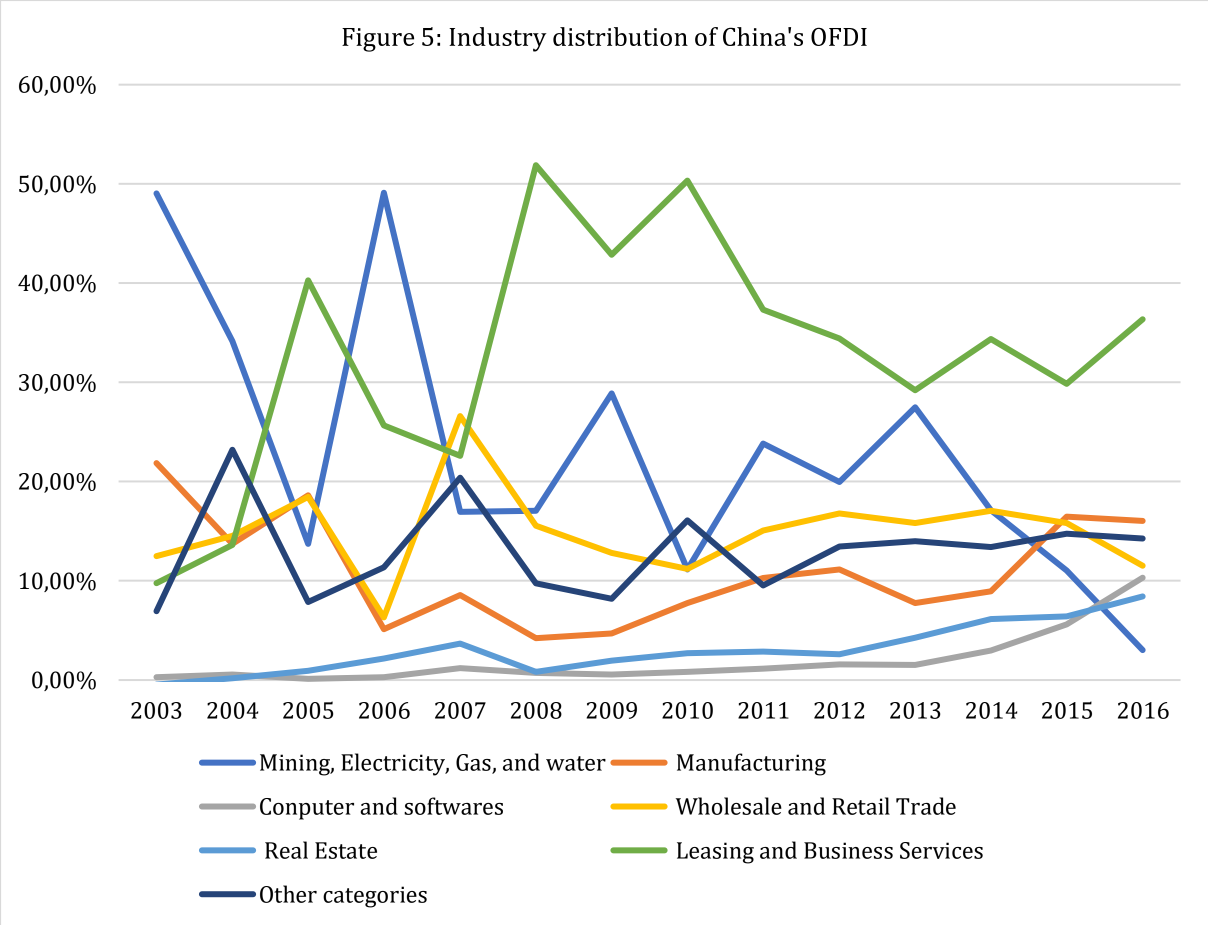

Figure 5. Industry distribution of Chinese OFDI
Source: Elaboration of MOFCOM data

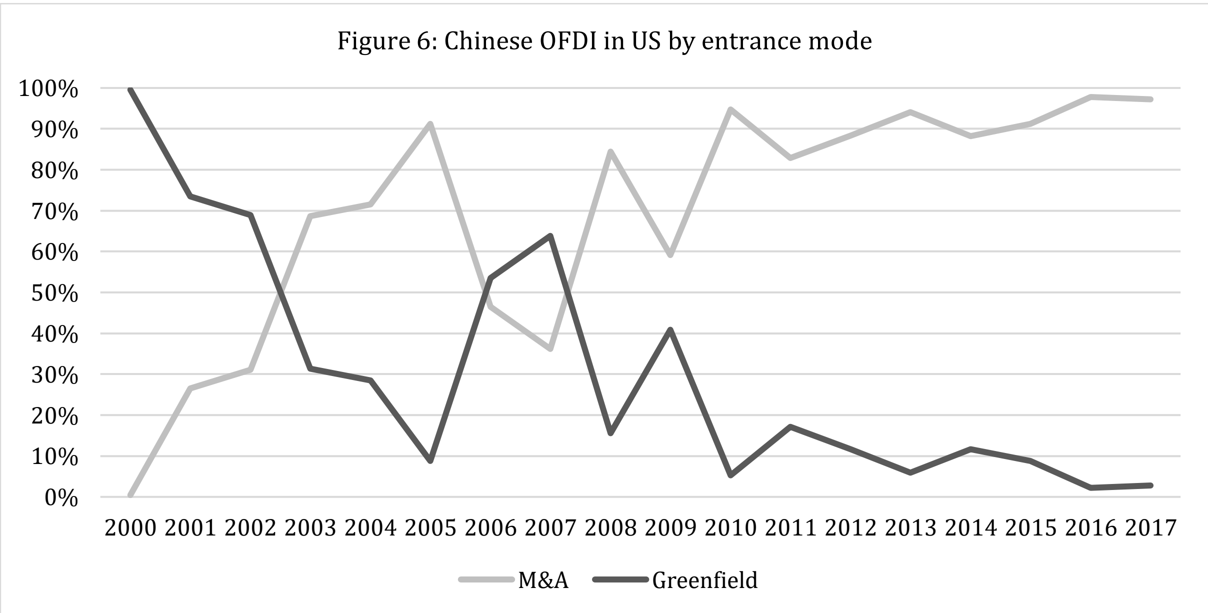

Figure 6. Chinese investments in the US by entrance mode
Source: Elaboration of data from the Rhodium Investment Monitor

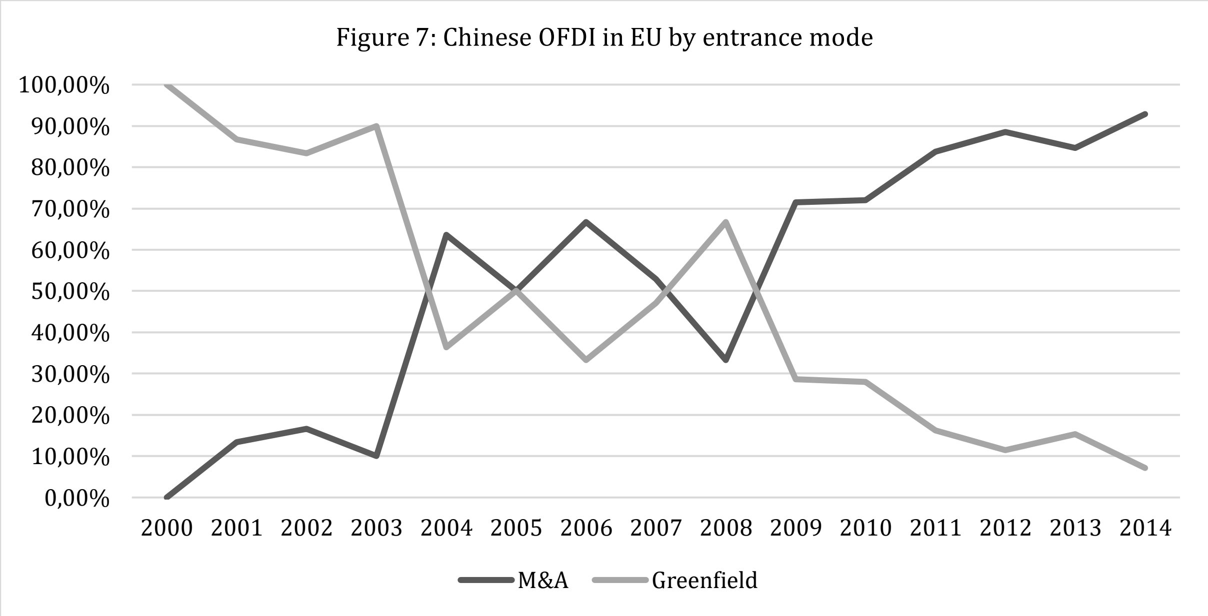

Figure 7. Chinese investments in Europe by entrance mode.
Source: Elaboration of data from the Rhodium Group

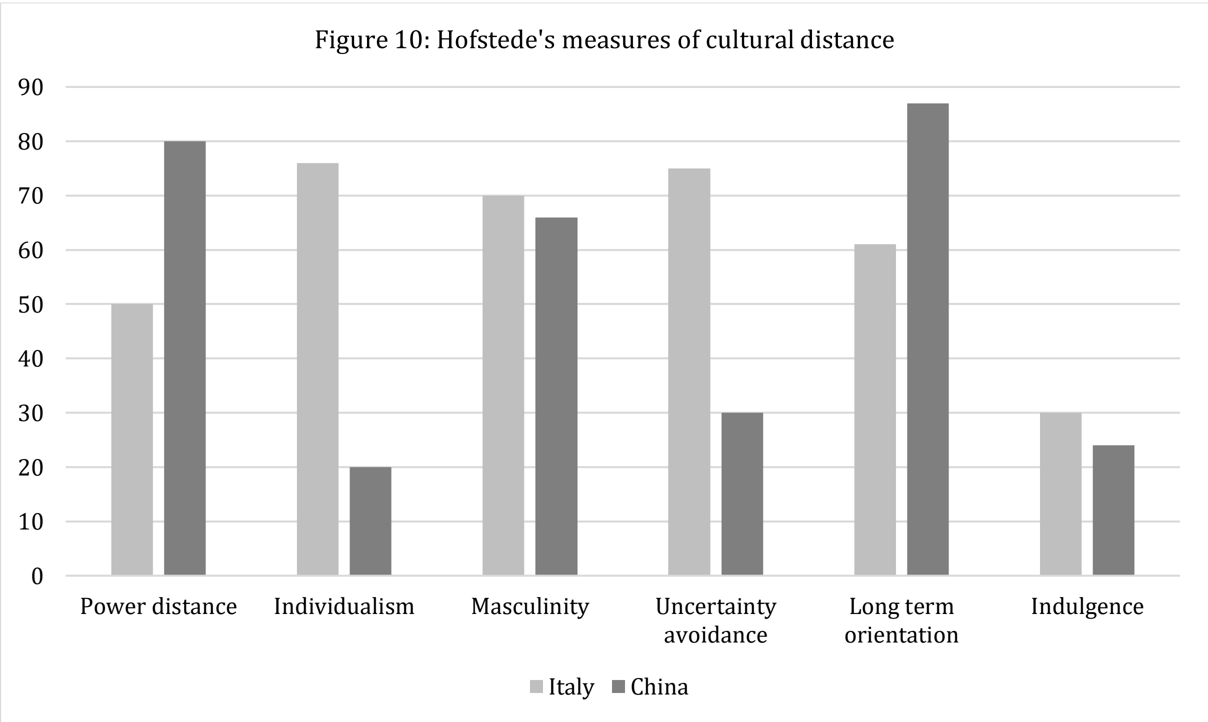

Figure 10: Hofstede's measures of cultural distance between China and Itly
Source: https://www.hofstede-insights.com/

	2016	2017	2018	2019	2020	2021	2022
Estimate GDP growth	6,7%	6,7%	6,4%	6,4%	6,3%	6,0%	5,8%
GDP	11.806	12.597	13.404	14.261	15.160	16.070	17.002
OFDI stock 12% ratio	1.417	1.512	1.608	1.711	1.819	1.928	2.040
OFDI stock 34% ratio	1.417	1.798	2.275	2.879	3.640	4.588	5.773
OFDI stock Medium value	1.417	1.655	1.942	2.295	2.729	3.258	3.907

Table 1: Estimations of future Chinese OFDI in trillion USD.
Sources: Elaboration of data from IMF country report on China n. 17/247, World Bank

List of Abbreviations

CA – Competitive advantage

EMNE – Emerging market's multinational enterprise

FDI - Foreign direct investment

IB – International business

IFDI - Inward foreign direct investment

IT – Institutional theory

MNE – Multinational enterprise

MOFCOM – Ministry of foreign trade and commerce

OFDI - Outward foreign direct investment

RBV – Resource based view

SOE - State owned enterprise

TCT - Transaction cost theory

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