

**THE ROLE OF PUBLIC ADMINISTRATIONS
IN FACILITATING FOREIGN DIRECT
INVESTMENTS.**

THE CASE OF CHINA AND ITALY

4TH SAI-SSPA BILATERAL SEMINAR

ROME, 18 JUNE 2013

**MINISTERO DELL'ECONOMIA E DELLE FINANZE,
VIA PASTRENGO, 1 - SALA CONFERENZE RGS**

**An overview of FDI between Italy and
China:**

**stylized facts, prospects and policy
implications**

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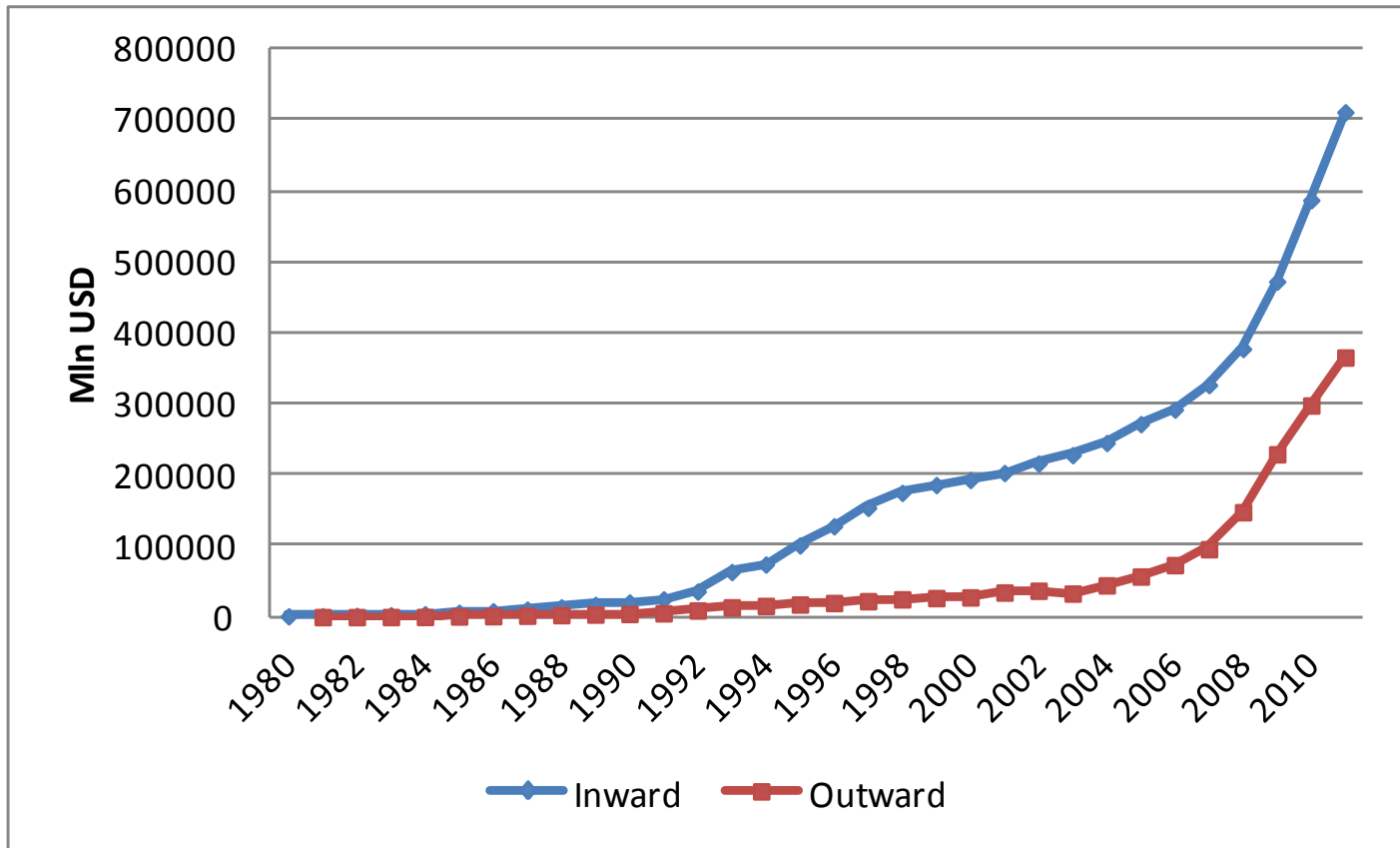
OUTLINE

- Facts: what is the state of art in bilateral FDI China-Italy?
 - an overview on recent developments
 - reciprocal vocation
- Prospects and trends:
 - a potential to be exploited:
 - **new sectors** of investment
 - **cultural and political obstacles to be tackled**
- Policy issues and ongoing strategies:
 - **Institutional and regulatory capacity building and convergence**

STYLISTED FACTS

- China has been the largest recipient of foreign direct investment (FDI) among the developing countries for over a decade.
- In 2011, China ranked 2nd among all economies in terms of inward FDI flows and 7th in terms of inward FDI stocks.
- China recently also entered the top 10 ranked home economies for FDI.
- In 2011, China ranked 9th among all economies in terms of outward FDI flows and 15th in terms of stocks.

CHINA INWARD AND OUTWARD FOREIGN DIRECT INVESTMENT STOCKS



Source: Unctad, 2012

FDI TO CHINA: GLOBAL RANKING

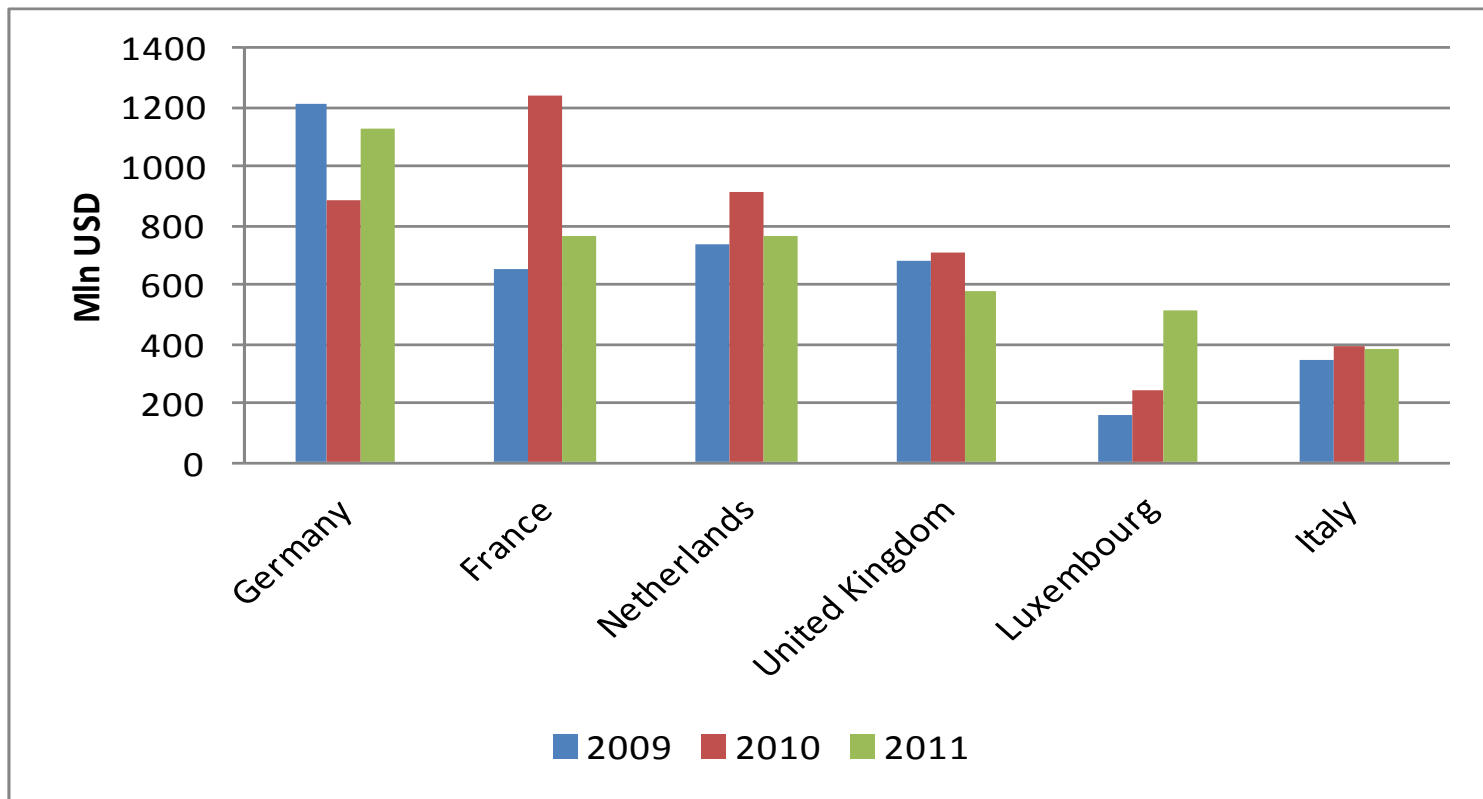
- In terms of global FDI flows to China, in 2011 **Italy is only the 21st investor**

		2009	2010	2011			2009	2010	2011
	Total	90032	105732	116009		Total	90032	105732	116009
1	Hong Kong	46075	60566	70500	13	Netherlands	741	914	761
2	Virgin Islands	11296	10447	9724	14	Bermuda	257	359	743
3	Japan	4104	4083	6329	15	Macao	814	655	680
4	Singapore	3604	5428	6096	16	United Kingdom	679	710	581
5	Korea, Republic of	2700	2692	2551	17	Switzerland	327	261	554
6	United States	2554	3017	2369	18	Luxembourg	160	245	514
7	Cayman Islands	2581	2498	2241	19	Canada	861	634	468
8	Taiwan	1880	2475	2183	20	Seychelles	117	228	433
9	Samoa	2020	1773	2076	21	Italy	351	396	387
10	Mauritius	1103	928	1139	22	Malaysia	428	294	358
11	Germany	1216	888	1128	23	Barbados	557	355	310
12	France	653	1238	768	24	Australia	394	325	309

Source: China Statistical Yearbook, 2012

FDI FROM ITALY TO CHINA: EU RANKING

- In terms of EU FDI flows to China, in 2011 Italy only ranked 6th

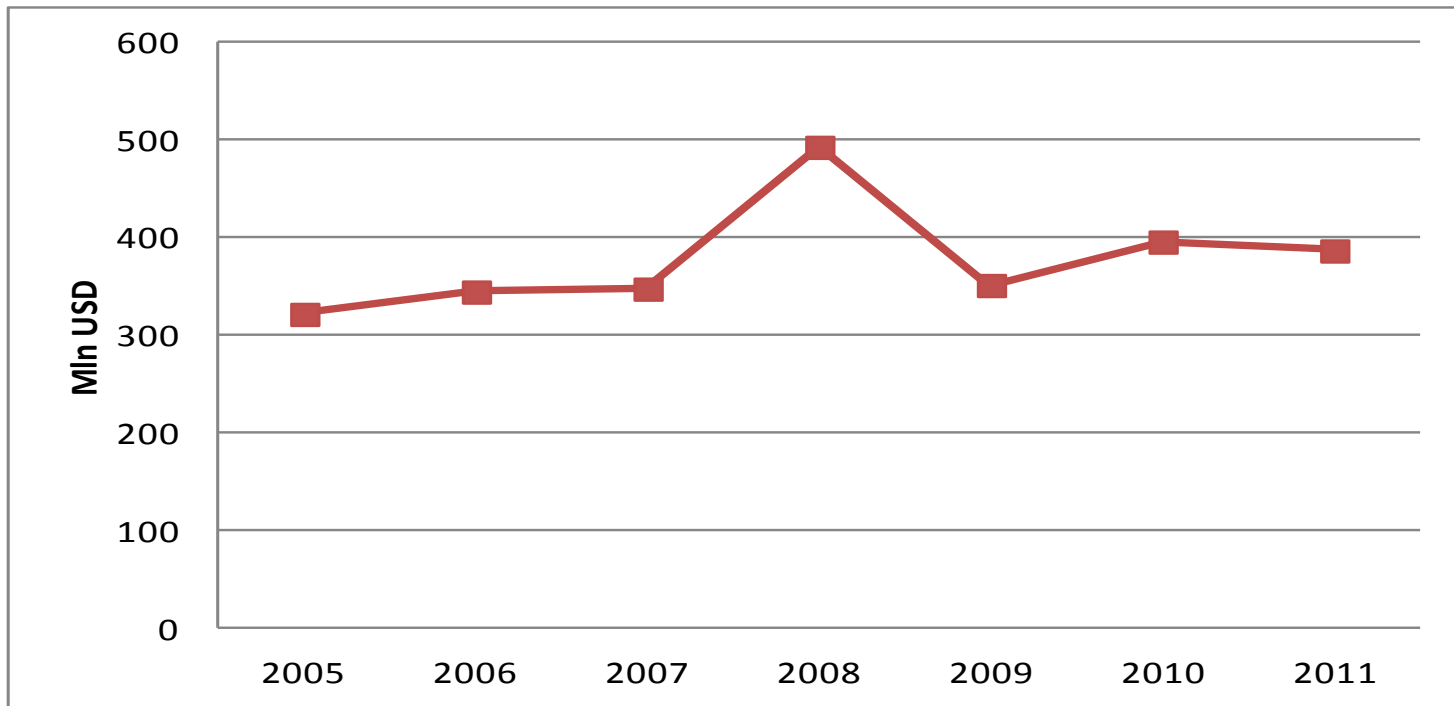


Source: China Statistical Yearbook, 2012

TRENDS IN FDI FROM ITALY TO CHINA

- Flows consistently increased from 2005 to 2011, with just a small decline in 2008 and a considerable recovery in 2009.

FDI from Italy to China



Source: China Business Insight, TÜSIAD, 2012.

ITALIAN FDI OUTWARD STOCKS TO CHINA BY SECTOR (2011)

Mining and quarrying	2
Manufacturing	5238
Manufacture of food products; beverages and tobacco products	43
Manufacture of textiles and wearing apparel; wood, paper	149
Manufacture of chemicals, pharmaceutical products	448
Manufacture of basic metals and metal products, machinery and equipment	2681
Manufacture of motor vehicles, air and spacecraft, and of other transport equip.	919
Manufacture of electronic, electric machinery, others	998
Electricity, gas, water	10
Construction	60
Services	1891
Wholesale and retail trade and repair of motorcycles	782
Transportation and storage	130
Accommodation and food service activities	3
Financial and insurance activities	740
Other services	236
Total (Mln euro)	7201

Source : Relazione Annuale Banca d'Italia, 2013

ITALIAN FIRMS IN CHINA (END 2011)

	Number of firms	Number of employees	Turnover (Millions Euro)
Mining and quarrying	3	36	2
Manufacturing	669	70,170	6,103
Food products, beverages, tobacco products	30	5,189	993
Textiles	23	1,636	174
Wearing apparel	31	3,295	143
Leather and related products	21	1,194	51
Wood and product of wood and cork, except furniture; articles of straw and plaiting materials	4	273	4
Paper and paper products; printing and reproduction of recorded media	6	348	11
Coke and refined petroleum products	1	31	1
Chemicals and chemical products	28	1,187	204
Basic pharmaceutical products and pharmaceutical preparations	11	216	23
Rubber and plastic products	47	4,523	349
Other non-metallic mineral products	32	2,774	130
Basic metal; metal products, except machinery and equipment	65	4,259	224
Computer, electronic and optical products	64	11,570	786
Electrical equipments and domestic non electrical equipments	79	10,426	765
Machinery and equipment n.e.c.	142	9,025	718
Motor vehicles, trailers and semi-trailers	52	9,793	1,279
Other transport equipment	6	2,395	105
Furniture	18	1,694	130
Other manufacturing	9	342	13
Electricity, gas, water supply	4	14	7
Construction	7	89	9
Wholesale	346	6,816	911
Transportation and logistic	13	71	31
Information and communication	7	42	9
Other professional services	54	7,722	515
Total	1,103	84,960	7,587

Source: Banca dati Reprint, Politecnico di Milano – ICE

A STRONG ATTRACTION ON ITALIAN INVESTORS

- **Italian investors are attracted to China** in traditional manufacturing and specialised sectors in which both countries have a strong specialisation such as:
 - **Food and beverage**
 - **House system** (building materials, furniture, house appliances, lighting equipment, bath furniture, etc.)
 - **Machinery** (packaging, textile machinery, light machinery, food and zootechnics processing, wood and plastic processing)
- **but also in new ones where market potential is big** such as :
 - **Fashion and Luxury** (China expected to pass Japan as bigger buyer of luxury products)
 - **Bio-technology and medical appliance**
 - **Harbors infrastructure and boating**
 - **Design and styling for Chinese products**
 - **Tourism (in both directions)**
 - **Infrastructure in renewable energy and environmental sector** (Sino-Italian cooperation for environmental protection , SICP).

TRENDS IN FDI FROM CHINA TO ITALY

- in 2010 Italy ranked only **9th among EU destination countries** with a share of Chinese investment stock to EU of only 1.8% (3.3% excluding Luxembourg).

China outward FDI stock and flows to main host EU countries (millions USD)

	Stock 2010	(% of Europe (Russia excluded))	Flows 2007	Flows 2008	Flows 2009	Flows 2010
Luxembourg	5787	46.3	4.19	42.13	2270.49	3207.19
Germany	1502	12.0	238.66	183.41	179.21	412.35
Sweden	1479	11.8	68.06	10.66	8.1	1367.23
United Kingdom	1358	10.9	566.54	16.71	192.17	330.33
Netherlands	487	3.9	106.75	91.97	101.45	64.53
Hungary	466	3.7	8.63	2.15	8.21	370.1
Spain	248	2.0	6.09	1.16	59.86	29.26
France	244	1.9	9.62	31.05	45.19	26.41
Italy	224	1.8	8.1	5	46.05	13.27
Poland	140	1.1	11.75	10.7	10.37	16.74
Europe (Russia excluded)	12497	100.0	1044.12	466.62	2966.43	5963.06
World	317211		26506.09	55907.17	56528.99	68811.31

Source: MOFCOM, 2010 Statistical Bulletin of China's Outward Foreign Direct Investment.

A STRONG ATTRACTION ON CHINESE INVESTORS

- Italy is specialized in such sectors as automotive, textiles and clothing, machinery and home appliances
- Italy's specialization is a strong attractor for Chinese companies which are currently trying to upgrade their production and technological capabilities and build their own “global champions” in these industries
- **Chinese companies investment in Italy are a mix of market seeking and strategic asset seeking motivations**

MOTIVATIONS OF CHINESE INVESTORS

- **market seeking investment:**
 - the **size** of the domestic market and access to EU market through Italy
 - higher **demand sophistication** in Italy
 - more **challenging market requirements**
 - improve **brand reputation**
- **strategic assets seeking motivations are growing aimed to:**
 - acquire **new well known brand names and design skills**
 - access **technologies and know how in mature industries**
 - penetrate **industrial districts** brands and networks, managerial knowledge and scale economies at sector level localized
 - **become part of global value chains**
 - **access Italian firms distribution networks and reputation**
 - **managerial and marketing skills**
 - **intensification of cross-border mergers and acquisitions**

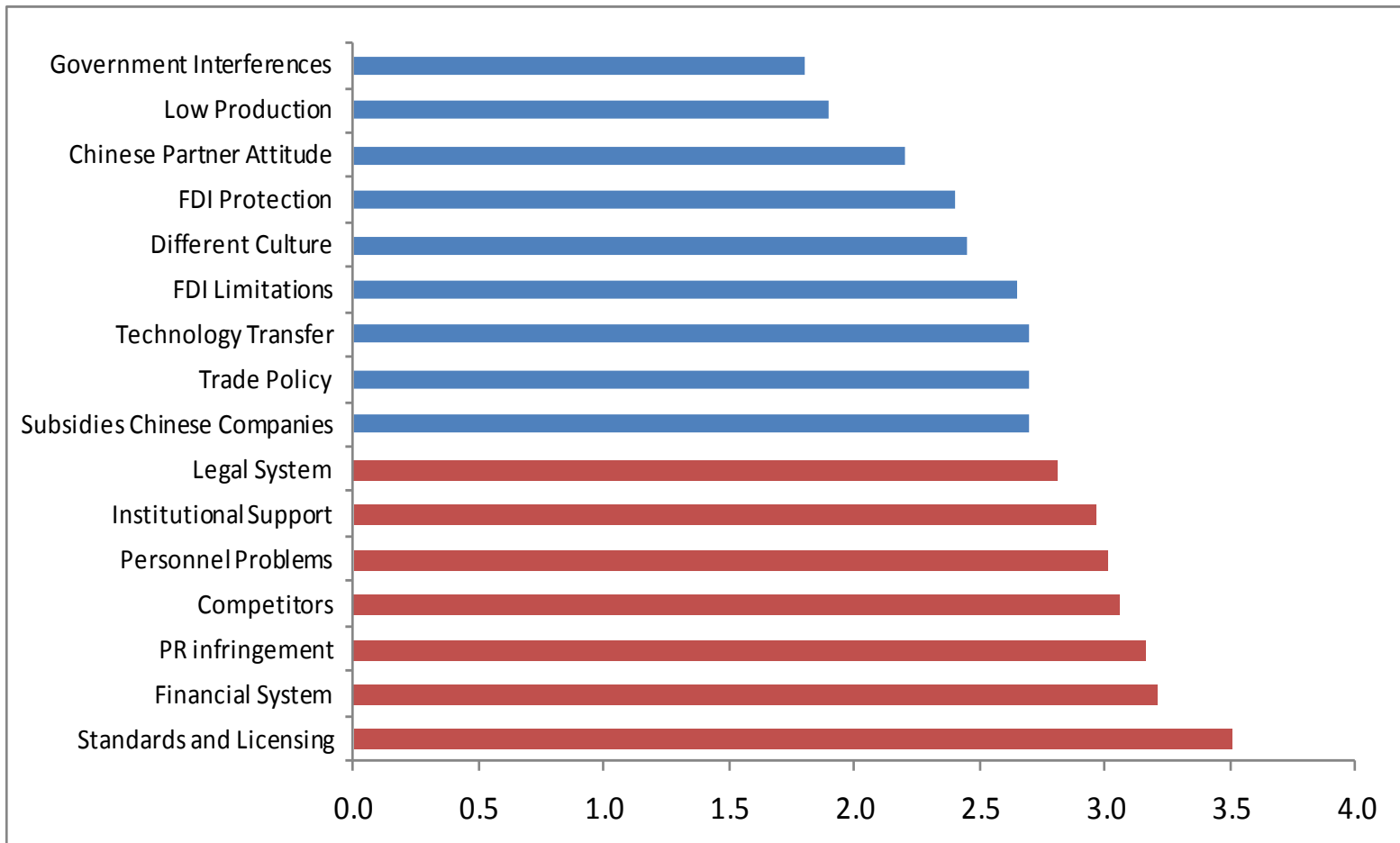
SOME M&A OPERATIONS OF CHINESE FIRMS IN ITALY

Year	Acquired firm	Acquiring firm	Sector	Activity	Share (%)
2001	Meneghetti	Haier	White goods	Refrigerators	100
2004	Wilson	Wenzhou Hazan	Shoes	Design and production Center	90
2005	Benelli	Quianjiang	Motorcycles	Motorcycles Production	100
2006	Elios	Feidao Electrics	Electronics	Lighting production	90
2007	Hpm Europe	Hunan Sunward Intelligent Machinery	Machineries	Wholesale trade of machineries for land removal	51
2007	Omas	Xinyu Hengdeli Holding	Luxury goods	Pens production	90
2007	Gruppo Tacchini	Hembly	Textile and clothing	Sportswear production	100
2008	Cifa	Changsha Zoomlion	Mechanical	Machineries production	60
2009	Elba	Haier	White goods	White goods production	20

Source: Pietrobelli et al. (2011).

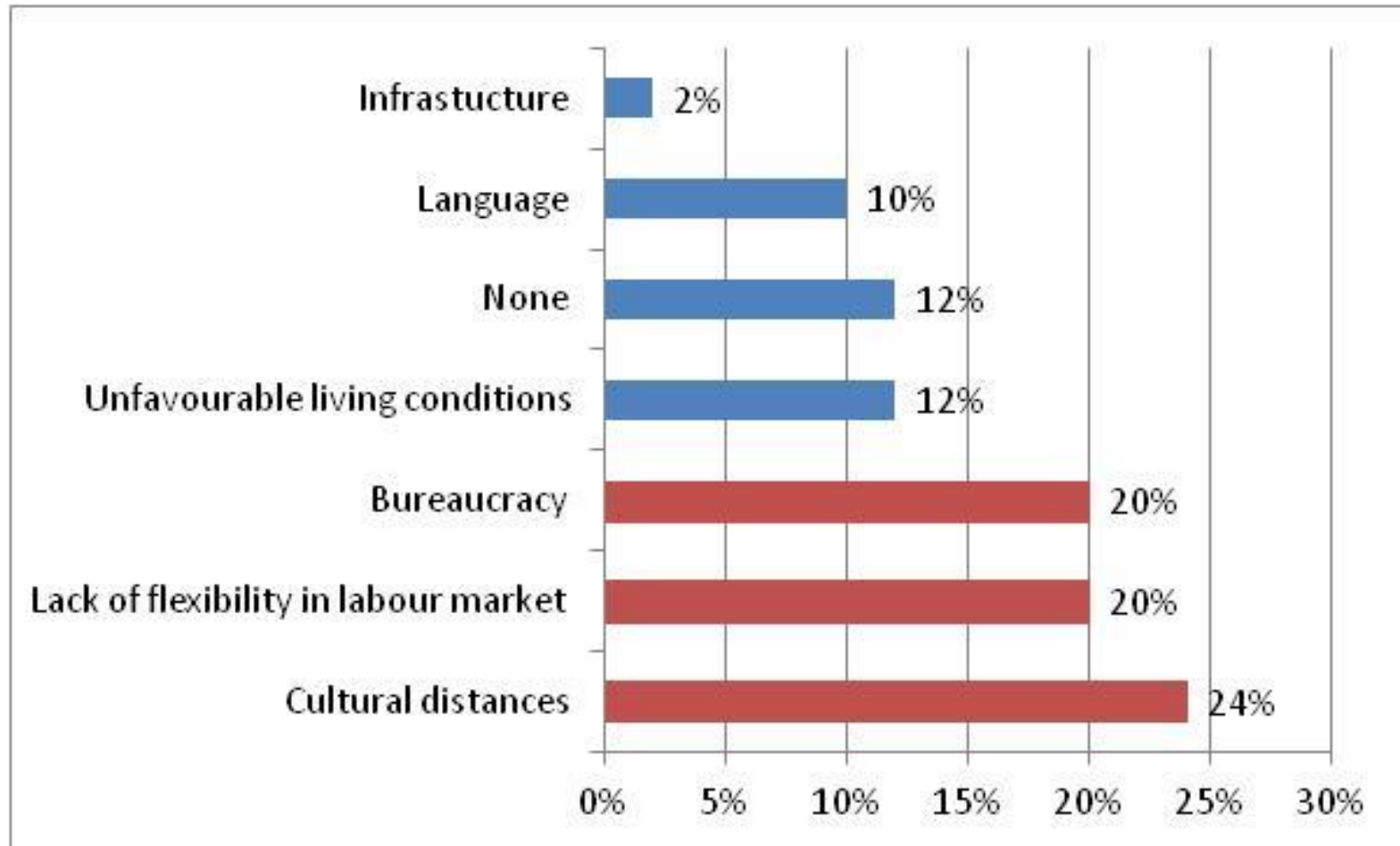
- an important untapped reciprocal FDI potential
- ... but big challenges

FDI OBSTACLES AND PROBLEMS FACED BY THE ITALIAN FIRMS IN THE GUANDONG REGION



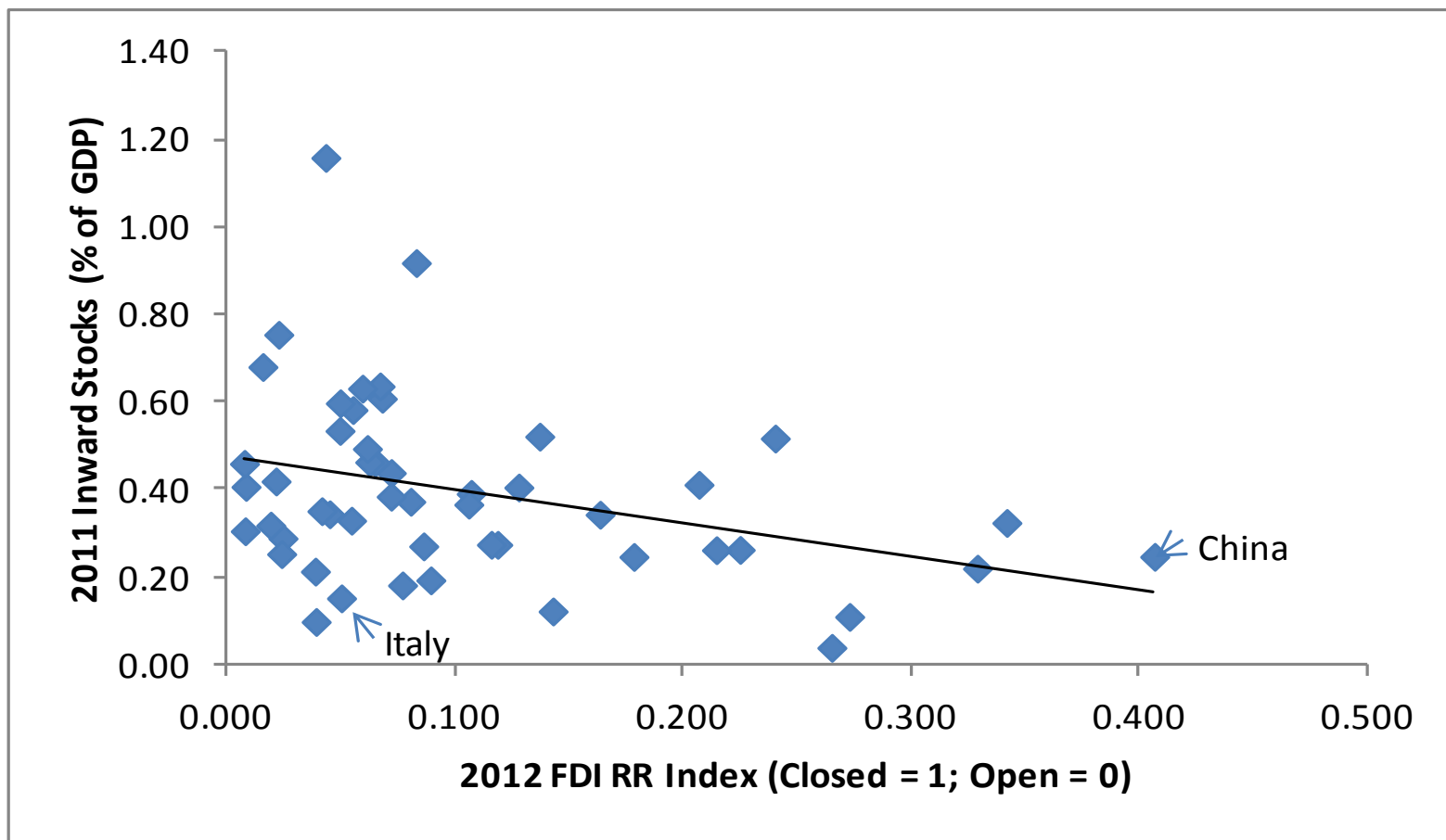
Source: Vanino (2012)

MAIN PROBLEMS ENCOUNTERED IN ITALY BY CHINESE INVESTORS



Source: Gattai (2009)

INWARD FDI REGULATORY RESTRICTIVENESS AND INWARD FDI STOCK



Sources: OECD Statistics and Worldbank.

CRITICAL FACTORS FOR ATTRACTIVENESS: A COMPARISON BETWEEN ITALY, FRANCE, GERMANY, CHINA

	ITALY	FRANCE	GERMANY	CHINA
Research and Development (Eurostat, 2010; National Bureau of Statistics of China, 2010) Gross domestic expenditure on R&D to GDP (%)	1.26	2.24	2.8	1.76
HUMAN CAPITAL (Eurostat, 2012; OECD, 2012) % of tertiary students in science, mathematics and computing Entry rate at the tertiary level	7.67 50	12.31 -	14.16 40	- 17
INFORMATION AND COMMUNICATION TECHNOLOGIES (Unctad, 2008) Value added in the ICT sector (% of total business sector value added)	6.3	7.8	7.1	4.7
STOCK MARKET (World Bank, 2010) Stock market capitalization to GDP (%)	15.17	74.65	40.57	83.79
ROAD DENSITY (World Bank, 2010) km of road per 100 sq of land area	162 (2005)	187.3	180.3	41.8
RAILWAYS (World Bank, 2011) km of railways per 100 sq of land area Goods transported (million ton-km)	5.97 12037	6.12 22840	9.44 105794	0.69 2451185
ADMINISTRATIVE SYSTEM (Doing Business, 2012) Procedures required to start a business (number) Days required to start a business (number)	6 6	5 7	9 15	13 33
JUDICIAL SYSTEM (Doing Business, 2012) Time required to enforce a contract (months)	40	13	13	14

Sources: Eurostat; National Bureau of Statistics of China; Unctad; Worldbank.

BUSINESS CLIMATE IN ITALY AND CHINA VIS-À-VIS OTHER EU COUNTRIES

Position in the rank for some EU countries and China

	Italy	France	Germany	Netherlands	United Kingdom	China
Ease of Doing Business Rank (out of 185)	73	34	20	31	7	91
Starting a Business	84	27	106	67	19	151
Dealing with Construction Permits	103	52	14	89	20	181
Getting Electricity	107	42	2	67	62	114
Getting Credit	104	53	23	53	1	70
Protecting Investors	49	82	100	117	10	100
Paying Taxes	131	53	72	29	16	122
Enforcing Contracts	160	8	5	32	21	19
Resolving Insolvency	31	43	19	6	8	82

Sources: Doing Business, 2013

STRENGTHNESS AND WEAKNESS OF THE ITALIAN MARKET FOR INVESTORS

Market potential	+
Regional potential	+
Infrastructure	-
Fiscal incentives	+
Fiscal pressure	-
Specialization model	-/+
Firm property	-/+
Local supply	+
Management	-/+
Government system and justice	-
Labour cost	?

POLICY ISSUES

- Although Italian investors identify China as a location that holds great unexploited potential, **growing concerns about the lack of a level playing field in China as well as persistent barriers and uncertainty in the business environment.**
- In Italy, Chinese investors also perceive **many problems: from bureaucracy and lack of labour market flexibility, to cultural distance and unfavorable living conditions**
- some new M&As projects between the Chinese and the Italian management are encountering **communication and cultural problems**
- **What to do?**

ONGOING STRATEGIES: INSTITUTIONAL AND REGULATORY CAPACITY BUILDING AND CONVERGENCE IN REGULATION

- **Measures for cooperation:**
 - **Spread information** to overcome the general lack of knowledge and cultural distance especially among Italian and Chinese SMEs
 - **Boost exchange in technology**
 - **Promote exchange of experts to overcome cultural and political obstacles**
- **Areas for cooperation:**
 - **Legal and regulatory framework**
 - **Business environment**
 - **Logistics**
 - **Capital and social infrastructures**
- **Tools:**
 - **Build administrative coalitions for better policies**
 - **Design and implement research and institutional networks China-Italy**
 - **Create Joint Commissions to develop pro-competitive efforts at institutional level**

THANK YOU!