



FDI in China: obstacles and problems for Italian companies with particular reference to SME's

Antonino Laspina
Director of Ice Beijing and Coordinator of Ice
offices in China



FDI has played
a crucial part in driving China's economy
transformation
over the last 30 years supported by the
Chinese government's consistent tax
incentives and other regulations



China economic reforms, which began in 1978, have gradually opened up the economy to both international trade and FDI and allowed the emergence alongside the public sector of a private sector whose contribution to the GDP, since 2003, is nearly 60%



The economic reform process has been constant and has necessitated a number of changes in China's trade and investment policy framework



A large number of trade and investment related laws have been reviewed and revised, in particular, after China's accession to WTO in 2001



China's gradual reforms
have often resulted in an
overlap
of policies and institutions



While new policies and institutions are continually introduced to address the ever-changing needs of the economy, old policies and institutions are only partially amended or dismantled, thus adding to the complexity of the overall legislative and policymaking framework



Legislation

includes
laws enacted by National People's Congress,
or its Standing Committee
and *regulations* issued by The State Council (executive)

Ministries and government departments may issue rules
or implement
legislation

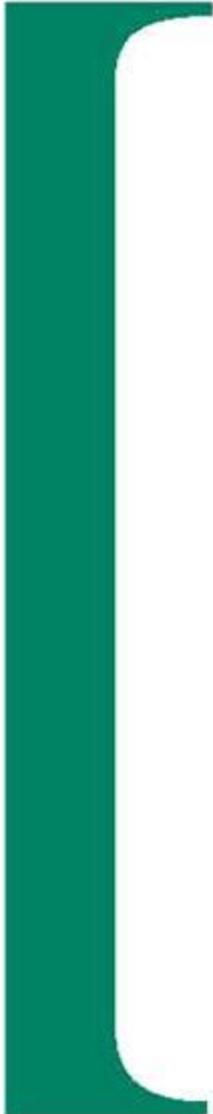


Local People's Congresses and local governments have the authority to issue local regulations and rules until these are superseded by the same legislation at national level



**The overall investment climate
has been constantly monitored
and improved as confirmed by
the huge flow of foreign capital
into China**





Nevertheless,
effective enforcement
of legislation on IPR is a
problem



Steps have been taken to ensure better enforcement and coordination between the various government agencies involved in enforcement.



However, relatively low fines and other penalties appear insufficient to deter IPR violations, particularly the IPR of SME's and more specifically the IPR of Italian SME's



Italian FDI in China

First phase

Slow landing of Italian
companies in China

Some big companies

Second Phase(from 2001)

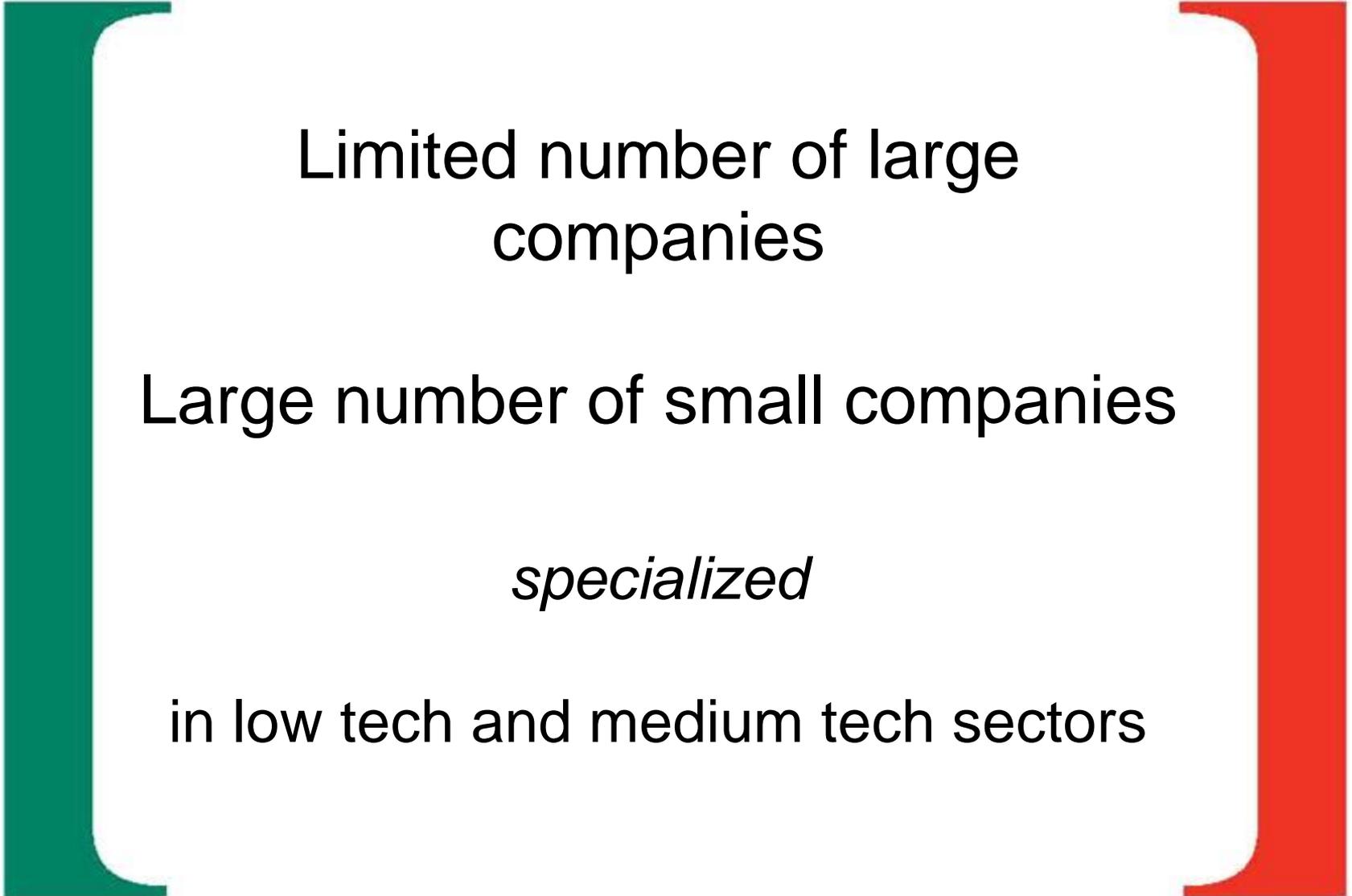
Italian companies more active
in investing in China
in traditional sectors of Italian
specialization





Italian investment
abroad
traditionally below the level
of other European nations

Same phenomenon in
China



Limited number of large
companies

Large number of small companies

specialized

in low tech and medium tech sectors



Only 1.72 of IFDI goes to
China
with more than 1000
affiliates of Italian firms

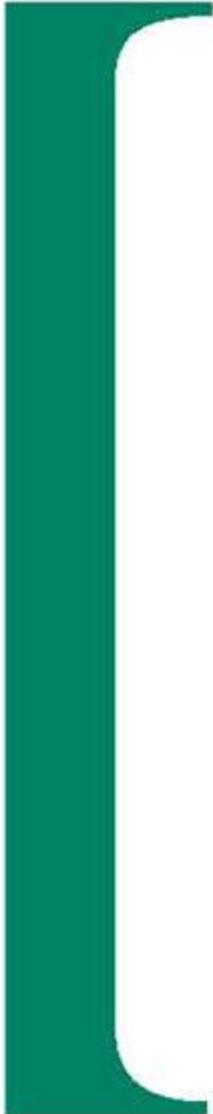


Main motives behind IFDI investments in China:

- efficiency in production
- new market (in China for China)

More and more
Italian companies
are interested
in the expansion of the
domestic market
“in China for China”



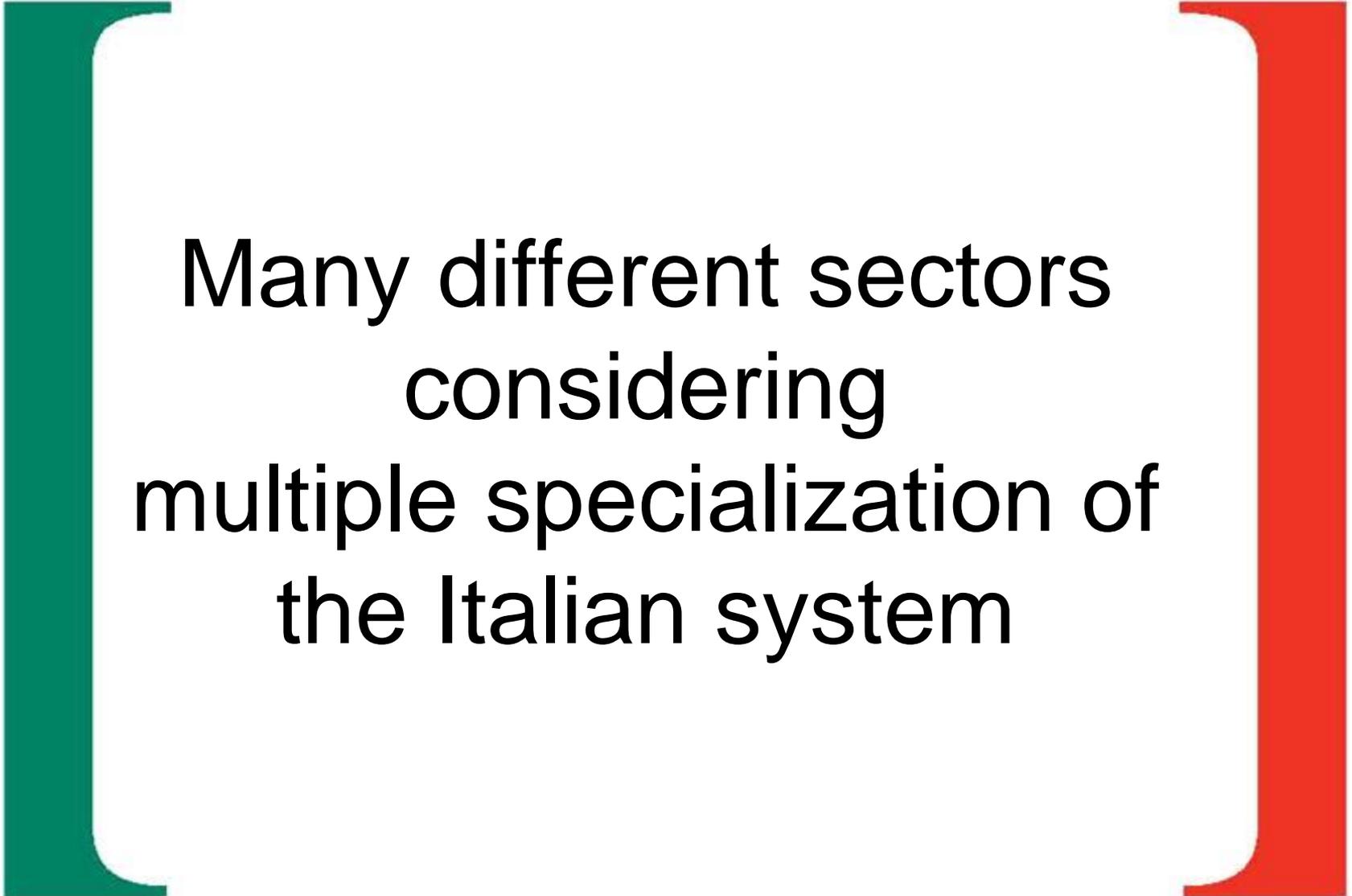


The entry mode is largely
determined
by size and sectors of
activity
with prevalence of JV
on Woe's



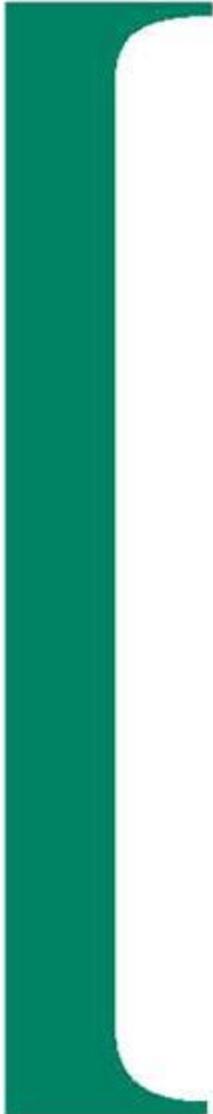
Total investment around
13 billion US (estimate)
and
average investment
of little more than 1 million
US





Many different sectors
considering
multiple specialization of
the Italian system





From
machinery to textile,
from automotive to
plastics and rubber,
from consumer
electronics to
food



Investments in retail are
expanding
and all sectors of
consumer goods
are involved,
now even in cities of the
second tier

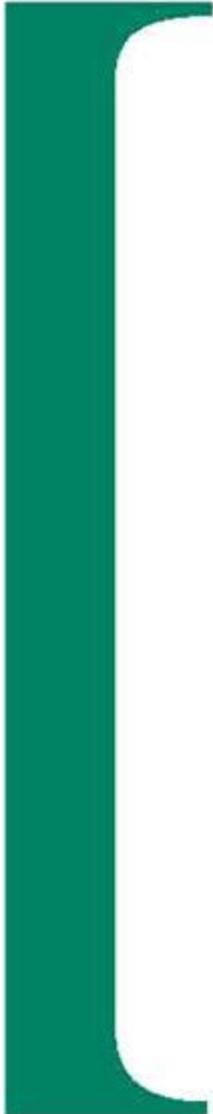


China's policies
have strongly influenced
the geographic areas for
FDI and
consequently for IFDI,
since the first phase of the
open door policy



Preferred areas for IFDI
are
Shanghai, Guangdong,
Beijing, Tianjin, Jiangsu,
Zhejiang



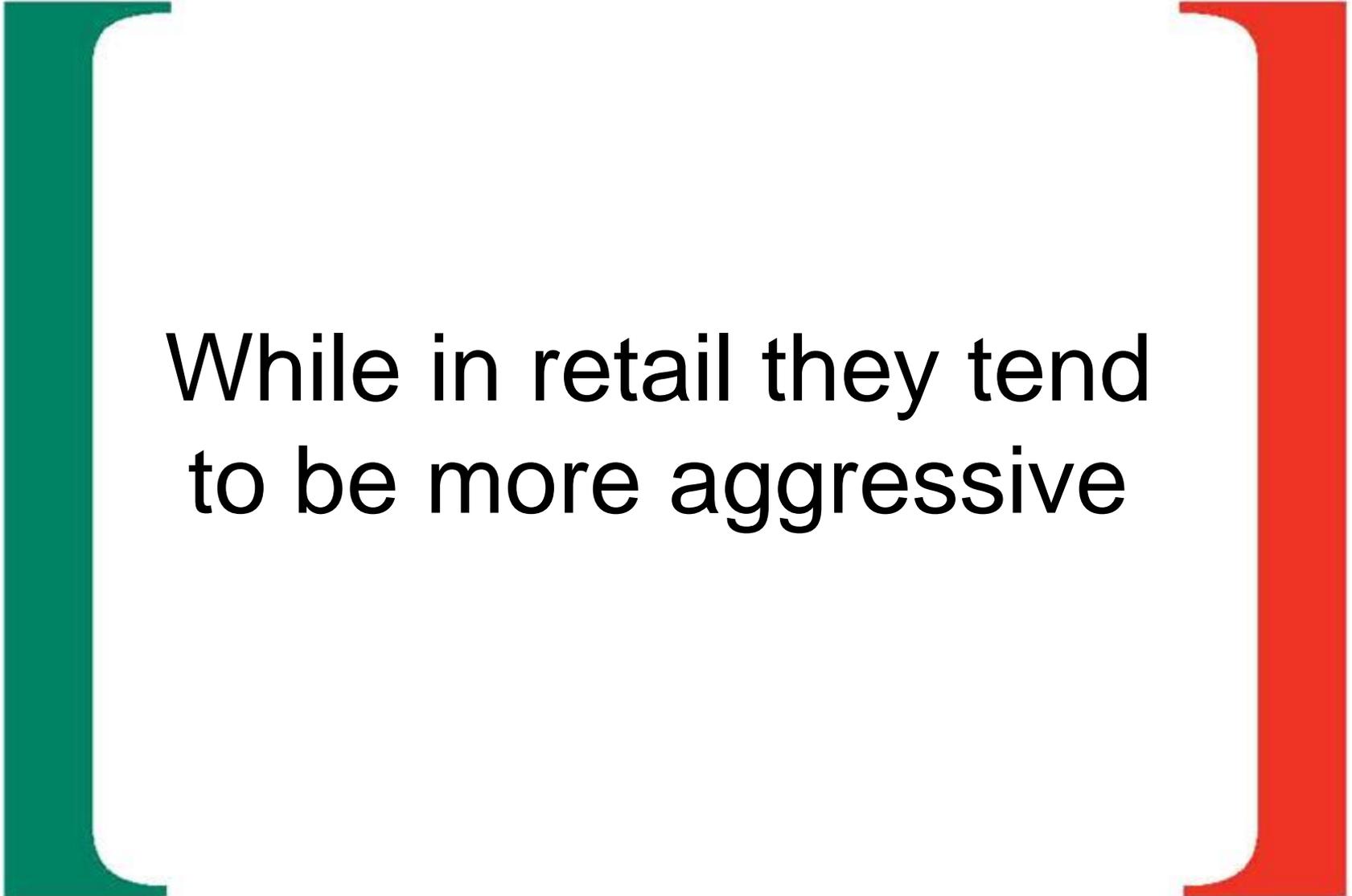


More recently Chongqing and Changsha



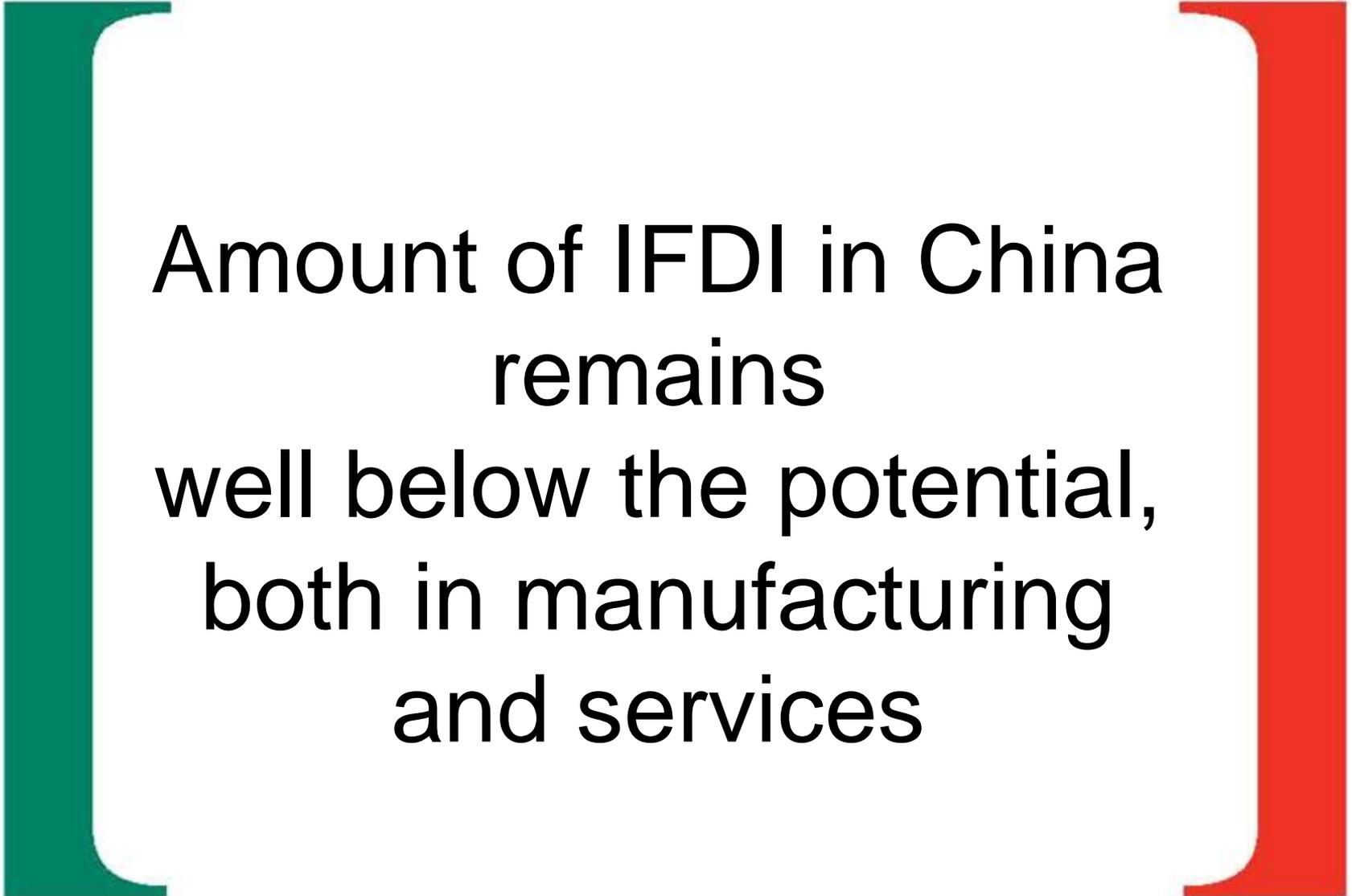
Italian investors in manufacturing tend to go where other (foreign) investors of the same sector are





While in retail they tend
to be more aggressive





Amount of IFDI in China
remains
well below the potential,
both in manufacturing
and services



And many experts believe that due to the present economic situation in Italy and the present regulations in China, IFDI will continue to perform in line with the past





Unless.....



As expressed by the
Position Paper of the
European Union
Chamber Of Commerce,
China will revise the FDI
policy

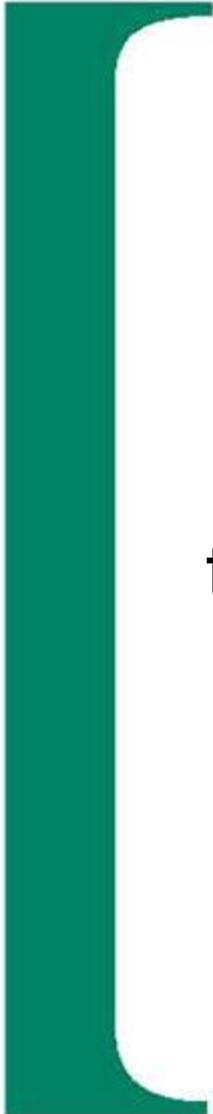


China has recently shifted
from priority to attraction of
FDI to the promotion of
Chinese FDI
abroad, with green-field
investment and M&A



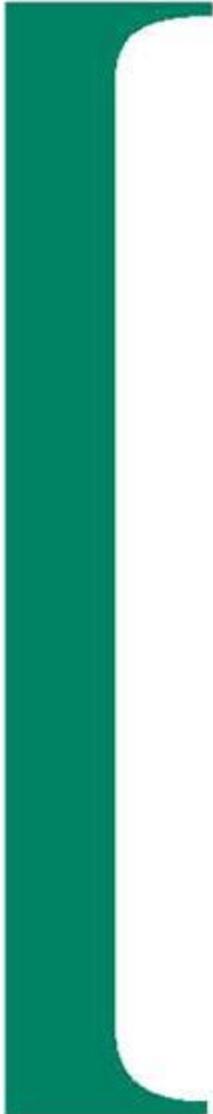
Several new restrictions
and protectionist measures
are now going to make
more difficult for Italian FDI
to land in China





In addition to the traditional difficulties, IFDI are going to face other obstacles such as forced transfer of technology in return for market access, less subsidies, less R&D funds and growing risks from IPR violations





In the past,
IFDI faced
cultural, legal and
administrative
obstacles



They have been victims
of the
‘Fortune 500 obsession’



Or the obsession in every level of the Chinese administration to deal with, to welcome and *handle with attention* big corporations, looking for large investment and not for *quality* investment



Authorization procedures
have been conceived for big
corporations and SME's
have always lamented
the amount of papers and
chops



Authorization procedures
have been conceived for
the '***big and famous***'

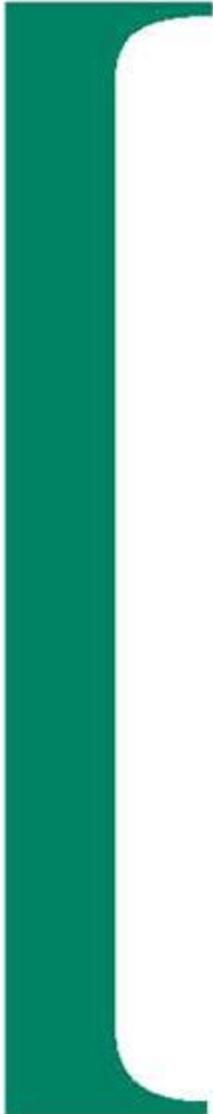


For '*unknown*' Italian companies or for *well-known but small* Italian companies to get the due attention has been a problem



We have seen exceptions for
the 150 plus investment
projects
with SIMEST participation in
equity and for Suzhou Park with
Chinese authorities
more collaborative and
confident





Many factors can be
considered
as affecting the flow of
Italian capital to China



•Among them(of different nature):

- lack of transparency of regulatory and administrative requirements;
- increasing expenses to establish and maintain SME's in China;
- difficult if not impossible access to financing;
- lack of transparency in the Chinese standardization process;



Growing concern from:

- very short transition period when adopting new rules and regulations;
- lack of enforcement at trade fairs and exhibitions against IPR infringers;
- trademark *squatting* and 'bad faith' filing;

Increasingly challenging
business environment
but increasing importance
of China for Italian
economic system, also
considering Chinese
investments in Italy



Italy needs China and China needs Italy:

Italy is missing opportunities but
China is also missing opportunities
for a better *supply chain* in entire
sectors of medium and high tech
and in sectors that can improve the
quality of life



China's Major strategic projects

in

aviation

aerospace

energy

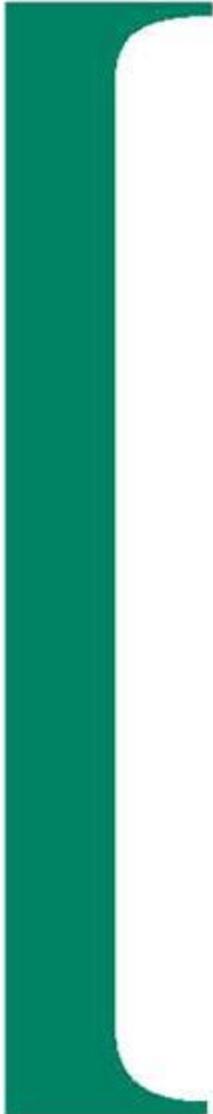
environment protection

and urbanization

could benefit a lot from
arrival of Italian SME's with decades of
successful activity in the sectors

CHALLENGES are coming from
rising labor cost, and slower
economic growth,

new OPPORTUNITIES are coming
from the expansion of the domestic
market and by the policy of the new
leadership aiming at a new model of
development
based on sustainability



By working
together we
can improve the
general situation for a
fruitful Italy China
collaboration.

