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

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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

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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%

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

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

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

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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

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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

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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superseded by the same legislation at national level

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

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Nevertheless,
effective enforcement
of legislation on IPR is a
problem

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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

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Italian FDI in China

First phase

Slow landing of Italian companies in China

Some big companies

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Second Phase(from 2001)

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

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Italian investment abroad traditionally below the level of other European nations

Same phenomenon in China

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Limited number of large companies

Large number of small companies

specialized

in low tech and medium tech sectors

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

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Main motives behind IFDI investments in China:

-efficiency in production

-new market (in China for China)

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

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

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Total investment around
13 billion US (estimate)

and

average investment
of little more than 1 million
US

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Many different sectors considering multiple specialization of the Italian system

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

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

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

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

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More recently
Chongqing and Changsha

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

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While in retail they tend to be more aggressive

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

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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

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Unless……….

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

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

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

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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

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

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They have been victims of the

'Fortune 500 obsession'

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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

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

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Authorization procedures have been conceived for the ‘***big and famous***’

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

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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

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

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•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;

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

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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

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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

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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

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

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