



UNIMORE
UNIVERSITÀ DEGLI STUDI DI
MODENA E REGGIO EMILIA

Dipartimento di Economia
Marco Biagi

DEMB Working Paper Series

N. 197

Chinese acquisitions in Italy: performance of target companies,
Political reactions and public perception, future prospects

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December 2021

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ISSN: 2281-440X online

Chinese acquisitions in Italy: performance of target companies, political reactions and public perception, future prospects [§]

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December 2021

***Abstract.** The rapid growth of Chinese FDI is raising many concerns. The most important is the fear of predatory investments with a one-sided transfer of technology and other strategic assets from acquired Italian firms to China. New regulations in Europe and Italy add to this the risks to national security or public order arising from FDI in specific industries, particularly when the investor is controlled by the government of a third country. This is making the screening of inward FDI increasingly more restrictive.*

By using detailed post-acquisition performance data, we show that in the last decade Chinese acquisitions in Italy had an overall positive impact on target companies. The majority of them experienced an increase in turnover, employment, and other performance variables. Some case studies illustrate the factors that can turn a Chinese takeover into a success story.

We also show how a more cautious attitude of the Italian government towards China is affecting Chinese investments in the country. In particular, the use of the so-called “golden power” has blocked or constrained some recent Chinese takeovers. Some political parties and stakeholders are pressing the government to extend the use of the “golden power” to block foreign acquisitions in “strategic” industries or national champions, even if there are no strict security reasons. This could significantly reduce the opportunities for Chinese investors in the future. On the other hand, greenfield investments are always welcome, but China probably needs more market appeal and technological updating to increase this type of investments in Italy and Europe.

JEL classification: F21, G34, L50

Keywords: Chinese FDI, Italy, Performance of target firms, FDI regulation

[§] Forthcoming in Chinese in: *Annual Development Report of Italy (2021-2022). Italy seeking opportunities in crisis under the pandemic*, Blue Book of Italy, No.3, Social Science Academic Press, Beijing (China), 2022. ISBN 978-7-5228-0249-7

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1. Introduction

Over the past decade, China has become a major player in the flow of outward foreign direct investments (FDI). In Europe, Italy has been the third largest destination country for Chinese FDI, after UK and Germany, for a total of 16 billion euros (Kratz et al. 2021). Chinese investments represent 1.2% of the stock of total foreign investment in Italy, just over a tenth of that of the United States (2019 data, source Bank of Italy). China's share is close to Japan's (2%), but China has only recently emerged as an international investor. In terms of flows, between 2015 and 2019, Chinese FDI in Italy accounted for 5% of the total, the third largest investor country after the European Union as a whole (63.4%) and the US (12.8%) (Bank of Italy data).

China has been recently labelled by the EU Commission "an economic competitor in the pursuit of technological leadership and a systemic rival promoting alternative models of governance"¹. It is no surprise that the rapid growth of Chinese direct investments has raised many concerns in Italy and other advanced countries.

Chinese investments can be evaluated from different points of view. The business community is mainly focused on the corporate performance of target companies after the acquisition and on the potential impact on market and competition. Local stakeholders, like unions and local governments, are mainly interested on the impact on local labour markets and productive systems. Lastly, and more generally, political parties, public opinion and the government, are more concerned with the systemic effects of inward FDI, like the long-term impact on the economy and society, geo-political equilibria and alliances, security and other strategic aspects.

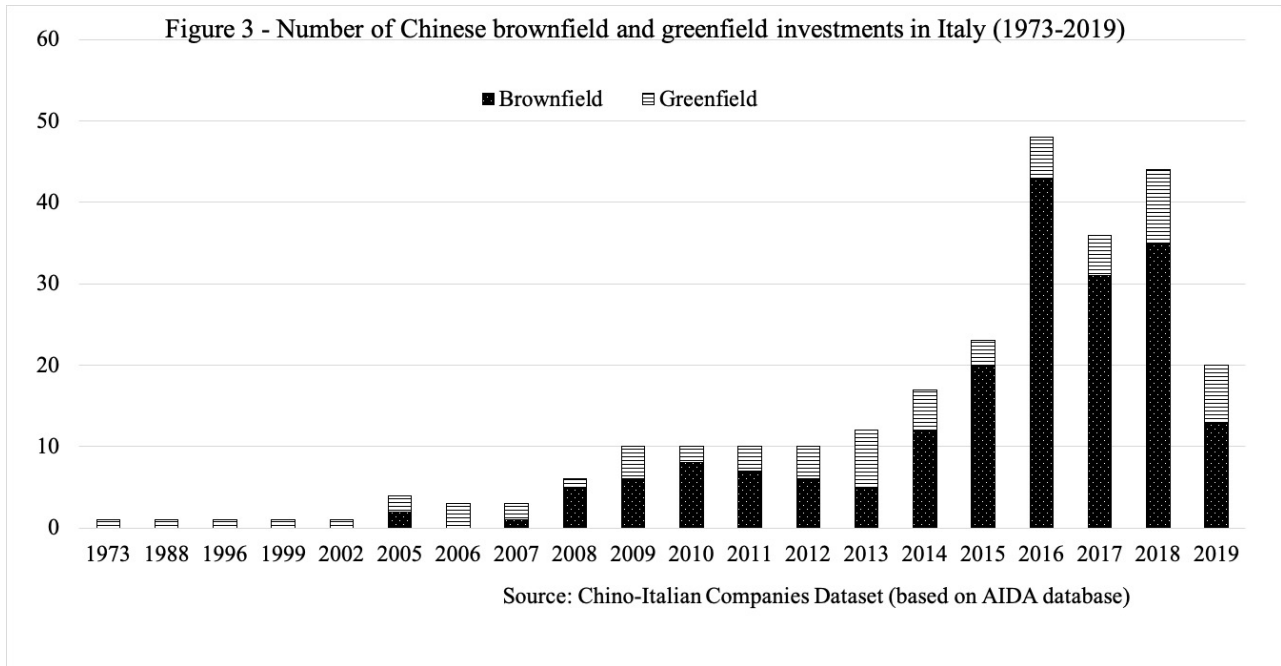
This paper addresses these issues. By using company data and information, the characteristics of Chinese FDI and the performance of target firms are discussed in sections 2 and 3. The discussion of some emblematic case studies in sections 4 and 5 sheds some light on the factors that can affect the positive perception of Chinese acquisitions. The attitude of politics and recent policy measures of the Italian government towards Chinese FDI is the focus of section 6. Section 7 concludes the paper with a discussion on future prospects.

2. Main features of Chinese investments in Italy²

By processing the financial and company data contained in Bureau Van Dijk's AIDA database, integrated with corporate information provided by other sources, it is possible to analyse the characteristics and the performance over time of the Italian firms acquired by Chinese investors. Excluding minority shareholdings and focusing only on companies controlled by Chinese firms or investors, at the end of 2020 there were 608 firms in Italy that can be traced back to Chinese FDI. Of these, 325 firms are the result of acquisitions and 283 are *greenfield* investments. The most interesting group concerns the 265 companies of a not negligible size, or with a turnover of over 2 million euros.

¹ European Commission, *EU-China - A strategic outlook*, 12 March 2019, p.1.

² See the paper "Should we fear or hope for Chinese acquisitions? Evidence from Italy" by S. Paba and C. Parolini, DEMB Working Papers Series, No. 182, December 2020.



Chinese acquisitions (*brownfield* investments) in Italy started to grow since 2008, reaching a peak between 2016 and 2018 (Figure 1) and then declining in the following years, a trend quite similar to that shown by Chinese FDI globally. *Greenfield* investments, on the other hand, show no major changes over time. More importantly, they represent a smaller share of total FDI, 6.5% on average over the past decade³, similar to the rest of Europe.

As investment increased, both the overall turnover and the total number of employees increased significantly. In 2019, the 608 Chinese-owned enterprises in Italy collectively generated more than 15 billion in turnover and employed more than 28,000 people (Table 1). Most FDI are made by private Chinese companies, closely followed by state-owned enterprises (SOEs), particularly when investments are of the brownfield type. In terms of average turnover, however, the distance between private and state-owned enterprises is smaller as SOEs tend to acquire larger companies.

Table 1 – Chinese controlled Italian companies by Type of Investment, type of shareholder and Size (Year 2019)

Type of investment: Brownfield	No. of companies	Turnover (Mln €)	Employees	Type of investment: Greenfield	No. of companies	Turnover (Mln €)	Employees
Over 2 Mln	198	12.441	23.646	Over 2 Mln	67	2.761	3.625
State Owned	40	5978	7503	State Owned	8	1267	820
Private company	146	6345	15514	Private company	54	1469	2613
Individuals	12	118	629	Individuals	5	25	192
Under 2 Mln	107	64	380	Under 2 Mln	125	55	414
State Owned	8	7	64	State Owned	2	n.a.	n.a.
Private company	58	36	245	Private company	117	52	386
Individuals	41	21	71	Individuals	6	3	28
Under 2 Mln (data n.a.)	20	n.a.	10	Under 2 Mln (data n.a.)	91	n.a.	242
State Owned	8	n.a.	5	State Owned	4	n.a.	10
Private company	10	n.a.	5	Private company	85	n.a.	232
Individuals	2	n.a.	n.a.	Individuals	2	n.a.	n.a.
Sub-Total	325	12.505	24.036	Sub-Total	283	2.815	4.281
Total					608	15.320	28.317

Source: Paba and Parolini (2020)

Chinese investments concentrate on the strongest and most competitive industries of Italian manufacturing, especially machinery and capital goods, metal products, electrical machinery and

³ Kratz A., Zenglein M.J., Sebastian G. (2021), “Chinese FDI in Europe. 2020 Update”, *MERICs Report*, June, Rhodium Group and Mercator Institute for China Studies.

equipment, optical goods, and biomedical products (Table 2). In most of these industries, Italy enjoys comparative advantages in international markets. Some investments are also directed to the traditional Made in Italy sectors, such as textiles-clothing, leather products and furniture.

Table 2 - Chinese brownfield investments in Italy by industry

Manufacturing Industry (NACE 2)	No. of companies	Turnover (last year) (Mln €)	Average Turnover (Mln €)	Service Industry (NACE 2)	No. of companies	Turnover (last year) (Mln €)	Average Turnover (Mln €)
Manufacture of machinery and equipment	38	1135	29,9	Wholesale trade, except of motor vehicles and motorcycles	36	1.892	52,6
Manufacture of fabricated metal products	7	278	39,7	Motion picture, video and television programme production, music publishing activities	11	159	14,5
Manufacture of electrical equipment	6	1145	190,8	Activities of head offices; management consultancy activities	6	92	15,3
Manufacture of computer, electronic and optical products	6	396	66,1	Computer programming, consultancy and related activities	5	94	18,9
Manufacture of pharmaceutical products and preparations	6	158	26,3	Architectural and engineering activities; technical testing and analysis	4	57	14,4
Manufacture of other transport equipment	5	526	105,3	Scientific research and development	4	47	11,7
Manufacture of chemicals and chemical products	5	332	66,5	Wholesale and retail trade of motor vehicles and motorcycles	3	660	220,0
Manufacture of rubber and plastic products	4	4082	1020,5	Sports activities and amusement and recreation activities	3	80	26,8
Manufacture of food products	3	251	83,8	Waste collection, treatment and disposal activities	3	21	7,0
Manufacture of motor vehicles, trailers and semi-trailers	3	198	66,0	Accommodation	3	15	5,1
Manufacture of wearing apparel	3	62	20,6	Retail trade, except of motor vehicles and motorcycles	2	85	42,3
Manufacture of furniture	3	51	17,1	Civil engineering	2	48	24,1
Other manufacturing	3	35	11,7	Human health activities	2	11	5,4
Manufacture of textiles	3	30	10,0	Specialised construction activities	2	8	3,9
Manufacture of leather and related products	3	21	6,9	Warehousing and support activities for transportation	2	8	3,8
Manufacture of basic metals	1	25	25,1	Programming and broadcasting activities	1	171	170,9
Manufacture of other non-metallic mineral products	1	4	4,2	Other professional, scientific and technical activities	1	145	144,9
Repair and installation of machinery and equipment	1	6	6,0	Food and beverage service activities	1	71	70,7
				Advertising and market research	1	19	18,9
				Financial service activities	1	9	9,0
				Rental and leasing activities	1	4	4,0
				Creative, arts and entertainment activities	1	4	3,6
				Real estate activities	1	3	3,3
				Electricity, gas, steam and air conditioning supply	1	3	2,6
Sub-total	101	8736	86,5	Sub-total	97	3705	38,2
Total					198	12.441	62,8

Source: Paba and Parolini (2020)

In terms of technological intensity, most brownfield investments are in high tech and medium-high tech manufacturing industries (Table 3). This demonstrates how Chinese companies are primarily looking for specialised know-how and technology assets. This is also partly true in the service sector, where 45% of acquisitions focus on *knowledge intensive* industries. On the contrary, less technology intensive industries are dominant in *greenfield* investments, especially wholesale activities and retail trade.

Table 3 - Chinese brownfield and greenfield investments by technology level*

Acquisitions	No. of companies	Turnover (2019) (Mln €)
High and Medium-high tech	67	3434
Medium-low tech	16	4852
Low tech	18	451
Knowledge Intensive Services	40	888
Less Knowledge Intensive Services	49	2738
Utilities and Constructions	8	80
Total	198	12441
Greenfield	No. of companies	Turnover (2019) (Mln €)
High and Medium-high tech	9	457
Medium-low tech	6	115
Knowledge Intensive Services	5	159
Less Knowledge Intensive Services	46	2027
Utilities and Constructions	1	3
Total	67	2761

*: OECD Classification

Source: Paba and Parolini (2020)

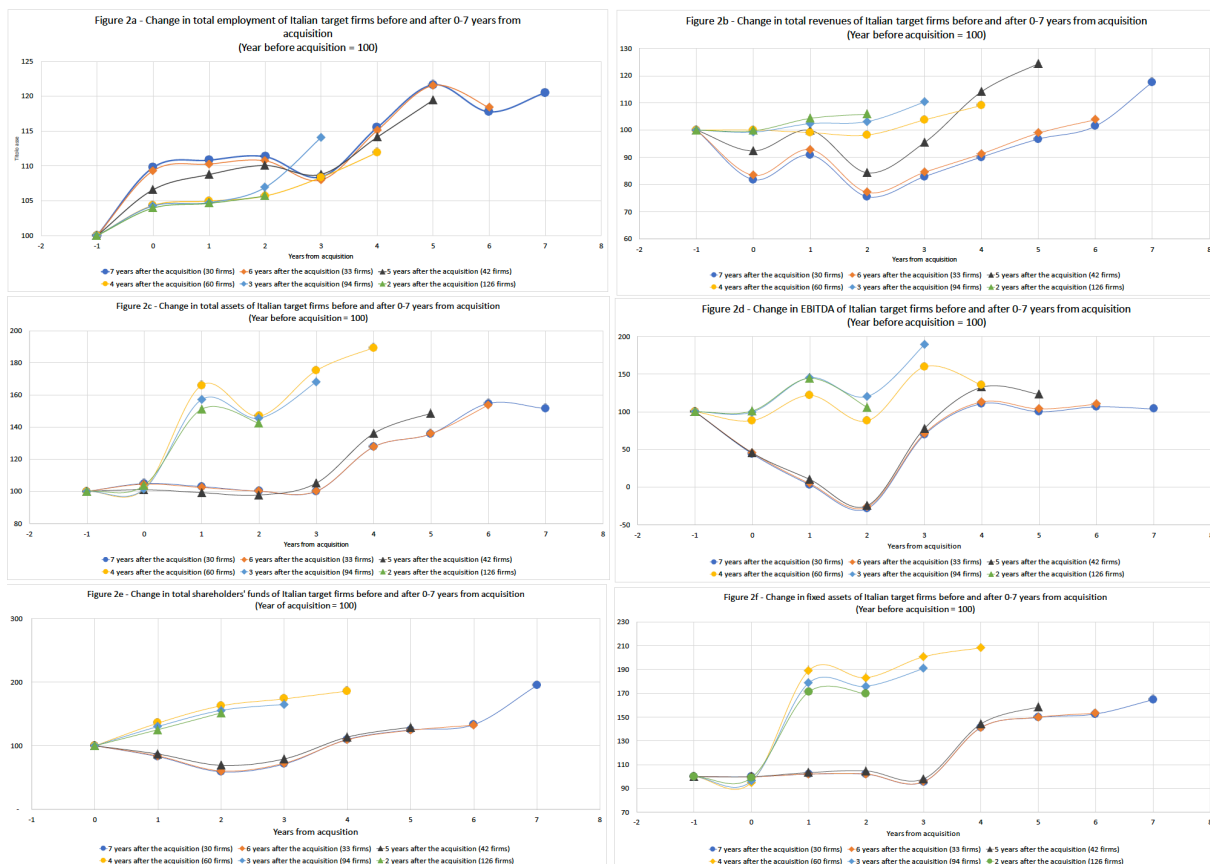
3. The performance of target companies

Focusing only on larger companies with more than €2 million in revenue, we assessed the performance of companies acquired by Chinese investors -the target companies- in terms of revenues, employees, EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization), total assets, fixed assets, and equity. We collected data from the year of acquisition to the last year reported (2019 or 2020).

We have complete historical data for 173 of the 198 acquired firms. We excluded from the analysis the companies with less than two years of available data because the post-acquisition period is too short and many of the reorganization processes have probably just begun for any significant impact on company results. For the remaining 126 firms, Figure 2 shows the performance of each performance variable after two to seven or more years after the acquisition (year before the acquisition = 100).

Overall the results appear quite positive. In the last reported year, all indicators show a higher level compared to the year before the acquisition. Just two years after the acquisition, aggregate employment for all 126 firms grew by 6%. As the years since the acquisition increase, the impact on employment is even greater. The 105 companies with a history of five or more years after acquisition show, in aggregate, a growth of more than 18% in the number of employees compared to the pre-acquisition level (Fig. 2a). Note that these firms have experienced a period of stagnation in employment probably due to the prolonged effects of the 2008 financial crisis. However, even with declining revenues, it seems that the management preferred to avoid layoffs.

Figure 2 - The results of Italian companies acquired by Chinese investors



Source: Paba and Parolini (2020)

Revenues show a similar and positive trend (Fig. 2b). In aggregate, we find a greater value after two, three, and four years after acquisition. The highest values are found five and seven years after the brownfield investment. In this case too, the impact of the financial crisis was initially felt by the companies that had been acquired for the longest time.

Fixed and total assets increased significantly from pre-acquisition levels (Fig. 2c and Fig 2d) Again, the companies acquired more than five years ago showed some difficulty in investing during the first few years. However, these difficulties have been overcome in recent years.

For companies with a post-acquisition history longer than 5 years, the sharp decrease in EBITDA, a measure of a company's operating profit, in the first years after the acquisition, followed by a recovery in the following years, can be explained by the stability of the number of employees together with the weakness of revenues immediately after the acquisition (Fig. 2e). This trend has several explanations. The target companies may have inflated the EBITDA in the acquisition year by following short term policies, such as cutting development costs. Another possibility is that the target company was sold because it was on the brink of a major crisis. Adapting to new ownership and exploiting synergies requires effort, and the cost may initially outweigh the benefits. Another hypothesis, which needs further confirmation, could be that Chinese shareholders prefer stability to short-term profitability and do not react immediately to the crisis with layoffs and cost reductions. This hypothesis seems to be confirmed by the employment trend in the years immediately following the acquisition, which does not show significant reductions, even in the face of negative turnover and EBITDA losses.

As far as equity is concerned, Chinese owners tend to increase the capitalization of the target companies, both through the contribution of new capital and through the reinvestment of profits, and this leads to a significant increase in equity (Fig. 2f). An initial reduction in shareholders' equity characterizes the group of firms acquired more than 5 years ago. This is probably due to some companies that, in the years immediately following the acquisition, have experienced a reduction in turnover and strongly negative income results.

It should be noted that all the aggregate results discussed above may be affected both by the performance of the larger companies in the database, which affect the average performance of each group of firms, and by the effects of the business cycle on each industry. To address this problem, we evaluate the performance of each target firm against the average performance of a control group consisting of all the Italian firms belonging to the same industry (NACE Rev.2, 3-digit) over the period between acquisition and 2019 (see Paba and Parolini 2020). The focus is on the manufacturing sector, the most relevant from the point of view of the potential impacts of Chinese acquisitions on the Italian economy.

To measure the performance, we selected three main variables: employment, revenues, and value added per employee, a standard indicator of productivity. For all these variables, we take the value of the year before the acquisition and compare it with the value reported in the last available year (2019 for most companies). We exclude from the sample both the companies acquired in 2019 and 2020, as the period is too short for an assessment, and those with a limited set of data. For this reason, the number of companies in our sample is reduced from 101 to 83.

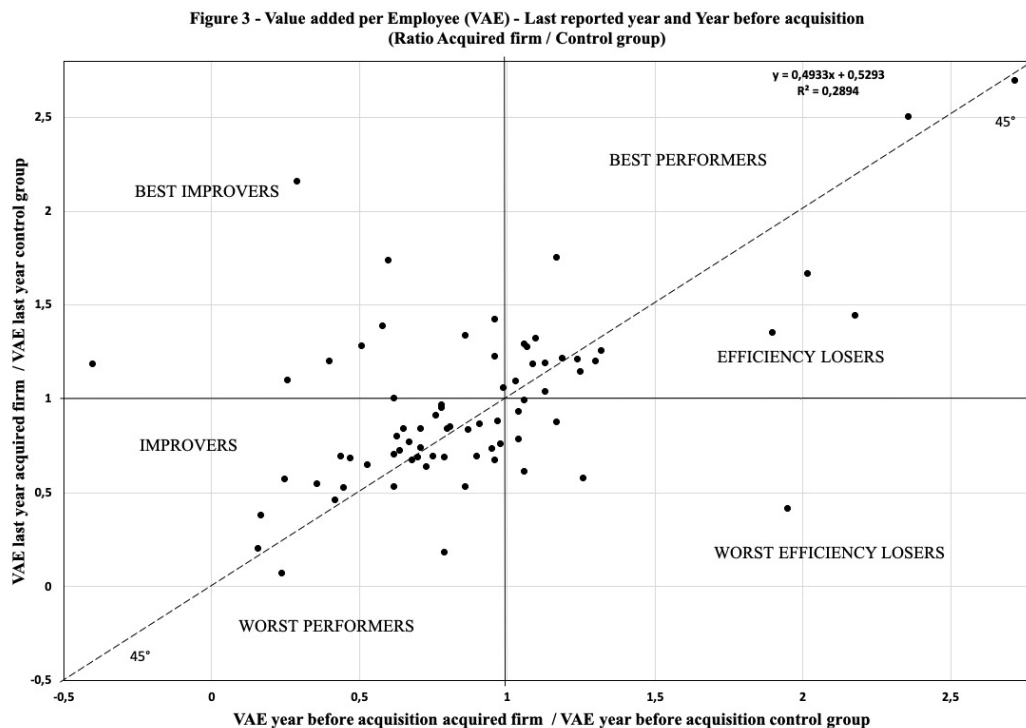
The observed performance is primarily the result of the specific history of each company, which should be analysed on a case by case basis. However, outside the domain of the company, four major general factors can play a role: the number of years since the acquisition, the size of the company, the technological level and, most importantly, the general trend of the specific industry to which these companies belong.

In order to evaluate the performance of the acquired companies, we identify a control group, for each 3-digit manufacturing industry, consisting of all the Italian companies reported in the AIDA database with turnover exceeding two million euros. For each variable, we measure and compare the average performance of the control group over the same period of time considered for the acquired company.

We construct a simple index given by the ratio between the value of the performance variable of the acquired firm over the corresponding value of the control group. If the index is greater than 1, the acquired firm performs better than the industry average, while if it is less than 1, the firm loses ground to its peers. We compute this index for the year before acquisition -the starting point- and for the last reported year (2019 for most firms).

Figure 3 reports the results of the analysis in terms of added value per employee. The figure compares the performance of the acquired company in the year preceding the acquisition (on the X axis) with the last reported year (on the Y axis), again in relation to the performance of the control group (see the index described above). Looking more closely at the figure, six different groups of firms can be identified.

In general, more than half (46 firms, 55.4%) of the acquired companies did better than the control group in the years following the acquisition. These firms are indicated by the points above the 45° degree line in the graph. On the top right triangle of the figure we find the Best Performers (BP), the firms that already performed better than the control group in the year before the acquisition and that improved their relative position after the acquisition (10 firms, 12%). Best improvers (BI) include the firms that were performing below average before the acquisition but that improved the productivity compared to the control group in the years following the acquisition (13 firms, 15.7%). These firms are indicated in the upper left square of Figure 3. The Improvers (IMP), on the left of the lower square of the graph, is the largest group in the sample. These firms improved their performance under Chinese control but performed worse than the industry average both before and after the acquisition (23 firms, 27.7%).

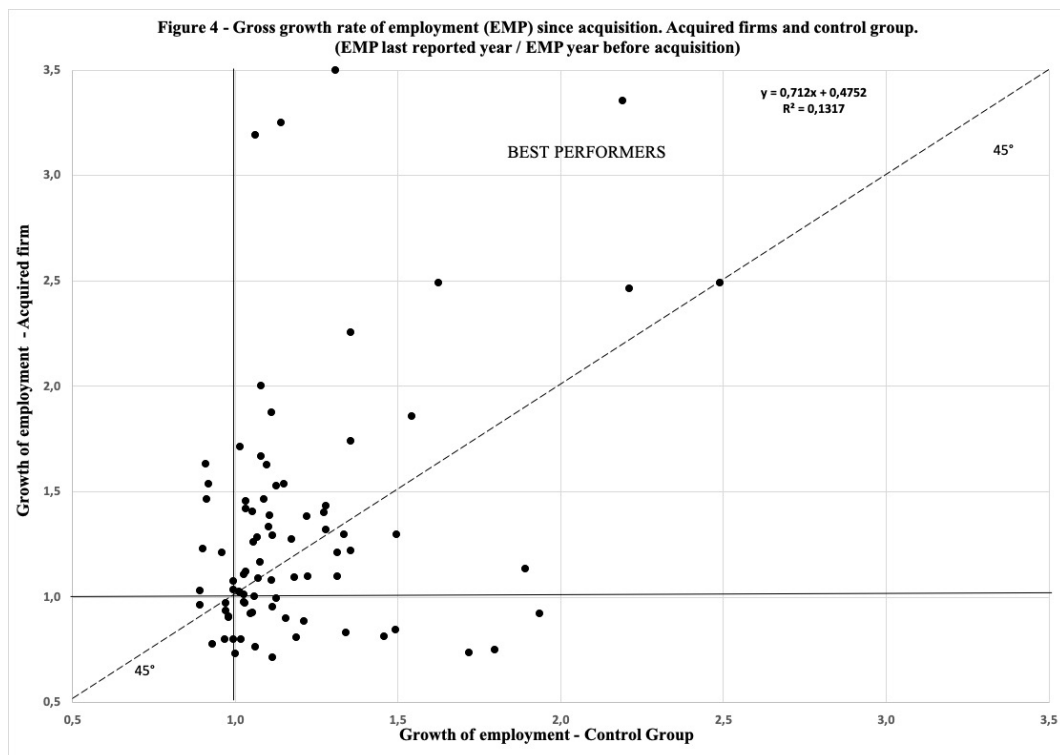


Source: Paba and Parolini 2020

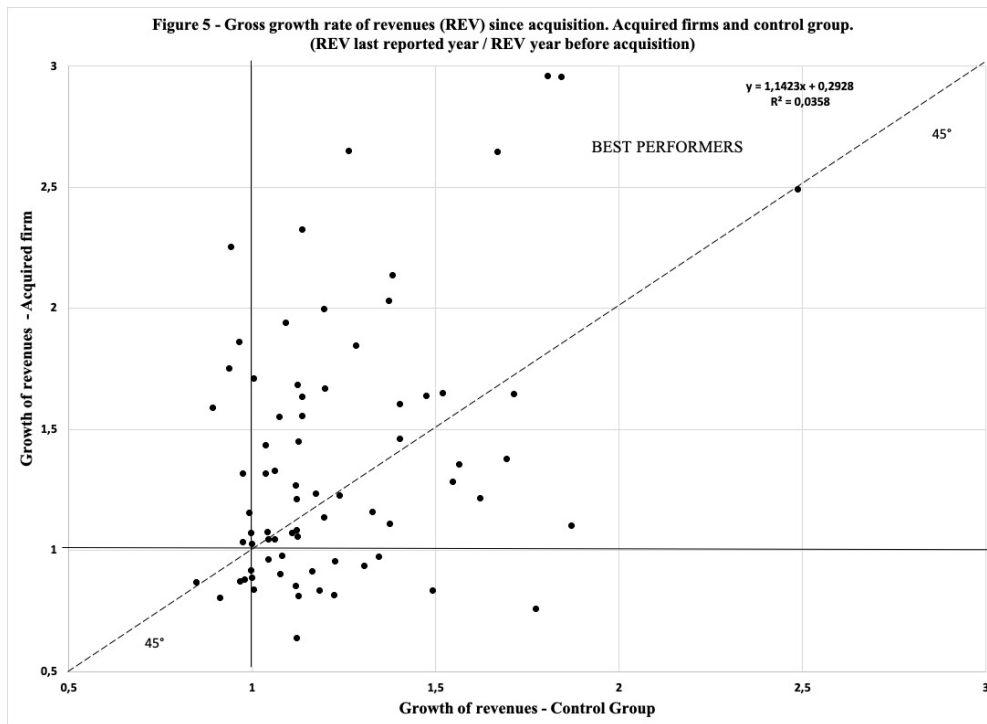
The firms in the last three groups worsened the productivity during the period following the acquisition. In the lower triangle at the top right square of the graph, we find the firms with a productivity level above the industry average in both periods but which have worsened their relative position after the acquisition. These companies can be called Efficiency Losers after the acquisition (EL) (10 firms, 12%). Another group includes the Worst Efficiency Losers (WEL), which started with a productivity above the average before acquisition and ended up underperforming the control group in the last year (8 firms, 9,6%). The last group includes the Worst Performers (WP) (19 firms, 22.9%). These firms showed below-average productivity levels before the acquisition and further worsened efficiency in the post-acquisition period.

More generally, looking more closely at the data shown in the figure, it is interesting to note that the majority of the firms acquired by Chinese shareholders showed, at the time of the takeover, a lower performance in terms of productivity compared to the industry average. This is the case of 55 companies, the sum of the three groups BI, IMP and WP. However, in the years after the acquisition, a good 65.4% of these firms improved their performance. On the other side, only 28 companies were performing better compared to the control group before the acquisition (groups BP, EL and WEL). Under Chinese control, only 10 of them improved the performance in the following years (35.7%).

Figures 4 and 5 report a similar analysis for the other two variables under consideration, employment and revenues. Notice that in this case we can only compare the growth rates of the Chinese firms, from the last year before acquisition to the last reported year after the acquisition, with the growth rates of the control group during the same period. Growth rates of the control group are reported on the X-axis, while growth rates of the Chinese firms are on the Y-axis. For both variables, the majority of firms acquired by Chinese companies and shareholders performed better than the control group after the acquisition: 54.2% for employment and 51.8% for revenues.



Source: Paba and Parolini 2020



As in the former analysis of the value added per employee, it is possible to identify six different groups of companies, with the same labels as before, according to the value and the sign of the growth rates of the acquired firms and those of the control group. It suffices to note that in both figures the group of Best Performers (both acquired firms and control group firms grow, but acquired firms at a faster rate) is the largest group. Furthermore, from the linear estimates of the relationship between the two variables reported in the top right of the graph, we can infer that the growth rates of the acquired firms and the control group are positively correlated. This result suggests that the post-acquisition performance of the acquired firms is to some extent affected by the general performance of the corresponding manufacturing sector.

Summarizing the evidence discussed so far, the acquisitions of Italian companies by Chinese investors seem to show an overall positive impact on the acquired companies. Compared to control groups, most Chinese companies perform better in all three selected indicators: value added per employee, employment and revenue growth.

The quantitative analyses summarized above were accompanied by a qualitative assessment of a sample of individual acquisition cases (40 companies out of 198), based on the analysis of secondary data (official financial statements, company websites, media information). The main purpose is to understand the motivations of both the acquirers and the target companies, as well as the control style of the Chinese investor following the acquisition. With regard to this last point, in the vast majority of cases, a *hands-off* approach seems to prevail, with the Chinese ownership often limiting itself to expressing the chairman of the board of directors and a few directors, leaving the role of managing director to Italian managers, often the same ones who exercised that function before the acquisition.

In terms of the motivations of the target companies, approximately one third of the companies analysed saw the Chinese acquisition as an opportunity to emerge from a crisis, while the majority of companies accepted the acquisition because it was advantageous from a financial point of view

and to facilitate their access to the Chinese market. On the side of the purchasers, in all the cases observed, the Chinese company operates in the same sector as the acquired company or in a related sector, and sees in the acquisition above all benefits in terms of *know-how* and acquisition of brands with which to operate on western markets.

In conclusion, the evidence gathered seems to indicate that, for the companies involved, Chinese investment has represented an opportunity rather than a threat. Even if a few cases proved unsatisfactory or unsuccessful, the overall results appear positive, often above the industry average.

4. Some examples of acquisition

But what are the factors that can affect the positive performance of companies acquired by Chinese investors? The analysis of some cases allows us to illustrate the possible reasons behind the failure or success of Chinese investments in Italy and to draw some general reflections.

The first is a case of bankruptcy. In 2014, **Wanbao Group**, which manufactures refrigeration equipment and compressors in China, acquired **ACC**, a medium-sized company and Italy's largest manufacturer of hermetic compressors for refrigerators. The company had been in crisis for a long time. According to the intentions of the Chinese company, the Italian plant was to become "the most important production site in Europe of a large independent group in the compressor sector"⁴. There was a commitment to safeguard and increase employment, as well as the prospect of transforming the Italian site into a global competence center.

Things turned out differently. After just five years and after having significantly reduced employment and production volumes, Wanbao Group announced its intention to dispose of its Italian operations, closing the historic plant in Mel. In the moment of greatest tension between workers and the company's top management, the Wanbao-ACC employees organized a sit-in protest in front of the Chinese Consulate in Milan⁵.

Since then, the company has been under "extraordinary administration"⁶. According to the opinion of the appointed commissioner Maurizio Castro, a manager with a long experience in the sector, the reasons for the company's failure are to be found in the inadequacy of the Chinese management: "... they started with the intention of *Italianising* their compressors and ended up doing the opposite, *Chineseising* their production"⁷.

In reality, the whole affair can also be read as a typical form of predatory investment: acquisition of technological *assets* and *know-how*, transfer of production to China, impoverishment and finally closure of the local company. Not surprisingly, the recovery plan prepared by the extraordinary commissioner includes the reshoring in Italy of the productions formerly delocalized to China.

⁴ Xinhua Silk Road Information Service, "The Italia Wanbao-ACC company under bankruptcy proceedings", April 01, 2020. <https://en.imsilkroad.com/p/312438.html>

⁵ Cislveneto.it Notizie, "Wanbao Acc: venerdì 20 sit-in davanti al Consolato cinese di Milano", Mercoledì, 18 settembre 2019. <https://www.cislveneto.it/Notizie/Wanbao-Acc-venerdi-20-sit-in-davanti-al-Consolato-cinese-di-Milano>

⁶ FIOM-CGIL, "Acc Wanbao Mel (Belluno), una storia di orgoglio e resistenza operaia", Giorgio Sbordoni, ZOOM 15 marzo 2021, <https://www.fiom-cgil.it/net/index.php/comunicazione/zoom/8357-acc-wanbao-mel-belluno-una-storia-di-orgoglio-e-resistenza-operaia>.

⁷ "Castro: «I cinesi? Non sempre adatti Per Acc vorrei vedere un'alleanza italiana», Corriere di Verona, 27 marzo 2020, di Alessandro Zuin. <https://www.pressreader.com/italy/corriere-di-verona/20200527/281874415614589>

The case is interesting because it represents the outcome most feared by Italian politics, public opinion and stakeholders, when a company ends up in the hands of a foreign investor. If confirmed by other cases, the experience of Wanbao-ACC can be a reputational damage for China, with a negative impact on future investments.

The second case is the acquisition of **Candy** by **Haier**. This is a successful case, which represents a clear example of the opportunity, for an Italian distressed company, to exploit the global ambitions of a large Chinese company in order to expand its markets, bring back the previously delocalized production, and innovate its products.

Candy is a historic “white goods” company, one of the few in the industry left in Italian hands. In 2019, the company was acquired by Haier, a large Chinese group in the home appliances and consumer electronics industry, among the leading companies worldwide. Haier aims to expand in the European market, with a strategy of growth in several countries and in all segments of white goods, with the goal of becoming one of the top three appliance manufacturers in Europe.

Interestingly, in 2014 Haier tried to buy Indesit Company, another important large Italian home appliances group, owner of the historic Indesit, Ariston and Hotpoint brands. Other foreign multinationals were interested in the deal, many of them probably more concerned with preventing the growth of Korean or Chinese companies in the European market than with re-launching the Italian company in a convincing and lasting way. In the end, the company was sold to the American Whirlpool, a multinational that has been active for a long time in Italy and Europe, despite the fact that Haier's offer was attractive and more generous. This choice was probably affected by a negative prejudice towards China and the managerial capacity of Chinese companies. For one thing, China certainly could have been a good choice. Compared to Whirlpool and other western multinationals, Haier could have opened up the large market of China and Asia, a typical "win-win" solution.

After the acquisition, the Italian Whirlpool did not grow as expected and went through several periods of difficulty. The latest cases are those of Embraco-Whirlpool in Turin, which produces compressors for refrigerators, and the Whirlpool washing machine plant in Naples. These company crisis dragged on for a long time, with extensive media coverage, before the recent and definitive shutdowns of production plants and the dismissal of workers.

The point is that in a mature sector like home appliances, major multinational companies tend to relocate production to Eastern Europe, Turkey or Asia, where costs are lower. The Candy Group had also followed this path in the past. However, after the acquisition by Haier, the company reversed its strategy, by reshoring to Italy the production of 100 thousand units of washing machines that the old owners had moved to China years ago. In addition to this, Haier, which is strongly interested in expanding in Europe with innovative products, started following a program of product improvement and upgrading by transferring to Italy the experience gained in China in the development of IoT technologies applied to household appliances (smart home, smart appliances).

Finally, in terms of management, the Chinese group is pursuing a soft strategy towards the previous management group, leveraging the managerial skills available in Italy. The old owners have remained on the Board of Directors and Haier's European headquarters have been transferred from Paris to Brugherio, which will become the Group's commercial headquarter in Europe, strengthening the local staff component in the company's management.

It is too early to say whether Haier's objectives will be achieved and whether Candy will return to growth in Italy and Europe. However, the strategy followed by the company is appreciated by trade unions and local administrations. Above all, Haier experience seems to contradict the image, often

associated with Chinese FDI, of a company in search of technology and assets to transfer to China through predatory behaviour, with no positive return for the target company and the local economy.

The last case is the 2015 acquisition of **Pirelli** by **ChemChina**, which represents not only the most important transaction carried out by a Chinese company in Italy, but also a case study of great interest. Unlike other acquisition experiences (such as Candy or Acc-Wanbao), in this case the Chinese did not take advantage of a particularly difficult situation of the acquired company, but entered into a carefully designed strategic agreement desired by both parties. With a turnover of about 6 billion euros, in 2013 the Pirelli group was relatively small in the tire industry, facing competitors such as Bridgestone (Germany), Michelin (France), Goodyear (USA) and Continental (Germany). Marco Tronchetti Provera (major shareholder and long-time CEO of the group) had therefore been looking for a major deal for some time, but he did not view any merger with a large competitor in a positive light. A merger with a Western player would have run into problems with antitrust, and Korean or Japanese competitors would have demanded complete control of the acquired company. ChemChina, for its part, was (and still is) a large Chinese state-owned enterprise active in various parts of the chemical industry. Among other things, ChemChina controlled Aeolus, a company that produces industrial tires. At the time of the agreement, Aeolus was similar in size to Pirelli's industrial division, but with a much lower level of quality and technology.

The agreement reached in 2015 between Pirelli and ChemChina is therefore based on a clear and sound industrial plan. For Pirelli, the agreement with ChemChina meant the acquisition of a major partner and an easy entry into the important Chinese market, also thanks to the Aeolus factory that will be completely adapted to Pirelli technology. Despite the Chinese majority, Pirelli Group continues to be managed by Italian management. Tronchetti Provera succeeded in getting the Chinese shareholder to accept a governance structure that guarantees - at least for a few years - the "Italianness" of the group.

The "new" Aeolus of ChemChina, on the other hand, will focus exclusively on *industrial* activities, taking advantage of the synergies deriving from the integration and thus becoming the first "pure global player" in the segment. Thanks to Pirelli's contributions, in fact, Aeolus will be able to improve the quality level of its offer and to cover all the market segments of its sector, including the highest thanks to the positioning of the Pirelli brand. The company will also be able to boast a global presence and a solid positioning throughout the world thanks to the geographical complementarity with Pirelli.

The Pirelli-ChemChina operation was endorsed by the then Renzi government, but harshly criticized by the opposition and viewed with suspicion by the unions. According to the Secretary of the League Matteo Salvini, "they are selling off the last pieces of Made in Italy left (...)". For Maurizio Gasparri (Forza Italia): "The Chinese, with public companies led by former leaders of the Communist Party, accumulate profits thanks to the unfair competition that they make to the whole world and then they buy our companies, pieces of Italy and the world. This is the moral of the sad Pirelli affair". According to Susanna Camusso, then secretary general of CGIL, Italy's largest trade union, "both Confindustria and the government prefer to compete on costs by hitting workers' rights and wages, rather than challenging the world in terms of *know-how*, innovation, good employment".

After some time, the outcome of the operation seems to have disproved all these concerns. The entry of the Chinese partner, especially in Europe, seems to have had positive results, with an increase in overall employment and turnover.

In conclusion, the success of the Pirelli-ChemChina operation can be explained by a number of reasons. First, the existence of a sound industrial plan and a clear strategy for the exploitation of synergies between the two partners. Second, the large autonomy left to the Italian management, which has skills that it would have been foolish to disperse. Third, ChemChina's acceptance of even

formal limitations on its governance prerogatives, in exchange for the acquisition of technologies crucial to the competitiveness of the Aeolus subsidiary. The good results of the company and the compliance by ChemChina with the agreements on the "Italianness" of the management gradually cooled down the negative reactions of the unions and the opposition.

5. What reflections can be drawn from these experiences?

The Italian manufacturing industry is full of outstanding companies, prestigious brands, technological know-how, innovation capacity, often in niche and specialized markets. The country is also rich in "pocket" multinationals, i.e. companies of limited size but with a strong international orientation, but it is poorly represented in international rankings of large global companies. Only six companies appear in the top 500, according to Fortune, compared to 28 and 31 respectively from Germany and France. Among the top two thousand companies, surveyed by Forbes, only 27 are Italian, about half of those from Germany and France.

The problem is that the medium-small size, typical of the national production structure, is not always adequate to face the challenges of global markets. The latter demand financial, productive and managerial resources that are difficult to find domestically. In order to survive and grow, it is often necessary to look elsewhere for the required resources. To quote an overused expression in the country, Italy is often forced to sell its "family jewels" abroad.

What is worrying in this case are the fear of downsizing in employment, an insufficient commitments in investments and technological innovation, or the risk of closure and relocation abroad of production activities. Government, trade unions, and local administrations are also worried about having to deal with managers more focused on the interests and global strategies of the multinational company than on the local impact of corporate decisions. This increases the distrust of foreign multinationals, often accused of exploiting the incentives granted by the state and then disregarding the commitments made to stakeholders.

Obviously not all international investors are the same and negative experiences coexist with positive and successful ones, irrespective of the country of origin of the controlling company. However, compared to their western counterparts, Chinese companies share a general feature.

In European established oligopolies, most Chinese companies and investors are newcomers. The incumbents are usually European or North American multinationals, which often control international production networks in low-cost countries of Eastern Europe or neighbouring Asia. This diversity can have important consequences for the characteristics and outcomes of acquisition transactions.

For incumbents, the acquisition of a competitor can be a way of reducing competition and increasing concentration. The possible shutdown of the acquired plant or the transfer of production in another country can be the result of a process of rationalization of production sites and production range. This is the fate of some Italian companies owned by foreign multinationals.

For Chinese companies, the perspective may be different. By investing in advanced countries, they are seeking strategic resources unavailable at home, such as specialized know-how and technologies, but also established brands and distribution networks. Compared to incumbents, these firms can have more incentives to strengthen the target firm as a base for gaining access to markets that are distant and difficult for them. The experiences of re-shoring, much appreciated by governments and trade unions, go in this direction. In addition, Chinese companies, unlike Western multinationals, can offer to target firms the opportunity to enter the Chinese and Asian markets, by leveraging synergies with other companies of the group.

By transferring western technology to China, the Chinese investor can also reinforce its position in the domestic market, thus guaranteeing further development opportunities for the acquired company. The emphasis on the "win-win" perspective, so common in Chinese business and political-diplomatic language, is evidence of these potential complementarities and synergies between China and the Western world.

Finally, the attitude towards Italian management is of great importance, in a country worried by the transfer into foreign hands of the control of many companies forced to follow global strategies that may penalize activities in Italy. A cautious attitude on the part of Chinese investors, who seek not to drastically alter the command structure and are attentive to the involvement of Italian managerial resources, can overcome suspicion and mistrust and contribute to good performance results.

6. Threat or opportunity: how Italian politics and society evaluate Chinese investments

So far, the focus was on the world of business and corporate performance, but this is reductive.

The attraction of FDI is largely affected by the attitude of politics, society and government towards China. This is why, in addition to strict business convenience, it is necessary to evaluate the systemic effects (security, impact on supply networks and production chains) and the geo-political implications of acquisitions.

The orientation of the Italian government and policy towards China has been rather contradictory and fluctuating in recent years. In March 2019, the signing by the first Conte government of the *Memorandum of Understanding* with China, as part of the Belt and Road Initiative, marked an unexpected turning point in relations between the two countries. Italy is the only G7 country to have signed such a bilateral agreement, and this surprised and raised some concern among European and Western governments.

The agreement was made possible by the convergence of the two parties in the government coalition of the time: the populist Five Star Movement (M5S) and the rightist League. The former has always shown a friendly attitude towards China, the latter is traditionally hostile to China, considered a harmful and unfair competitor of Italian manufacturing, but open to the economic opportunities represented by its economy. Both parties, however, shared a strong Eurosceptic and populist orientation.

In fact, the Memorandum is not binding and does not include any specific measure or action. It emphasizes a climate of industrial collaboration, promotion of bilateral investment and trade, and opposition to unilateralism and protectionism. The hope, shared by the government and by a large part of the business community, was that the agreement would benefit Made in Italy and open up new opportunities for Italian companies in the large Chinese market.

The change of majority that gave birth to the second Conte government, in September 2019, has in part reduced the echo and implications of the agreement. The League left the governing coalition and was substituted by the Democratic Party and other minor centre-left parties. The leftist Democratic Party has always been open to China but also strongly anchored to the European Union and aware of the importance of Italy's traditional Atlantic alliance. The growing international attention to the issue of human rights, followed by the spread of the pandemic and the consequent economic and commercial crisis, have in fact cooled down the relations with China. In the public debate, the Memorandum of Understanding was relegated to the background, and no major initiative is so far attributable to the agreement.

The climate towards China has further changed at the beginning of 2021, with the new government of Mario Draghi, a figure of international prestige and former president of the ECB, supported by a large cross-party majority that includes almost all political parties. Draghi has stressed on several occasions the centrality of the relationship with the European Union and the traditional Atlantic alliance with the USA. At the G7 meeting in June 2021, the Italian Prime Minister recalled the differences between Western democracies and China, suggesting the need to review the MoU on the Belt and Road.

This change in attitude obviously does not undermine the importance of the economic relations between the two countries, reiterated by Draghi in his recent address at the inauguration of the China International Import Expo in Shanghai in November 2021, but it calls for special attention and scrutiny from the government and political forces.

In this context, the issue of FDI is particularly sensitive. A series of regulatory measures, taken in the last ten years, try to control foreign investments when they concern companies related to strategic industries or when national interest or security are at stake.

In 2012, a new law introduced the concept of “golden power”, i.e., special powers granted to the government when FDI or corporate transactions involve strategic assets or companies (Law 56/2012). When a relevant prejudice to the strategic interests of the State is found, the government can oppose the acquisition of a company, or veto the adoption of specific company resolutions, or finally impose specific requirements and conditions. The sectors initially affected by the measure are energy, transportation, and communications. In 2019, a new law extended the application of golden power to broadband electronic telecommunications networks with 5G technology, in the case of contracts or agreements with companies outside the European Union (Law 41/2019).

The Law Decree of April 2020 ("Decreto Liquidità", converted into Law 40/2020) further extended the golden power to other sectors, in accordance with the European Regulation 2019/452, which establishes a framework for the control of FDI in the Union. Motivated by the health and economic emergency caused by the Covid-19 pandemics, the regulation aims to prevent stock market devaluations or liquidity crises from encouraging international speculators to acquire companies on the market at bargain prices. Predatory investments are, in fact, typical in times of crisis, when company share price valuations fall. The European Regulation also suggests the screening of FDI when the foreign investor is directly or indirectly controlled by the government. In this case, the concern is not only security, but also the potential distortion of competition due to the large availability of state funds at the disposal of the investor, which may allow purchase offers at off-market prices.

The industries covered by the new Law are numerous: critical infrastructure (including energy, transport, water, health, communications, media, data processing or storage, aerospace and defence infrastructure, credit, banking and insurance); critical technologies and civil-military "dual-use" products (artificial intelligence, robotics, semiconductors, cyber security, aerospace, defence, energy storage, quantum and nuclear technologies, as well as nanotechnology and biotechnology); and security of supply of critical inputs (energy and raw materials, food security). The regulation applies not only to acquisitions, but also to minority stakes exceeding 10% owned by non-EU parties.

In theory, the screening of investments should not limit the free movement of capital, which is one of the fundamental drivers of globalization processes, but it should be exercised only in exceptional cases, related to reasons of security and public order, as required by European regulations, and to protect national strategic interests.

It should be emphasized that all these measures, consistent with the European approach and regulations, do not in principle have any discriminatory intent towards investments from China or other specific countries. However, even if it is not made explicit, they are particularly suited to FDI from countries that are not either members of the Atlantic alliance or “like-minded” partners in the Asia-Pacific. Therefore, it is not surprising that China in particular is under the observation lens of European governments. What is worrying are the size of the Chinese economy and its growth ambitions, the characteristics of its political and institutional system, as well as the significant role played by state-owned enterprises in the country.

In this context, some recent statements by the influential minister of economic development and member of the rightist League party, Giancarlo Giorgetti, aim is to extend the perimeter indicated by European regulations in a more protectionist sense. He announced a forthcoming revision of the Italian regulations on FDI that should extend the scope of application of golden power to "sectors that are currently excluded but of great importance for the national economy"⁸. The explicit reference is to the automotive or steel industry, exposed to Chinese competition but crucial for strategic national interest.

Not surprisingly, a few days after this declaration, CNH Industrial, a multinational controlled by the Italian Agnelli family, and FAW, one of the largest Chinese automotive groups, ended talks for the sale of **IVECO**, a large Italian company specialized in the truck and bus business. Officially, the offer presented by FAW for IVECO was considered not acceptable by CNH, but the Italian government had signalled the opposition to the transfer of the company to Chinese hands⁹. Some parties even invoked the exercise of golden power, as a subsidiary of Iveco, Iveco Defence Vehicles, produces trucks for the Italian defence. However, this was probably a pretext, since this company was excluded from the negotiation.

The news of FAW's exit was welcomed by the Italian government, the unions and other stakeholders, with a hope for an “Italian solution” for the future of IVECO. The firm was recently demerged from CNH and it will operate as a stand-alone company¹⁰, but the industrial plan of IVECO is still unclear.

The first examples of application of golden power concerns 5G technology, where Chinese companies are among the world's leaders in terms of technological development. Given the strategic importance of 5G, the diffusion of this technology is strictly monitored by the governments of many advanced countries. The Trump administration banned China's Huawei and Zte, on charges of espionage, and warned other nations of the security risks associated with the use of Chinese 5G infrastructure. Australia, the U.K. and Japan joined US in banning Chinese companies in this area. In 2019, the European Commission and the European Network and Information Security Agency highlighted the security risks associated with using 5G equipment from manufacturers outside the EU, especially when relying on a single supplier. Several European governments, including Germany and France, while not enforcing any formal bans on Chinese companies, have since then increased the scrutiny significantly.

In March 2021, the Draghi government exercised the golden power for the first time by imposing limitations on the supply contracts between Fastweb, China's Zte and Taiwan's Askey, and between Italy's Linkem with Huawei and Zte. This intervention follows two similar measures decided by the previous Conte government: the veto on a contract between Fastweb and Huawei, where the

⁸ “Giorgetti, valutiamo golden power per filiere ora escluse”, ANSA, 8 April 2021.

⁹ “CNH Ends Talks With China’s FAW on Sale of Iveco Unit”, By Tommaso Ebhardt, *Bloomberg*, April 17, 2021.

¹⁰ “CNH Industrial approves Iveco spin-off”, by Roberta Prandi, *Diesel Progress*, 27 December 2021.

Chinese company was the only supplier for the 5G network, and the imposition of specific requirements on another supply contract between Fastweb and Zte¹¹. More generally, Copasir, the Parliamentary Committee for the Security of the Republic, has recently and explicitly called for a ban of Chinese 5G technologies, suggesting to rely on European companies.

Another recent case of application of golden power by the Draghi government is the sale of 70% of **Lpe**, a small Milan-based company that makes semiconductor equipment, to Shenzhen Invenland Investment Holdings, a company somehow related to Xiang Wei, a Chinese financier active in the global semiconductor sector¹². The Italian firm sells 60% of its production in China. As Draghi explained, the veto to the operation, decided in March 2021 and proposed by Minister Giorgetti, is motivated by the shortage of semiconductors due to the pandemic crisis, which has forced many car manufacturers to slow down production. Semiconductors are considered a strategic sector for the Italian economy, given their importance for many production chains. After the signing of the decree blocking Lpe's sale, the owners of the company wrote a letter to the Prime Minister Draghi and the Minister of Economic Development Giorgetti, which highlights the conflict between corporate convenience and the general interest¹³. After complaining about the measure adopted, the owners underline how the agreement with Shenzhen Invenland would have better protected the company's patents and strengthened its position in the Chinese market, with no risk for Italian security.

The latest exercise of golden power dates back to October 2021 and concerns the proposed acquisition of Italian seed producer **Verisem**, owned by U.S. fund Paine Schwartz Partners, by the Syngenta Group, one of the world's leading agribusinesses, specializing in seeds and pesticides. Syngenta is a Swiss company acquired in 2017 by Chinese state-owned chemical giant ChemChina, which recently merged with Sinochem, another Chinese state-owned chemical giant. The veto of the acquisition, signed by Premier Draghi and Five Star Agriculture Minister Patuanelli, is motivated by the issue of food chain safety.

Against this takeover, the Italian reaction of almost all stakeholders has been quite strong. Coldiretti, the main Italian organization of agricultural entrepreneurs, has put strong pressure on the government to block the initiative. In the words of one of the organization's leaders, "there is the risk of selling off to foreigners a piece of the national genetic heritage of biodiversity made of seeds preserved by generations of farmers and that would be trivialized and standardized on the international market"¹⁴.

Behind these statements, there is a fear of over-concentration in the global seed industry, which is currently dominated by four large multinationals, and the risk of undermining the link between the seed sector and domestic agricultural production. Moreover, the acquisition "would have shifted the global strategic balance in the control of seeds for vegetable and herb production to Asia". It should be noted that Verisem is currently owned by an American *private equity* fund, Paine Schwartz Partners. When the fund took over the company, no one raised any objections related to national security or risk for the Italian agribusiness sector.

¹¹ Presidenza del Consiglio dei Ministri, *Relazione al Parlamento in materia di poteri speciali sugli assetti societari nei settori della difesa e della sicurezza nazionale, nonché per le attività di rilevanza strategica nei settori dell'energia, dei trasporti e delle comunicazioni (Golden Power), Dati dal 1° gennaio al 31 dicembre 2020*.

¹² "Draghi ferma i cinesi con il «golden power»: cos'è e perché l'italiana Lpe è stata protetta", by Fabrizio Massaro, *Corriere della Sera*, 9 April 2021.

¹³ "Golden power, la Lpe e la difesa del Made in Italy (non solo dai cinesi)", by Ferruccio de Bortoli, *Corriere della Sera*, 20 April 2021.

¹⁴ "Verisem, una questione di sovranità alimentare", by Emanuele Cuda, *L'Indro*, 16 July 2021.

Besides the specific concerns for the seed sector, a clear distrust towards China - "systemic competitor and rival" of the western world - emerges from many positions. As stated by the president of another trade association, the Cdo Agroalimentari, "Western democracies should put in place systems to protect national companies from acquisitions by foreign companies that are directly or indirectly linked to sovereign wealth funds and that are located in non-democratic countries that do not respect people, labor and the environment"¹⁵. Notice that since 2020, both ChemChina and Sinochem appear in the Pentagon's Chinese companies blacklist for their ties to the military and therefore for security risks.

Beyond the specific aspects, the cases discussed so far suggest two general reflections, which have important implications for the future of bilateral relations between Italy and China.

First, there is a clear push to extend the range of sectors to be considered "strategic", and therefore to be protected. The risk is to widen the degree of government discretion in the exercise of *golden power*, with the result of blocking investments that might have a positive impact on target firms and, more generally, on the domestic economy. In principle, the screening of investments should not limit the free movement of capital, which is one of the fundamental drivers of globalization, but it should be exercised only in exceptional cases, for reasons of security and public order, as required by European regulations, or to protect national strategic interests. However, in the absence of a clear government industrial policy, any national industry, historical brand or national champion can be considered "strategic". The list could include industries in the Made in Italy sectors or historical brands and national champions, regardless of the motivations related to security issues or the threat to public interests, which in principle should be "neutral" and limited to clearly identifiable cases. According to this approach, when there is a corporate crisis, the idea is that an "Italian solution", with the involvement of Italian investors and State loans, is always better than a foreign buyout. However, this could be a solution, if the problem were a lack of capital, but it might not be enough if the problem were related to the industrial plan or the company's global strategies.

The second reflection is that there is a growing anti-Chinese sentiment, motivated by geo-political tensions ("systemic competitor"), the importance of China in the global economy, the technological rivalry with the West, and human right violations. There are many signs in this direction in Italy, in particular from the centre-right parties (Lega, Fratelli d'Italia and Forza Italia), which represent about half of the electorate in the polls. But caution and distrust emerge also in the rest of the political spectrum (especially the Democratic Party and Movimento 5 Stelle), generally more open towards China and more aware of the importance of relations with this great country. These positions are often hidden behind the call for a common European policy and strategy towards China.

In the background of all this, there is the discussion on the opportunity of "decoupling" from China. This is consistent with the new forms of protectionism that are spreading in Europe, the USA and other advanced countries, also as an effect of the pandemic crisis, which call for strict FDI control regulations in order to protect domestic industries and guarantee supply chains. This idea, born in the US, particularly during the Trump administration, is spreading in other advanced countries. This choice would be economically disastrous, given the significant implications on trade, foreign direct investment and supply chains.

In Italy, no one has gone that far yet, in line with the prevailing orientation of the business world and a large part of public opinion which recognizes the value of economic relations with China. CEIAS and other research bodies carried out a survey at European level on public opinion towards

¹⁵ "Questione Verisem: interviene Camillo Gardini della Cdo agroalimentare", by Cristiano Riciputi, *Fresh Plaza*, 12 July 2021.

China¹⁶. In the case of Italy, opinion of China has worsened in the last three years. This change is affected by the concerns about the environment, cyber security, and economic espionage. Nevertheless, the majority of those interviewed still have a positive assessment of relations with China in terms of trade, direct investment and the economic potential associated with the New Silk Road.

Crucial, in this assessment, is the expectation of reciprocity of benefits, the hope that the opening of the Italian economy to China will be counterbalanced by a similar opening to Italian exports and investments in the Asian country. This hope is at the heart of the agreement between China and the EU on foreign direct investment signed in December 2020, after a long and complex negotiation that lasted seven years. However, the agreement has not yet entered into force because the ratification of the agreement by the European Parliament has been frozen in May 2021 following a dispute over human rights.

7. Conclusion: What are the prospects for the future?

Italy is certainly attractive to potential Chinese investors. It is the third largest economy in the European Union and the eighth largest in the world. It is strongly integrated in a market where about 500 million people live, and it is well connected to North Africa and the Middle East. Above all, Italy has the second largest manufacturing industry in Europe, with a trade surplus equal on average to around 3% of GDP over the last five years and with comparative advantages in a set of industries, such as instrumental mechanics, automotive supply chains, goods linked to fashion and design, and agroindustry.

However, the country's ability to attract FDI is below its potential and that of other European economies. In relation to GDP, the stock of FDI is 25%, compared to 29% in Germany and 37% in France (OECD 2020 data). The government, which is aware of the importance of foreign capital inflows in supporting economic and employment growth, has long set the goal of increasing the flow of foreign investment.

Since 2014, CAIE (*Comitato Interministeriale Attrazione Investimenti Esteri*), a government body, tries to coordinate the policy of attracting FDI. The latest guidelines, issued in April 2021¹⁷, contains a series of proposals aimed at attracting foreign investments, which fell sharply in 2020, in order to facilitate the recovery from the economic crisis caused by the pandemic.

The attraction activity takes place within the framework of European and national regulations on the control of FDI, "to protect national strategic interests" and to discourage predatory investments. In the document, the People's Republic of China is listed as one of the twenty priority countries for FDI, although the stated preference is for foreign capital coming from "like minded" countries. Western countries and the competing powers of China and Russia are not *de facto* considered equally desirable. The goal of the government is to attract investments in sectors with high growth potential, high technology and innovation rates, and high inter-industry spillovers. The idea is to add value and support the main domestic industrial clusters and production chains.

CAIE essentially provides coordination and services to international investors, and its actual impact on investment activity is limited. What can really change the attractiveness of Italy and guide the choices of international investors are the opportunities offered by the EU-funded PNRR (National

¹⁶ *Italian public opinion on China in the age of COVID-19*, by Gallelli B., Albana A., Turcsányi R.Q., Šimalčík M., Kironská K., Sedlákov R., CEIAS (Central European Institute of Asian Studies), 2020.

¹⁷ Cabina di Regia per l'Internazionalizzazione, Sessione straordinaria per l'Attrazione degli Investimenti Esteri (AIE), I Riunione, 20 aprile 2021, MAE e MISE.

Recovery and Resilience Plan), launched by the government in 2021 within the framework of the Next Generation Eu program. The resources made available by the European Union are substantial and unprecedented: a total of 235 billion euros intended to boost the Italian economy and to promote a number of structural reforms that have long been considered essential. Consistent with the indications of the European Commission, the Plan identifies six priority areas for action (the six "missions"). The missions that promise the greater impact on the production system are those related to digital infrastructures and technologies associated with Industry 4.0; the ecological transition, renewable energy and sustainable mobility; large infrastructures for mobility, especially related to the rail network and high speed; the health system, involving pharmaceutical, biomedical and medical devices.

Can China take advantage of this opportunity? More generally, what are the future prospects for Chinese companies wishing to expand into the Italian and European markets? The answer is based on three main considerations.

First, Chinese FDI have so far been mainly of the brownfield type. Chinese investors tend to acquire existing industrial companies, often taking advantage of a corporate crisis, essentially in order to exploit technological and market assets. As we have seen, in these cases the prevailing attitude of the government, the unions and the stakeholders is one of particular caution. The main concerns are the fear of employment downsizing, insufficient commitment to investment and technological innovation, the risk of closure and relocation abroad of production activities. This concern is certainly not limited to investments coming from China, but it emerges whenever important pieces of the Italian industrial system (the "family jewels") are sold to foreign multinationals. In these cases, an "Italian solution" is generally invoked, supported by the State and its industrial policy, to protect an important company or an industry considered "strategic" for national interests. A solution which is not at all easy and not always viable, but which, in any case, reduces the space for international investors. Moreover, the PNRR is expected to have a strong expansive effect on economic activity in the sectors concerned and this will reduce the risk of company crises and will probably stimulate a greater volume of investment on the part of national companies and investors, leaving fewer possibilities for brownfield investment.

Second, many sectors covered by the PNRR are considered strategic for the Italian economy. For example, this is the case of digital technologies, technological infrastructure, the energy sector, the biomedical industry. This will increase the screening of potential international investors and will probably penalize Chinese companies, in line with the current attitude of the government and Europe that have been discussed above.

The last consideration concerns greenfield investments, which create new production capacity and employment, and which do not subtract, but on the contrary bring new technology and skills to the national industrial system, generating spill over and positive relations with existing production chains. China's appreciation could increase significantly if there were an increase in investments of this type. This would help to spread a positive image of China and would help to reduce the fear of predatory investments in the case of acquisitions of Italian companies, also making brownfield operations easier.

The point is that China is still lagging behind in many industries compared to other advanced countries, both in terms of market appeal and technology. This explains why the share of Chinese greenfield investments in Europe and Italy has so far been negligible, as we have seen. But things are rapidly changing. The ambitious Made in China 2025 program intends to support and encourage technological up-grading in various strategic sectors, with the aim of transforming the country into a large economy capable of innovating and competing on equal terms with the great advanced powers by mid-century. Many steps have already been taken in this direction in key sectors such as

information technology, technology platforms, sustainable mobility and electric cars, and we expect in the future a greater presence of large Chinese companies in Europe and elsewhere with their own facilities, research centers, distribution networks, manufacturing partnerships with Italian and European groups.

The example of FAW, the large Chinese automotive group, is illuminating in this regard. We saw how at the beginning of 2021 the attempt to acquire IVECO, the historic Italian leader in the production of industrial vehicles, was quickly blocked. Completely different is the attitude towards another important recently announced investment project of FAW in Italy, this time greenfield: the construction of a plant for the development and production of high-end electric sports cars in the heart of the Italian Motor Valley, in Emilia Romagna. The billion-euro investment promises the hiring of skilled workers and technicians, managers and qualified engineers in a region where other major global players like Ferrari, Maserati, and Lamborghini, are located.

The reception has been so far decidedly positive from all interested parties: the political world, local administrations (Emilia Romagna Region and municipalities involved), business associations, research and training structures (universities and technological poles), even the labor market, given the interest shown by several high-level managerial figures and technicians working in the automotive sector in the region and willing to move to the new industrial reality. In this case, all mistrust and concern towards Chinese partners seems to have vanished.

This is an important indication for the future, China has always sought and attracted greenfield investment in its own country and favored partnership agreements with foreign multinationals as a key part of the technology transfer necessary for its development. Now the country's ambitions as well as its weight in research and technology are changing. This suggests a different future and greater reciprocity between China and Europe, between China and Italy. Beyond geo-political considerations and possible mistrust, the Silk Road is certainly always open and free of obstacles if Chinese companies credibly promise to bring technology, development and employment to the countries hosting their investments.