6 ENTERING THE DRAGON

LESSONS FROM ITALIAN FDI IN THE PEOPLE’S REPUBLIC OF CHINA

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INTRODUCTION

China has grown quite fast since 1978, when the Open Door Policy ushered in a new era of modernization and growth. Fast development, together with structural changes and lifestyle improvements, have made the country one of the main players in East Asia. The transition from a planned economy to a market economy is creating new opportunities for foreign direct investments (FDI). Despite the political, economic and cultural risks in operating overseas, not only large multinational corporations (MNCs) but also small and medium companies (SMEs) recognize the strategic importance of China.

After 1978, FDI to China increased rapidly and, in 1995, it became the second largest recipient of FDI after the US, and the largest among developing countries. Given these impressive figures, an interesting line of inquiry is to analyse the strategic choices that foreign companies face in “entering the dragon”. China is a very complex and a ‘distant’ destination for European companies, and this distance is not only physical, but also psychological, which makes it extremely hard for foreigners (especially Western) to work there and achieve success. According to Chapel (1998), one key element in bridging the psychological divide is communication competence: the more a party knows about its counterpart, the more easily it succeeds in establishing long-lasting cooperation. As far as China is concerned, this competence is sometimes hard to develop, as it involves more than achieving language proficiency: those who decide to work in this country need to know as much as possible about the local culture, philosophy and ethos.

Following this line of argument, the aim of the present paper is to provide a general framework to discuss the strategic questions that guide Italian companies in entering the dragon. Starting with five subsidiaries in the early 1980s, figure 6.1 shows that Italian FDI has increased year by year, reaching the considerable number of 99 in 2001.
I sent in-depth questionnaires to 59 Italian manufacturing companies active in China in 2001. Given that around 90 per cent of the sample gave comprehensive answers, this survey provides a detailed profile of the investors and insights into their business strategies in China.

**Questions and doubts about entering the Dragon**

Market players sometimes feel frustrated or even indignant about their experiences in China. They take part in lengthy negotiations that often run on like endless marathons, they write letters and send catalogues that fail to evoke responses, and they make journeys to and from China, all without definite results (Guopei 1999). What are the reasons for such exasperating experiences? Many attempts have been made – both in China and in other countries – to explore this phenomenon and provide some answers (see, among others, Guopei 1999, Li 1998, Luo 2000). Most explanations fall into one of two fundamental categories: bureaucracy and culture.

On the one hand, China is famous for having overlapping lines of authority and competing ministries and commissions, which means that round after round of approvals must be sought before a decision is made. On the other hand, it seems that the Chinese are masters of drawing out
negotiations until the terms of investment begin to favor their interests. While foreign companies cannot solve the first problem, they can indeed cope with the second one. As Harris and Morran (1996) observe, to see China as it is is the first step towards success. One factor in effective negotiation, then, depends on understanding the other side’s negotiation practices. Conduct during negotiation is influenced in turn by the existing business attitudes and customs that are to a large extent embedded in the cultural and social traits of the parties involved. Different business attitudes and customs can yield significant differences in the psychological processes governing the bargaining procedures (Shenkar and Ronen 1999).

Differences among negotiation practices become especially salient when the parties are characterized by sharply different backgrounds, as in the case of a Chinese and a Western partner. While researchers often prescribe patience as a cure-all, what I argue here is that patience per se is not sufficient to guarantee success unless it is strongly supported by a thorough knowledge of the local reality. Put another way, investing in China needs to be organized with care, and this sort of preparation is likely to take some time. Many cases demonstrate that those who invest in China just because it is the latest FDI fad inevitably fail for both cultural and organizational reasons (Depperu 1993). Although very schematic, one way to understand the key cultural and organizational factors informing Italian FDI in China is to draw a road map based on their response to Why, Where, How, and When they came to this country. Although this approach appears quite simple, it may be worth devoting a few words to each of them to indicate what information they could yield.

The first question is the starting point of any discussion about the cross-cultural process. Firms need to figure out the pros and cons of realizing FDI, evaluating carefully the compatibility of their goals with the characteristics of the host country. Put another way, investors need to have a clear idea of what they want to achieve, and to what extent the destination country suits those goals. What are the main rationales for entering China? Is there anything that makes the country so appealing from a foreign perspective? Why? This is, of course, a vital point, since strong motivation seems to be a prerequisite for going abroad to invest. Once companies have answered the why-question, the first step is taken, and what remains simply helps refine and specify the project by adding further details.

As far as China is concerned, the location of a factory represents another crucial issue. The country is as large as a continent, and the provinces show a great deal of variation in social and transport infrastruc-
tures. In contrast to the coast regions supplied with roads, railways, harbours, the inner regions lack many or all of these facilities. To what extent does this duality still persist? Do companies locate on the coast nowadays or do they try to exploit the inland? What kind of advantages do companies seek to secure with their location strategy?

The next crucial issue is the entry mode, which I previously referred to as the ‘How’ question. There is a large literature on the topic (see, among others, Tung and Yeung 1998; Tsang 1998; Vanhonacker 1997; Li, F. and Li, J., 1999; Gattai 2002, 2004), which distinguishes between joint venture (JV) and wholly foreign-owned enterprise (WFOE) as the basic choices companies face in deciding how to organize foreign investments. To be sure, compensation trade, joint development, and processing trade are among the other entry modes, but given their minor role, the present analysis sticks to the traditional distinction between JV and WFOE (e. g., see Li and Li 1999). Foreign direct investment was formally allowed in China with the enactment of the Law on Equity Joint Venture of 1979. At first potential foreign investors were required to form a JV with a local partner, but in the 1990s the rules were loosened to allow WFOE. The main difference between the two contractual forms is based on the percentage of ownership: while a JV is based on co-operation between a foreign and a Chinese partner, a WFOE – as the name suggests – is a 100 per cent foreign investment. Entering China with or without a partner are the two main options for a foreign investor, and it is very interesting to evaluate the basic advantages and disadvantages related to these two contractual arrangements. For example, why should foreign companies enter China in joint ventures instead of WFOEs and vice versa?

The last issue is the timing of entry, namely whether there exists an appropriate period for investing abroad. Is FDI a typical globalisation strategy of young or old companies? What is the role, if any, of age and experience in driving FDI to China? As time passes, companies gain so-called ‘knowledge specific assets’ (Markusen 1998) that are likely to play a major role in determining the success of FDI. Is this prediction supported by the data? I will try to provide some answers to the why, where, how, and when questions based on the Italian experience in the next section.

**Italian Company Profile**

The present research builds on a survey questionnaire exploring the strategic choices of 53 Italian manufacturing companies with 87 subsidiaries in China (see Gattai 2004 for more details). Though relatively small, the sample is representative, as it accounts for 90 per cent of all Italian
investors in China, giving a comprehensive picture of their heterogeneous business activities. The questionnaire – based on multiple choice responses was sent via fax (11 per cent), e-mail (38 per cent) and telephone (51 per cent), and it consists of two sections. In the first section, I asked background questions to derive a general profile of the Italian investors. The questions ranged from the traditional ‘economic variables’ – such as sales, employees, industry, organisational structure, etc. to the human resources and the company’s attitude towards the globalization of business. In the second section I investigate their FDI strategies and the major challenges faced in the Chinese market, with particular attention to the issues of ‘Why?’, ‘Where?’, ‘How?’ and ‘When?’

The experiences of Italian MNCs in China are very diverse. An initial look at the survey results suggests it is impossible to draw a single “Italian” profile because investors differ in many regards. They differ by company size, sales, year of establishment, industry, corporate form, and sector. According to ISTAT (the Italian Istituto Nazionale di Statistica) classification, handicraft (very small) companies have less than 10 employees, small companies from 11 to 99 employees, medium companies from 100 to 499 employees, large companies have more than 500 employees. Based on this definition, figure 6.2 groups Italian companies according to their company size. The handicraft companies represent the minority (7.6 per cent), while the distribution across small (30.2 per cent), medium (35.8 per cent) and large companies (26.4 per cent) is relatively balanced.

Figure 6.2: Italian Companies Grouped by Company Size
These results are characteristic of the Italian manufacturing sector, which is typically organized in clusters and networks of small companies. Those who have in mind the example of the huge US conglomerates, probably think that only very large companies can undertake FDI. The reason often given is that small- and medium-sized enterprises (SME) lack capital and they are risk averse. Consequently, they are not strong enough to go abroad and operate subsidiaries. The present survey reveals a different pattern exhibiting the entrepreneurship and dynamism of Italian SMEs. The number of small companies going overseas is increasing among the population of companies in Italy, suggesting that not only large companies can pursue globalisation (Cominotti and Mariotti 1998). As far as sales is concerned, figure 6.3 shows the large companies – with more than EUR 50 million – are the main players in China, followed by 32.1 per cent with sales between EUR 25 and 50 million, 15.1 per cent with sales between EUR 10 and 25 million and 15.1 per cent with sales below EUR 10 million. This outcome is not surprising, due to the large amount of money that is needed to establish a subsidiary abroad, with respect to “softer” ways of internationalization, like import-export operations. The reader may find surprising, instead, the absence of correlation between a company’s size (as measured by the number of employees) and its sales. This evidence is further proof of the pervasiveness of SMEs across the Italian manufacturing system.

Figure 6.3: **Italian Companies Grouped by Sales**

The companies covered by the survey were established approximately 30 years ago. Only three of them are younger than 10 years and eight are
older than 50 years. More than 50 per cent belong to the 10–30 year old-range, around 26 per cent to the 30–50 year old-range. The companies are either limited companies or joint-stock companies. According to the acquisition of technology, companies can be grouped in four categories of technological development (Bell and Pavitt 1993): in traditional ‘supplier-dominated firms’ – like textile, leather, shoes, jewellery, musical instruments, toys, furniture, pottery – technical change comes from suppliers of machinery and other production inputs, while technology is basically transferred in the form of capital goods and other inputs; in ‘scale intensive firms’ – like automobile and chemicals – technical change is generated by the design and operation of complex production systems; in ‘science based’ high tech firms, technology emerges from corporate research and development and is heavily dependent on academic research; ‘specialized supplier dominated firms’ provide high performance equipment in the form of components, instruments or software to advance users; the accumulation of technology takes place through the design, construction and use of these production inputs. According to Bell and Pavitt’s classification (1993), figure 6.4 shows they belong to the traditional ‘supplier-dominated’ industry (35.9 per cent), followed by ‘specialized supplier-dominated’ (32.1 per cent), ‘scale intensive’ (22.6 per cent) and high tech ‘science-based’ (9.4 per cent).

Figure 6.4: **Italian Companies Grouped by Industry**

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<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Traditional</td>
<td>35.9%</td>
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<tr>
<td>Spec. supplier-dominated</td>
<td>32.1%</td>
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<tr>
<td>High tech</td>
<td>22.6%</td>
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<tr>
<td>Scale intensive</td>
<td>9.4%</td>
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The dominance of the traditional sector is not surprising because companies in this sector are less concerned about the technology-transfer prob-
lem than the high tech companies. It is widely known that R&D–intensive high tech companies are reluctant to invest in developing countries because they do not want to give away the fruits of their research for free. This is particularly true in the case of China, where reverse engineering is common and the labor force is cheap, creating potential local competitors in a relatively short period of time. The sample can be further divided into two large groups by organizational structure: 60.4 per cent is characterized by a divisional model, while 34 per cent follow a functional one. A nominal number of companies are organized around an elementary or matrix structure.

**Why?**

The ‘Why’ question represents the starting point for any discussion about internationalization strategies. If FDI is simply driven by which country is in fashion, it is likely to produce unsatisfactory results (Dep-peru 1993).

According to the present survey results, presented in figure 6.5, the large size of the Chinese market is the main reason underlying the massive outflow of capital to China. Both large companies and SMEs, and both high tech and traditional companies, select China from all the possible destinations in order to exploit the enormous potential of the country. The mystique of the Chinese market is often captured in the saying, ‘if you are able to sell even one toothbrush to every Chinese, you have already accumulated a fortune!’ While almost all the companies mentioned this reason, many of them added further explanations: 22.3 per cent explicitly took advantage of the low-cost labor force, especially in the traditional sector (leather, shoes, bags, clothes etc.); 11.3 per cent aimed at controlling or challenging domestic or foreign competitors; 9.4 per cent underlined the advantages of pioneering in a country that still looks virgin in many regards. As far as the rest is concerned, a little more than 10 per cent were particularly satisfied with the intrinsic characteristics of the country, where it is very much in line with the specific product under development. An interesting example is the case of a bonsai producer who found a perfect match between his business goals and the local climate and environment.

Overall, the motivations for Italian companies to invest in China are embedded in their global strategies. Indeed, Italian companies that have invested in China have also direct investments in other countries. For example, 90.5 per cent of the companies have commercial relations with more than five foreign countries, 5.7 per cent with between two and five
foreign countries, 3.8 per cent with one foreign country. The nature of these commercial relations varies. Figure 6.6 shows 11.3 per cent of the companies enter other countries through FDI only, while import-export, licensing, franchising and, of course, FDI refer to the rest of the sample. The data show that Italian companies have not established production networks but are more likely to service overseas markets through trade or arms-length relationships.

**Figure 6.5: Motivations Underlying Italian FDI in China**

**Figure 6.6: Italian International Relations**
From the survey interviews, I found that 54.7 per cent of the Italian investors opted for a ‘direct strategy’ by sending expatriates to China in order to monitor and control the local subsidiary. Such a direct approach is usually recommended as a key source of success (see, for instance, Weber 1996). Investors who leave the subsidiary alone are very likely to fail—be it a JV or WFOE. Another 13.2 per cent of the sample organizes only a few trips to China, as they do not have enough money to implement the direct strategy, while 3.8 per cent run their business indirectly from Italy. The remaining companies choose a middle-way solution, with a few expatriates and a few trips (11.3 per cent), indirect control and some trips (7.5 per cent) or a mix of the three strategies (9.5 per cent).

In the case of the direct approach, around 46.4 per cent of the companies organise specific training courses for the expatriates, which usually last six months, and cover different topics, such as the local economy and language, social and political aspects. In contrast, staff employees receive technical training. English and good interpersonal skills are the main criteria for selecting the expatriates, as they are expected to be good mediators between the headquarters and the subsidiary. Thus, most Italian companies provide some pre-overseas posting training to familiarize their expatriates with the local culture. Another 2.6 per cent of the sample regards past experience in overseas operations as an important criterion as well; 3.2 per cent look at the technical expertise and 15.4 per cent at the (local) language skills.

Results, in terms of satisfaction, are impressive, and only a few companies—probably those who lacked clear motivation—now want to leave the local market. This does not mean Italian companies are immune to problems. Indeed, many of them highlighted serious difficulties in localising their business. Li (1998, p. 57) likens the localization of business to a courting process leading to marriage. ‘The concept of family, embedded within the fundamental values of the Chinese culture, can be used to illustrate Sino-foreign Joint Ventures. Before the union of two people creates a family, the respective parents usually have to give consent to such a marriage. A date is chosen, terms and conditions are agreed upon, and a ceremony is performed to seal the alliance. The marriage as a new union will go through a honeymoon period (but) we are living in a world where divorce is a common phenomenon.’ Based on this analogy, the motivating factors for Italian direct investors in China may have been its large market and low labor costs, but they are now beginning to grow their local business operations to compete in a global market.
WHERE?

Where are the main overseas destinations for the Italian companies that have invested in China? Besides East Asia – common to everyone – Europe is the most important region for Italian FDI followed by North America, Africa and Australia (see figure 6.7). This pattern is consistent with most studies of MNCs that find they initially invest in the region closest to their home country and/or the large American and European markets. Thus the move towards direct investments in China (and Africa and Australia) represents a globalisation of their business. More than 80 per cent of those operating in China have been involved in international operations for more than ten years, 15.1 per cent for between six and ten years and 3.8 per cent for between one and five years.

Figure 6.7: Main Destinations of the Italian FDIs (Asia=100 per cent)

![Graph showing distribution of destinations]

While the enormous size of China is certainly a key element in attracting FDI, it also poses serious threats when companies are deciding on the location of their plants. Within China, figure 6.8 shows that a large majority of them are settled near the coast (70 per cent). This duality in the geographical location of companies in China dates back to the Open Door Policy of the 1980s when Deng Xiaoping first established the Special Economic Zones (SEZ) – Zuhai, Shenzen, Xiamen, Shantou – and then extended the reform program to the whole coastal region. Benefiting from large fiscal incentives and tax reductions, the SEZs soon became a natural magnet for FDI, attracting a massive inflow of capital from abroad.
There are numerous econometric studies trying to assess what determines a company’s choice of location (see, for instance, Coughlin and Segev 2000; Broadman and Sun 1997; Wei, Liu, Parker and Vaidya 1998). The empirical results indicate that there is a long-term relationship between the spatial distribution of FDI and a number of regional characteristics – such as international trade, wage rates, R&D manpower, GDP growth rates, improvements in infrastructures, more or less rapid advance in agglomeration, more or fewer ethnic links with the overseas Chinese etc. All these studies account for a clear and persistent duality where there is a high concentration of FDI in some but not all regions of a country.

The Italian company data shows that WFOEs seem more likely to locate in the coastal regions but a noticeable number of JVs have also located inland (Gattai 2004). In particular, 21 Italian companies are located in Shanghai, which is one of the preferred coastal destinations, ten in Jiangsu, nine in Beijing and Anhui, eight in Guangdong, six in Sichuan, five in Zhejiang and Henan, four in Shandong and Liaoning, three in Tianjin, two in Hunan and only one in Hong Kong. This evidence may look a bit strange, and it is worth offering a tentative explanation. The Open Door Policy initiated a far-reaching internationalization process, that initially spread across the coastal region. This area is still the richest
and most developed within the country. Not surprisingly, the WFOEs, which are relatively young, decided to establish themselves precisely there. The first JVs were located on the coast as well, but more recent plants are sometimes opened in the interior regions. Taking advantage of their longer experience in China, they are moving inland in order to avoid the tough competition from the old JVs and the new WFOEs in the coastal regions.

The mix between country characteristics and the competitive advantages of Italian companies seems to explain much of the early direct investments, but over time local experience and know-how become a stronger factor in explaining the expansion of an Italian company’s direct investments in China.

**How?**

As far as Italian companies are concerned, JV represents the predominant answer to the entry mode dilemma. Within the JV category, figure 6.9 shows that Italian companies are the majority owner (51–99 per cent) in 34 per cent of the cases, closely followed by WFOE companies at 32 percent. Minority ownership (1–49 per cent) accounts for 23 per cent of the cases and equal ownership for 11 per cent of the cases. In short, around 70 per cent of the companies have a local partner and only 30 per cent invested alone. What are the reasons behind this behaviour?

*Figure 6.9: Italian Share in the Chinese Subsidiary*
There is quite a debate on this topic – extensively reviewed in Gattai 2002 – which relies on cultural and philosophical explanations: Tung and Yeung (1998, p. 202) argue ‘The Chinese market is like a pond full of hidden delicious food. A new fish in the pond can starve to death because he does not know how to locate the food. Your intermediary is an old fish who can show you the precise location of this food so you can eat to your heart’s satisfaction.’ In China, guanxi or personal relationships is the very essence of the local society ruled by social power and not by impersonal laws (Tsang 1998). As the respondents to the survey point out, the local interpersonal networks provide a privileged gateway to China, by ensuring a free flow of information. The local partner – like the proverbial ‘old fish’ – provides the guanxi required to gain access to the organisation resources needed to help you ‘be’ Chinese.

The survey data suggest that China is changing, however, and so are the opportunities and challenges facing foreign companies that want to operate within its borders (Vanhonacker 1997, p. 130). Fifty-three per cent of the Italian MNCs chose 100 per cent foreign investment in order to achieve strong control and high flexibility standards. High-tech companies are very reluctant to invest in developing countries, since they do not want to share entirely their core technology with a local partner. A 100 per cent foreign investment seems the natural way to avoid that risk, as companies simply work alone and do not need to consult with a local partner on management decisions. For more than 40 per cent, a WFOE represents the evolution from a former JV. This is the case for many companies that established their plants in the 1970s and early 1980s, when JVs were the only option, and acquired all the shares in the 1990s. Another 5.8 per cent of the respondents did not find a good partner, and preferred to work alone.

Although guanxi is important in business not only in China, but also in most business transactions, even in China compatible goals, complementary skills, co-operative culture and commensurate risk are the key criteria in a good selection process (Luo 2000). According to the survey, Italian companies adopt a strategic approach, where not only a partner’s connections, but also industry expertise and market share are the most important selection factors, followed by an organisational criterion–based on human and learning skills, type of ownership etc – and finally a financial criterion. The present survey reveals that it not easy at all to find someone with compatible goals, complementary skills, co-operative culture and commensurate risk. Around 13.2 per cent looked for a partner as a way to share risks and costs, 3.8 per cent wanted to gain certain competencies from a local partner and 2 per cent did so because they were already engaged in import-export operations. Thirty one per cent made their choice in less than a year, but only 16.7 per cent in less than six
months. After making their final JV partner choice, 72.2 per cent have never changed (72.2 %) or changed once (2.8 %) and 25 per cent changed more than once. Those companies who pay more attention to the selection process usually succeed in establishing long lasting co-operation, while those who make a quick and superficial choice are more likely to fail. Based on this data, Gattai (2004) regressed the entry mode on the main elements of the company’s profile, in order to explain what eventually shapes the choice between JV and WFOEs. The probit estimates show that the human resources and a global business strategy are statistically significant while traditional economic variables are not.

**When?**

Is there an appropriate time for investing abroad? Is FDI a typical global strategy of young or old companies? What role, if any, do age and experience play in driving the Chinese adventure?

As far as Italian companies are concerned, most of the companies in the survey are approximately 30 years old, three are younger than 10 years, and only eight are 50 years or older. Note also that more than 50 per cent belong to the 10–30 year old-range, around 26 per cent to the 30–50 year old-range. These findings suggest that a global strategy evolves over time and becomes a feature of mature companies. In contrast, very young Italian companies seldom engage in either FDI, licensing, franchising or import-export activities. Since we are dealing with the manufacturing sector, this result seems quite plausible. While trading or consulting companies inevitably base their survival on international exchanges, manufacturing companies usually open up to foreign markets at a later stage.

Recall also that at the time of the interview, around 80 per cent of the respondents had been involved in international operations of some kind for more than ten years, and only 3.8 per cent for fewer than five years; that 90.5 per cent have commercial relations with more than five foreign countries, and only 3.8 per cent with one foreign country. The length of overseas experience and the number of foreign partners can be regarded as a proxy for the capacity to run an overseas operation: the more an company has been active abroad, the more likely that it has acquired the expertise and comprehension of cross-cultural management. As time passes by, companies gain what Markusen (1998) calls ‘knowledge specific assets’. These are related to the human capital represented by worker skills, patents, blueprint procedures, marketing assets, reputation and so on and proved to play a major role in determining the success of Italian FDIs. As far as the workforce is concerned, everybody agrees that dynam-
ic and well-trained human resources are a key resource for a company that seeks to achieve success both at home and abroad. In the case of overseas operations, these aspects become even more salient. Fifty-five per cent of the Italian MNCs require all their office employees to have proficiency in English, 5.7 per cent among the expatriates, 15.1 per cent among the import-export office employees, and 3.7 per cent among the managers and expatriates. In addition, 92.5 per cent require good computer skills in all the office employees, 5.6 per cent among managers, and one company thinks that it is not relevant to internationalization. Sixty-four per cent have training courses for all the employees, 24.5 per cent have none, and the rest trains only managers, expatriates or import-export office employees. The picture that emerges from this data is one of a fairly dynamic labor force, very active, and well trained.

Around 60 per cent of the sample has one subsidiary in China, 20 per cent has three, 18 per cent has two, and two per cent has four. Moreover, the large majority has been working with China for more than six years (66 per cent), and only 2 per cent for less than one year, which means that, at the time of the interview, many companies were already very competent at dealing with the local reality. While any attempt at providing a general recipe for the most appropriate time to invest would surely be ambitious, based on this data, it is clear that long experience characterized the Italian case. In fact, according to the present survey, only three companies want to leave the Chinese market, while all the rest expressed a long-term commitment to growing their current business. As far as the JVs are concerned, 19.4 per cent have never had cooperation problems, while more than 80 per cent experienced many difficulties, due to cultural distance (63.9 per cent) or unfair behaviour of the Chinese counterpart (17.7 per cent). These were not very serious problems and only in three cases did it lead to a ‘divorce.’ About 38 per cent of the companies did not take any serious measures and relied on the temporary nature of the problems during the adaptation phase. Some 13.8 per cent increased local control, or redefined roles and responsibilities between the Italian and the Chinese partner, and the remaining 46.6 per cent adopted mixed strategies, combining crucial elements of the previous approaches.

If JVs were often undermined by cooperation threats, WFOEs proved to be problematic as well. While the majority (60 %) did not face serious difficulties, the rest had to be very cautious and patient, especially at the beginning of the business. Entering China without a local partner is not an easy task and foreign companies are likely to suffer a lot from the adaptation process. However, the Italian data suggests a very promising picture since only 17.6 per cent of the sample had problems in entering the local market while more than 80 per cent are successfully doing their job.
WHAT LESSONS LEARNED?

In the end, what lessons can we learn from the Italian experience? The reader would probably feel a little disappointed to find more questions than answers, but unfortunately the issue of FDI is so complex that it is almost impossible to give a single and comprehensive recipe.

The Italian case, though relatively limited, has already accounted for a large variety of experiences and outcomes. The survey results are positive, and everybody can feel comfortable with directly investing in China without discriminating a priori among the types of company. The investor profile of Italian companies is so rich that almost every company can recognize itself in the portrait, meaning that China is virtually open to everyone who is seriously interested in working abroad. Ancient traditions, local customs and the pervasive Confucian ethos make China a difficult and challenging destination for FDI, and represent probably the main reasons underlying a general feeling of dissatisfaction and failure among foreign investors.

Why is it so difficult to enter China and manage a successful business there? The fate of FDI does not hinge solely on cultural factors, but also on the efforts that companies make to understand the local reality: to see China as it is, is surely the first step towards success. In this paper, I have tried to summarize the main dilemmas of implementing a global strategy by asking ‘Why?’, ‘Where?’, ‘How?’, ‘When?’ to suggest a very simple road map for foreign companies. Focusing on Italian companies has certainly been a valuable exercise, as it provides detailed data on their choices, but it is not intended to generalize from these findings too much.

While the typical agglomeration of factories along the coastal region of China, and the precious role of experience are probably real lessons and valid to a large extent, some other answers clearly suffer from a strong national bias. Country characteristics, such as the fragmented production system and the massive presence of SMEs, are likely to affect the investors’ profile very much and play a part in their strategies as well. Italy is a useful case study, as it provides fresh answers to very urgent and crucial questions, but we should resist the temptation of going too far away from the available evidence. Interviewing investors from other parts of the world and comparing their performances in China with that of Italian companies is the natural extension of this research. In this way, it would be easier to understand what part of the final results is driven by country-specific determinants and what is instead independent of them. This reasoning represents the first step in the direction of building a safer road map, and providing a more comprehensive – though not definite – method for riding the Chinese dragon.
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