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The Evolving Framework of Chinese Outbound M&A

The case of Inter

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前言

这篇论文是关于中国对外直接投资，特别是海外并购这种现象。

这是一个热门的话题。伴随着中国政府鼓励企业海外投资的政策，中国企业掀起了海外并购的热潮。最近几年， 它们收购了许多欧美名列前茅的企业， 这引起了世界各国的广泛关注。那么，这种趋势是怎么出现的，会怎么发展的呢?

经过三十多年的改革开放，中国引进了大量的外国直接投资，成为世界上最重要吸引外资国之一。过去这些年，中国经济发展以“依靠投资和出口拉动”为基础。但是，最近几年，事情发生了显著的变化。中国的外汇储备数量越来越大，让它向海外转移其经济活动。在这种情况下，为了鼓励企业去海外投资，中国政府在2001年提出了“走出去”战略。 从此，中国的对外投资活动逐年增多。 它们增长速度很快，规模扩大得也很多。特别是2016年，中国企业海外兼并收购达到历史最高点。根据商务部发布的数据， 从一月到十一月，中国对外直接投资一共1617亿美元，同比增长55.3%。考虑到中国海外并购跨越式的发展，详细分析这种现象就是迫切的需求。

论文的第一章对中国对外直接投资进行分析。通过分析会看到，中国企业在对外直接投资中关注的地域、行业、方式跟以前相比有了很大变化，并继续改变。

首先，值得一提的是，比起西方国家对外直接投资来，中国具有一些特点。为了充分理解这一方面，我会把英国经济学家约翰·邓宁(John Dunning)的两个理论，也就是说“投资发展路径”和“OLI 方式”(也叫做“国际生产折衷论”)跟中国直接投资发展进程比较一下，看看有哪些区别。根据这些理论， 一个国家对外直接投资的发展阶段是固定的，并与国内生产总值有关系。此外，去海外投资的公司必须具备特定的优势，即垄断优势(又称所有权特定优势)，内部化优势以及区位优势。如果一家公司缺少这三类条件的话，对邓宁来说很难向海外扩张。一般， 这些理论不适用于中国对外直接投资，尤其是有两个理由：第一，中国对外直接投资发展阶段与西方不同。比起欧美跨国企业来，中国国际化的过程非常快，几年内海外投资成

为了经济的动力。第二，亚太地区的跨国公司，如中国的，（由作者 John A. Mathews 叫做 “龙跨国公司”），是国际市场的后来者，起初很少，缺乏关键资源，与重要市场差距很大，同时也缺少竞争力。那么，这些企业，特别是中国的，如何在国际的激烈竞争中成功? 事实上，它们具有一些优势，换句话说资本市场不完善（例如，国有企业享受的优惠待遇：补贴、很低的利息等等），所有权优势（如，适应性高，成本低等等），政府的支持。尤其是后者，从中国企业的角度，是必不可少的。鉴于中国公司海外经济活动什么样，政府说了算，这种问题值得特别关注。

所以，随着这个简短介绍，第一章会重点讨论中国政府在指导对外直接投资方面的决定性作用。通过政策的制定，中国政府有力地推动或限制了中国企业开展对外投资活动。以上述提到的“走出去”战略为例，它使对外直接投资快速地增长。此外，几年以前设施的“一带一路”战略，很可能将对海外投资速度产生很大的影响。简而言之，经过扶持政策或者限制性的措施，政府可以决定投资的方向。除了这种方式以外，中国主管机关具有另外一种手段来控制这个方向， 也就是说投资审批程序。在中国现有制度下，中国企业的海外投资需要有三个政府部门的批准，即国家发展和改革委员会 (简称“国家发改委”)，商务部和国家外汇管理局 (简称“外汇局”)。几年来， 中国政府一直试图简化海外投资的审批程序。特别是2014年，政府部门发布的一些政策都是因使审批程序进一步简单化而设施的。可是，在过去几个月，事情发生了变化。考虑到资金的大量外逃给放缓的中国经济带来了很大的压力，使人民币对美元汇率贬值，监管机构加强了对某些海外交易的审查（特别对于那些包括房地产、酒店、文化娱乐、体育等的 “非理性对外投资” ），以便阻止中国货币在海外的使用。根据最近的消息，这个措施已取得成果，所以有可能政府会再次放松对境外直接投资的管制。

在以往的很长时间内，中国政府也对从事外商投资项目的投资者结构进行了严格的控制。换句话说， 根据政府“国进民退”的经济政策，国有企业从中国政府中得到巨大利益，特别是当它们走出去时，是受到政府鼓励的。相反，政府对民营企业有歧视性并不希望它们向国外扩张。但是，几年来，尤其是从2003年开始，北京政府让民营企业完成首笔海外交易。从那时候起，民营企业参与海外投资的热情持续高涨，甚至它们成为海外投资的主要推动力。进一步说，在2016年第三季度，民营企

业第一次在交易数量和交易金额上赶超国有企业。

那么，这些公司为什么去海外投资呢？一般，企业向境外扩展有三个理由：第一是寻找更低廉、在国内缺乏的资源或者战略性资产 ；第二是寻求效率；第三是寻找市场。这些目标都涉及到中国内部情况。具体而言，从第一个理由来看，以前获得原材料是中国公司海外并购的主要驱动力。可是，现在发生了很大的变化。伴随着经济结构转型升级，也就是说从资源类资产转向高新技术产业，企业的关注点由原材料转移到战略性资产，如品牌以及高科技。这种变化也对投资目的地产生了深刻的影响。一开始，亚洲国家和地区主要引起了中国投资者的注意，因为那些国家拥有贵重的自然资源，像煤炭、石油等等。但是，几年来，欧洲和北美成为中国海外投资的主要目的地。考虑到欧美国家具有成百上千的著名、处在技术前沿的企业，这些都备受中国的青睐。关于第二个方面，即寻找效率，也有了变化。既然过去中国一直被认为是低成本区位，成本最小化战略不是海外投资的推动力。但是，鉴于最近中国经济有所放缓，进入了新常态，成本压力越来越大，所以中国企业开始向廉价劳动力、资源的国家投资。最后，对于寻求市场这个方面，一般它包括两个目标：一个是扩展市场，另一个是避免对国际贸易造成的障碍。除了上述提到的三个领域，在中国还有一项特殊因素可以作为国际化经营战略的理由：政府。如前面所见到的那样，政府在对外直接投资中的作用很重要。一方面，通过支持性政策的设施，它帮助企业进行海外扩张，但另一方面，有时候中国政府在公司进行对外直接投资中的干预太大，所以企业走出去为的是避免政府过度的控制。

从投资目的地的角度来看， 上述已介绍，现在欧美国家成了中国注目的地方。 第一章会用大量篇幅解释中国投资在欧洲的情况，特别是欧洲里意大利的情况。原因很简单，就是考虑到最后一章的案例研究涉及到一家意大利公司，即国际米兰足球俱乐部，对意大利这个中国投资东道国进行详细分析很有益的。

对欧洲来说，最近几年它成为最吸引中国投资者的目的地。重心转向欧洲这种现象反映出中国对战略计划的关注。在高新技术这个领域上名列前茅、具有强势品牌的欧盟公司有助于提升中国企业的国际地位和形象以及让中国向更先进的工业社会转型。此外，在投资方式上，并购成为中资在欧洲首选的途径。原因有两个：一方面，

中国企业以此能够快速地打入目标市场，取得最先进的技术和宝贵的知识，并提高它们的知名度。另一方面，伴随着金融危机以及债务危机的打击，欧盟国家的许多企业都陷入了前所未见的困境之中。对有资金实力的中国公司而言，那些物美价廉的欧洲企业成为潜在收购目标。这两个因素对中国成为全球跨境并购最活跃收购国做出了重大贡献。

在欧洲里面，德国、英国和法国这三大经济体是中国海外投资国。关于意大利， 虽然它缺少自然资源，但是它富有附加值很高的行业，如汽车、家用电器、时尚这些行业，并且它居于重要的战略位置。鉴于这些因素，几年来意大利逐渐吸引了越来越多的中国投资。

对于投资的领域，中国企业的收购大网已经扩大到无所不包 （从高端制造和房地产到足球俱乐部和基础设施）。

当然，中国并购的热潮引起了注意力。中国大规模的收购令欧盟国家政治精英感到警惕。特别是涉及到敏感资产的交易都受到更为严格的控制。伴随着战略性并购的增长，如美的公司收购德国最善于创新的库卡这次交易，欧洲的许多政府开始加强对中国投资者的监管和审查。它们最担心的是中国公司透明度不高，尤其是与融资来源以及所有权等有关信息。这些真是中国企业的软肋。

第一章将讨论的最后一个方面是2017年的展望。对中国海外投资发展趋势做出预测是个困难的事情，但考虑到外国政府加大审查力度，并考虑到中国监管机构加强对海外交易的控制，走出去的企业将举步维艰。尽管一些政策，如“一带一路”和“中国制造2025”仍将提高中国企业国际化发展水平，但很有可能今年海外并购数量无法达到2016年的高点。

第二章会对兼并收购进行分析。具体而言，本章将分为三个部分。首先，第一个部分会简单地解释一下兼并和收购之间的区别。虽然这两句话通常合在一起使用，但它们指的是两个不同的方式。兼并是指两家或者更多的企业合并组成一家公司。一般是占优势的公司吸收一家或者更多的企业。在这个情况下，只有兼并方继续保留

法人地位。当两家或两家以上的公司合并成为一家新的公司，这就是所谓的合并。从法律来看，合并与兼并不同因为合并时，原有的公司都再也不继续保留其法人地位。关于收购，它指的是一家公司购买另外一家企业的股票或者资产，这样获取该企业的全部或部分股权。然后，第二个部分会把重点放在收购的一般程序上。这种程序可以划分为一些阶段，包括前期准备阶段 （企业发展战略与收购战略的制定，目标企业的搜寻、调查和评估），方案设计阶段 （收购公司与目标公司取得联系，意向书的起草，尽职调查的执行），谈判签约阶段 （协商与谈判，签约），接管和整合阶段 （收购后交接与整合）。通过并购程序的分析会理解收购一家公司并不是一件轻而易举的事情。特别是最后环节，换句话说收购后的整合是最复杂的问题。并购交易是否成功到底是在这个阶段中决定的。所以，挑选收购整合法时，收购企业应该考虑哪一个更合适。Haspeslagh 和 Jemison 两位学家指出，根据战略依存以及组织自治的不同需求程度，企业选择的收购整合法有四种：保存法、吸收法、共生法和金控法。

最后，第二章的第三个部分会简短地讨论一下跨境并购这个话题。跨境并购也给收购企业带来较大挑战。可想而知，文化距离对实施整合计划产生很大的影响。一般来说，只有跨文化培训、跨文化管理、国际化人才，才能实现并购整合的顺利进行。

第三章会阐述中国苏宁企业收购意大利国际米兰足球俱乐部这种收购案例。具体而言，2016年6月，苏宁体育产业集团宣布了以大概2.7亿欧元的总价，通过认购新股以及收购老股的方式，获得国际米兰68.55%的股份。这是个非常有趣的案例，表明中国资金的海外之路越来越宽。如前面所述，现在中国收购涉及到各种各样的领域。足球俱乐部也毫无例外。事实上，苏宁对国际米兰的收购并不是中国公司并购欧洲五大联赛俱乐部的首例。根据数据，2014年至今，来自中国的投资者已经收购了16家海外足球俱乐部，其中有曼城、马德里竞技、AC 米兰等欧洲豪门。此外，通过这次收购的分析， 可以更好地理解中国企业“走出去”的战略目标。按苏宁集团董事长张近东说，购买国际米兰有很多原因。第一，对苏宁而言，国际米兰有助于苏宁向欧洲和全世界扩张，在西方国家成为出名品牌。苏宁是中国领先的商业公司，位居中国民营企业500强第二名。在国内，它是最重要、著名的企业之一，而在国外实际上不为人知。所以，很容易理解国际米兰是苏宁走向全世界的名片。第二， 这次收购是苏宁进军体育行业的一部分。2015年，苏宁已经购买了一家足球俱乐部，也

就是说中国的江苏足球俱乐部 （更名为江苏苏宁)。那么，对苏宁来说，收购一家具有一百多年的历史、在意大利和全世界足坛有巨大影响力的老牌欧洲豪门足球俱乐部是非常重要的。苏宁有机会吸收国际米兰丰富的管理经验和专业知识。这样，它可以进一步地提升江苏苏宁俱乐部的职业化水平以及运营能力。第三，这种并购交易有更广泛的意义。它为中国足球提供一个宝贵的机会，得以提高足球的管理以及技术水平。实际上，这样的战略并购符合中国政府实施的政策，特别是2015年国务院发布“关于印发中国足球改革发展总体方案的通知”，2016年中国足球协会实施的“中国足球中长期发展规划（2016/2050年)”。考虑到健康消费正成为引领未来市场增长的力量，体育将成为中国健康消费的产业之一，世界上第一大体育足球在这新经济时代方面扮演重要角色。众所周知，中国足球没有国际竞争力，还是比较落后的。所以，并购欧洲的一流足球俱乐部是促进中国足球发展的主要方式。通过这些收购，中国投资者支持政府的发展计划，希望实现中国主席习近平的三个愿望:中国世界杯出线、举办世界杯比赛及获得世界杯冠军。这可以再次看到中国政府对经济方面的巨大影响。关于这一点，值得一提的是，中国政治精英通常就用经济实力来提高中国软实力。尤其是足球，它是世界上最普及、追随者最多的体育运动。它就可以帮助中国吸引全世界的注意。

当然，这次收购也对国际米兰是有益的。特别是苏宁带来的丰厚资金能够填补意甲俱乐部的财政空缺。2010年后，国际米兰的表现并不好。它的财务状况实在堪忧。比如说，当苏宁收购它时，债务就达到了4.17亿欧元。此外，中国广阔的市场对国际米兰的发展也带来不小助力。中国有1.9亿球迷，是全球最大的球迷市场。鉴于市场前景这么巨大，对国米来说抓住这个机会十分重要。

苏宁收购国际米兰已经一年了。在这段时间里，发生了很大的变化。首先，从财务角度来看，苏宁已解决了国米的债务负担，这样对它的健康发展做出更大的贡献。然后，关于球队，国米已换了三位球队教练员。取得了一系列胜利，但球队表现依旧疲软。在本赛季的意甲联赛中，它最终排名第七位，失去了参加新赛季欧冠的机会。最后，在组织结构方面也有了变化。具体而言，现在国米足球俱乐部的董事会包括许多属于苏宁集团的成员。尤其是他们其中的一位，也就是说刘军先生被任为国米的首席执行官。通过这些改变，苏宁希望提高协作，发挥协同的效应。苏宁的

管理战略是否成功，眼下只有等待。一般，足球俱乐部的经营很难，特别是那些涉及到国外俱乐部。除了资本的注入以外，还需要深入理解当地足球文化。实际上，意甲体系和中国足球体系不一样，所以苏宁须作出很大努力来了解意大利文化。同时，意大利经理们也得学习中国的文化。这样能够实现无障碍沟通，顺利地进行整合。

总之，通过这篇论文的分析会看到最近几年中国向国外的投资活动已发生了巨大的变化。这些变化不仅涉及到投资目的地，而且包括投资领域、投资方式以及投资者结构。此外，经过这个研究也会理解中国海外并购热潮的基本原因是哪些。尤其是，中国投资者的购买力与中国政府的支持使中国的境外并购增长很多。所以，考虑到最后这一方面，换句话说中国经济与政治密切关系，我认为中国跨境并购的高潮与国力联系在一起。这意味着，中国动不动采用它的经济实力来扩大其全球影响力，吸引全球的注意。

Chapter One: China's Outbound M&A

1.1 Chinese Outward Foreign Direct Investment

Chinese Outward Foreign Direct Investment (OFDI, known in Chinese as *duiwai zhijie touzi* 对外直接投资) impressive growth during last years has attracted the attention of scholars and researchers.[1] However, looking at the several publications made recently, it is immediate the perception of a lack of a comprehensive study about this rising trend.[2]

First of all, this is due to the fact that the phenomenon broke out few years ago, in particular after the proclamation of the "going out" policy since 2001, that gave the official incentive to Chinese enterprises to invest outside the country and pursue the internationalization process.
Secondly, most research on this topic has been done separately. A considerable amount of papers and academic works focuses on a specific side of the problem as, for example, on historical trends, on the subtle motivations which pushed the Chinese investment activities, on the manifold regulations applied to them or on the government role in promoting and directing the overseas investment flow. With regard to the latter, it is worth considering the attention paid by the government to this aspect and the shift in its behavior during the last thirty years. From a strong limitation of outward investment before the period of "reform and opening" of 1979, the consequent relaxation of control during the 1990s, until the promotion, particularly active after 2001 with the "go global" policy, the government attitude toward OFDI has changed and is currently changing a lot. From this perspective, it is easy to understand why this matter is so important and sensitive.
Finally, the outward investment flow has been, for a long time, overshadowed by the inverse flow, that one of the inward investment whose predominance and strategic aim have attracted all the government efforts during the opening period. This point can be explained by the investment development path (IDP) theory, originally introduced by Dunning in 1981.[3]

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[1] A useful summary of all the existing studies on China's OFDI can be found in the work of Nan Zheng, "The Internationalization of Chinese Firms", *University of York*, December 2013
[2] Wenyan YIN, "Motivations of Chinese Outward Foreign Direct Investment: An Organizing Framework and Empirical Investigation", *Journal of International Business and Economy*, 16, 1, 2015, pp. 82-106
[3] John H. DUNNING, "Toward an Eclectic Theory of International Production: Some Empirical Tests", *Journal of International Business Studies*, 11, 1, 1980, pp. 9–31

According to this theory, the inward and outward investment position of a country is tied to its economic development, proxied by the Gross Domestic Product (GDP) per capita. More precisely, following the increase in per capita income, a country Net Outward Investment (NOI) faces five stages. Initially, when the country is not yet developed, it neither attracts nor generates foreign investments. During the second phase, a growing amount of inward foreign direct investment appears, thanks to the industrialization process and the emerging location advantages. In this case, there is a negative net investment position, since inward FDI prevails on outward FDI. In the third stage, with the expansion of the domestic market and the improvement of its own capabilities, the country becomes really attractive in the eyes of foreign investors, and may also start generating outward investment. In the following step, its outward investment flow exceeds the inward one, creating in this way a positive net investment position. In the final stage, the net investment position stays positive or, eventually, the two indicators fluctuate around a rough balance.[4] What is worth noting from this process is that outward investments appear only when the country has reached a certain GDP level and its firms have gained an ownership advantage. More than that, the close connection between a country's outward direct investment and its economic development reflects domestic firms' changing competitive advantage against foreign competitors. It also echoes the changing attractiveness of the country in terms of production costs, market opportunities and natural or created resource endowments.

This process can be traced also in China even if some peculiarities such as earlier and more dynamical development of OFDI suggest that, to some extent, Dunning's theory must be questioned and further integrated. In other words, more explanations must be added to the so-called "Eclectic paradigm" or "OLI framework", another well-known theoretical approach suggested by Dunning.[5]

The three determinants of outward direct investment that he traced are: ownership, location and internalization advantages. First of all, the main precondition for international activities is to possess firm-specific factors such as trademark, production capabilities, technological knowledge or managerial skills, giving to the company competitive advantages that enable it to overcome the "liability of foreignness" suffered outside its domestic market. The choice of the location is also fundamental since a host country with abundant raw materials, low

[4] Carmen R. STOIAN, "Extending Dunning's Investment Development Path: the role of home country institutional determinants in explaining outward foreign direct investment", *International Business Review*, 22, 3, 2013, pp. 615-637

[5] John H. DUNNING, "The eclectic (OLI) paradigm of international production: past, present and future", *International Journal of the Economics of Business*, 8, 2, 2001, pp. 173-190

labor cost, favorable taxation and political stability may be preferred over another one. The last decision refers to the entry mode. The company will decide to internationalize through OFDI if it believes to be in its better interest to internalize the production rather than outsource or arrange a partnership, cutting in this way the transaction costs.

In addition to this framework, Dunning has also delineated three motivations of OFDI which are resource-seeking, efficiency-seeking and market-seeking. This aspect will be further investigated in the section related to OFDI determinants.

What is relevant for now is to understand how Chinese case differs from the mainstream theory and explain its distinctive nature. Actually, the OLI perspective is derived from research on Western enterprises, which enjoy domestic strengths and are willing to exploit their assets overseas. This is not always the case of multinationals coming from emerging countries. As latecomers, they need to catch up the early developed firms not just in terms of technology and knowhow, but also in the development of a business environment that fits the international competitiveness. China offers a useful and clear example of the need for integration of other elements to the international business theory and to the explanation of the emerging market multinationals' overseas activities.

Buckley et al. argued that, in order to describe Chinese OFDI, three potential arguments (namely capital market imperfection, special ownership advantages and institutional factors) need to be "nested within the general theory of the multinational firm".[6]

The first peculiarity of Chinese investment, according to the authors, is the capital market imperfection. Chinese investors can take advantage of a capital market disequilibrium, since capital is available at below market rates, an imperfection that is translated into ownership advantage for firms. This situation is the consequence of multiple-levels inefficiencies that can be found in the capital market system as, for example, preferential treatment reserved to state-owned enterprises, subsidies offered to conglomerate firms, soft loans made by banks and other types of benefits. Thanks to the government support, Chinese companies are able to close huge deals, where the aim is to pursue resources or strategic assets. How is it possible not to mention one of the most important acquisition made in the last decade, that one of Lenovo which purchased for US$ 1.75 billion IBM personal computer producer? The involvement of the government was quite clear since it held 57 percent of stake in the

[6] Peter J. BUCKLEY et al., "The determinants of Chinese outward foreign direct investment", *Journal of International Business Studies*, 38, 4, 2007, pp. 499-518

company.[7]

The second argument that must be added to the OLI theory is the special ownership advantage possessed by emerging countries multinational enterprises, also known as the "Dragon Multinationals".[8] These new world challengers flourished in peripheral area. However, they successfully expanded in a globalized world dominated by multinationals coming from developed countries, with a long history behind them, a strong brand equity and an established international experience. Even if newcomers in the global scenario, nevertheless they exploited their own advantages and reached international recognition in record time. In particular, they used their flexibility, ability to economize, low production costs and their familiarity with emerging countries environment to enter global market.
It is also noteworthy the relational asset, better defined as the ability of networking, that characterizes these firms. Its origin is twofold: from one side, it is associated with the concept of *guanxi*, one milestone of the Chinese culture, considered as a system of relationships established among people; on the other side, it is closely related with the diaspora of Chinese, nowadays spread everywhere, that can constitute important intermediaries for companies.[9]

The third element is represented by the role institutions play in promoting or, in the opposite situation, obstructing the overseas investments. The institutional body is essential since, through regulations, it determines the ability of firms to go abroad.[10] The firm's investment activities are strongly shaped by the "rules of the game" enforced by the government. Currently, the game is dictated by incentives to invest in host countries, often by means of subsidies. However, it has not been always like this. The improvement and facilitation of OFDI is the result of an increasing opening process that culminated in the formulation of the "going out" policy in 2001.

To sum up, most of Chinese multinationals, as their other emerging countries' companions, underwent during the last decade an accelerated internationalization process, despite great deficiencies in terms of knowhow and experience in working abroad. Thus, the government,

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[7] BUCKLEY et al., "The determinants of Chinese OFDI"
[8] John A. MATHEWS, *Dragon Multinational: A new model for global growth,* Oxford, Oxford University Press, 2002
[9] BUCKLEY et al., "The determinants of Chinese OFDI"
[10] This is also known as the institutional theory, which underlines the importance of institutions in implementing strategies to enhance the economic development and create the competitive advantage. This theory originated in social sciences but then incorporated also economic and geographical fields.

working as controller, regulator and adjudicator, has been fundamental in helping these companies to compete in the outside world. The role as facilitator of several institutions together with some firm specific advantages as low labor costs and high production process capabilities created the so-called "comparative ownership advantage", which is a kind of compensation for the initial lack and incentive to invest abroad.[11] The government has had and still possesses such a pervasive influence in the enterprises that it is worth dedicating it an entire section.

1.2 Government role and regulations

Giving the extent of the State control in China, it is quite a natural action to infer its profound influence on the firms' investment activities. There is a reason if the Chinese government can be recognized as the "visible hand" and its policies as "interventionists".[12] The evidence to these statements are provided by the history of the last thirty years.

Starting from the late 1970s, with the announcement of the "reform and opening up" (in Chinese *gaige kaifang* 改革开放), the government officially led the way to the emergence of China in the global economy. The process of liberalization triggered in that period can be defined by the concept of "gradualism", summarized by the famous expression "Crossing the river by feeling the stones underfoot".[13] Due to the cautious approach, overseas direct investments remained quite insignificant, at least until Deng Xiaoping's journey to the South on 1992. From that moment, they were openly encouraged and thus greatly increased even if the real change happened only in 2001, with the entry into the WTO and the introduction of the "go global" policy (in Chinese *zou chuqu zhengce* 走出去政策). Through the latter, the government finally recognized OFDI potential to guide and foster economic development.[14]

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[11] Dongkun LI, "The Compressed Development of Chinese OFDI and Its Impact on Chinese Government Investment Policies", *New Zealand Contemporary China Research Centre*, 2014

[12] Mark Yaolin WANG, "The Motivations behind China's Government-Initiated Industrial Investments Overseas", *Pacific Affairs*, 75, 2, 2002, pp. 192-195

[13] In Chinese *mo zhe shitou guo he* 摸着石头过河 is an expression coined by Deng Xiaoping which has become a common saying used by many policy-makers. It stays for a cautious action taken gradually by analyzing carefully the situation. This represents exactly the meaning of the conservative approach embodied by Deng Xiaoping during the reform period. He believed that, since China lacked knowledge and experience, it should improve step by step.

[14] Nathalie BERNASCONI-OSTERWALDER, Lise JOHNSON and Jianping ZHANG, *Chinese Outward Investment: An Emerging Policy Framework,* The International Institute for Sustainable Development, 2013, 12

Since then, implementing the "going out" policy, while achieving at the same time a balance with the "bring in" tendency (in other terms, the inward flow of foreign investments) has become a priority of the government agenda. Following the announcement in the Tenth Five-Year Plan, "go global" strategy has been integrated in all the subsequent ones. In particular, the current Thirteen Five-Year Plan (2016-2020) stresses the essential role of international cooperation and connectivity, two aspects that can be promoted through the initiative of President Xi Jinping, called "One Belt One Road". [15] In the government's eyes, the construction of a new silk road will give China the possibility to play a more significant role in global affair, create a cohesive economic area and broaden trade.[16] Opening up has never been more important than now.

Overall, the liberalization path has been long and arduous, and, as the Chinese State becomes increasingly involved in the international arena, it will encounter a growing number of difficult challenges. What is certain is that, if from one side outbound investment constitutes a key element to develop the domestic economy and participate to the global one, from the other side only the government has the final say in this matter. Through restrictive and then encouraging policies, the Chinese State has acted, at the beginning, as a regulator for later translating into a facilitator of cross-border investments.[17] This aspect is fully supported by the evolutionary path of the approval process.

In this respect, it is worth pointing out that in the past investors willing to operate overseas found out lots of bureaucratic obstacles, identified by long and cumbersome approval procedures. Through the regulatory body, the State monitored all OFDI projects and shaped them by stating the amount limits, the direction, the actors (namely state-owned enterprises, private firms or individuals, but also the industrial sectors) and the scope (for instance, having as main objective seeking natural resources or technological capabilities and managerial skills) of the overseas activities. Only those projects that fulfilled the

[15] One Belt One Road (OBOR) initiative (in Chinese *yidai yilu* 一带一路) has been proclaimed for the first time in 2013 but it has not gained significant traction until recently. This ambitious project is split into two different plans, respectively the "Silk Road Economic Belt" and the "Twenty-First-Century Maritime Silk Road". Through a continental and a maritime road, it aims at connecting sixty Asian and European countries. The OBOR is essentially driven by the Chinese industrial production overcapacity and by the financial capital interest.
[16] "The Thirteenth Five-Year Plan for Economic and Social Development of the People's Republic of China (2016-2020)", *Central Compilation and Translation Press*
[17] Yadong LUO, Qiuzhi XUE and Binjie HAN, "How emerging market governments promote outward FDI: Experience from China", *Journal of World Business*, 45, 1, 2010, pp. 68-79

requirements obtained the approval. Moreover, the involvement in the procedure of more than one institution further complicate things. Even today all non-financial enterprises have to receive the approval from the National Development and Reform Commission (NDRC) and the Ministry of Commerce (MOFCOM) or their offices at provincial-level. In addition, state-owned enterprises (SOEs) need to apply for the approval of another State organ, the State-Owned Assets Supervision and Administration Commission (SASAC), before undertaking overseas direct investment projects. The presence of these independent agencies, that design and issue their own policies and regulations, makes the process complex and quite redundant.[18] Although efforts have been made to streamline and simplify the OFDI approval process, nevertheless enterprises still have to face several stages.

Before analyzing in the detail the approval procedure underwent by Chinese enterprises, it is better to give a look at the main policymaking actors. Considering that the agencies involved in the process are manifold, it would be useful to delineate a clear framework of the responsibilities and activities of the most fundamental government branches.

1.3 Policymaking actors

When issuing or approving cross-border projects, the central government is assisted by several agencies, each one with specific responsibilities and tasks. The approval procedure of foreign investments involves mainly three institutions: MOFCOM, SAFE and NDRC. Moreover, if the enterprise which submits the request of operating abroad is a SOE, it is also required the intervention of the State-owned Assets Supervision and Administration Commission of the State Council (SASAC). Each of them has its own approval and regulatory conditions.[19]

In general, they can be classified in hierarchical order.

1.3.1 Top Level

State Council-国务院

In the top position, there is the State Council, accountable for the most important decisions

[18] Karl P. SAUVANT and Victor Zitian CHEN, "China's Regulatory Framework for Outward Foreign Direct Investment", *China Economic Journal*, 7, 1, 2014, pp. 141-163

[19] Wenbin HUANG and Andreas WILKES, *Analysis of China's Overseas Investment Policies,* Bogor, Indonesia, Center for International Forestry Research, 2011, p. 2

about economy and society. This leadership organ takes on different significant issues, such as the formulation or improvement of new policies and regulations and coordination of the national economic development. Recently, its role has been crucial in the encouragement of overseas investment practices. While it establishes the general directive to follow, the issue of specific measures is undertaken by subordinate authorities, as MOFCOM and SAFE.[20]

1.3.2 Second level

Indeed, the second level is occupied by the Ministry of Commerce (hereinafter referred to as MOFCOM), the State Administration of Foreign Affairs (SAFE), as well as the National Development and Reform Commission (NDRC), informally recognized as the "small State Council".

Ministry of commerce-商务部

The ancestor of MOFCOM is the Ministry of Foreign Trade and Economic Cooperation (MOFTEC), founded in 1983 and officially substituted in 2003. MOFCOM is responsible for domestic trade and coordination of international activities. The connection with overseas operation is very strong, since it is the organ accountable for drafting and implementing Chinese OFDI plans. Moreover, non-financial OFDI projects must be submitted to this ministry for obtaining approval.

Other important tasks are accomplished by MOFCOM: it signs bilateral and multilateral negotiations on investment and trade treaties and represents China at the World Trade Organization and other international economic organizations. It also assures that China's economic and trade laws are in line with international treaties and organizes foreign aid policy.[21]

State Administration of Foreign Exchange-国家外汇管理局

This organ is the evolution of the previously existing State Administration of Exchange Control (SAEC). It was established under the Bank of China in 1979 and later on, in 1982, was moved under the authority of the new central bank, the People's Bank of China. Its main responsibility is controlling the use and flow of foreign exchange. The activities managed by SAFE are manifold as, for instance, the report of balance of payment data due to the State

[20] HUANG and WILKES, *Analysis of China's Overseas Investment Policies,* p. 2
[21] Ibid., p. 3

Council and the International Monetary Fund, the transfer of foreign exchange both into and outside China for investments related to the capital account in balance of payment, the management of foreign exchange reserves and, finally, it also provides advices to the People's Bank of China about foreign exchange policy.[22] Concerning OFDI, Article 3 of Regulations on Foreign Exchange Administration for Overseas Portfolio Investments by Qualified Domestic Institutional Investors states that "SAFE and its branches, and foreign exchange administration departments shall supervise, administer, inspect the investment quotas, fund accounts, fund receipts and payments, remittances, and so forth of the overseas investments of the qualified investors according to law".[23]

National Development and Reform Commission-国家发展和改革委员会

The National Development and Reform Commission (NDRC) is known as well with its previous name, the State Development and Reform Commission. This body coordinates and regulates industrial policies and national economic development. In particular, it collaborates with MOFCOM to determine the strategies and goals of Chinese firms' OFDI. Together, they decide the industries and list the countries for which Chinese government encourages enterprises' internationalization, and the financial incentives used to stimulate them. Apart from the stated-above activities, NDRC is entitled to approve large scale OFDI projects as those involving natural resources, for which a considerable amount of foreign exchange is required. As SAFE and MOFCOM, it acts through local departments, that are responsible for the approval of lower-amount investment projects.[24]

1.3.3 Third level

The third level is characterized by functional departments of the financial and taxation fields. They are responsible of assisting other ministries and make sure that all policies are aligned.

Ministry of Finance-财政部

The Ministry of Finance (MOF) is mainly accountable for drafting strategies and policies

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22 HUANG and WILKES, *Analysis of China's Overseas Investment Policies,* p. 3

23 In the Chinese version website of SAFE, it is possible to find the original text entitled “合格境内机构投资者境外证券投资外汇管理规定” where article 3 claims: “国家外汇管理局及其分局、外汇管理部（以下简称外 汇局）依法对合格投资者境外投资的投资额度、资金账户、资金收 付及汇兑等实施监督、管理和检查”.

24 HUANG and WILKES, *Analysis of China's Overseas Investment Policies,* pp. 3-4

related to the tax system and managing the government's revenues and expenditures. Concerning Chinese OFDI, MOF plays a central role in the negotiations of fiscal questions like debt.[25]

China Security and Regulatory Commission-中国证券监督管理委员会

As suggested by the name itself, China Securities Regulatory Commission (CSRC) activity is limited to listed companies. It takes charge of overseeing Chinese firms' overseas stock issues and listings on stock market. Concerning outbound investment, CSRC may be involved in the approval process of outbound investment made by listed companies. In addition, it is deeply involved in the supervision of the information disclosure system, according to which listed enterprises (both in the domestic and foreign stock market) have to provide timely reports on their activities and management.

People's Bank of China-中国人民银行

People's Bank of China (PBC) is in charge of all financial policies and the management of foreign exchange reserves, used when necessary in international investment operations by domestic companies. It deals with international financial organizations as the World Bank. Its monetary and foreign exchange policies are the elements affecting Chinese OFDI as, for instance, *renminbi* appreciation can enhance overseas investment.[26]

State-Owned Assets Supervision and Administration Commission-国务院国有资产监督管理委员会

State-Owned Assets Supervision and Administration Commission (SASAC) is the body that represents government and manages state-owned assets in non-financial sectors. It is considered as the main owner and investor of Chinese SOEs, reason for which its power and responsibility are really wide. One of its main obligations is supervising the management of these enterprises, taking particular care of their competitiveness and profitability. And, since OFDI decisions deeply influence the profitability of a company, SASAC approval has a strong impact on these projects. Without its endorsement, it is not possible for any SOEs to implement whatever overseas operation.[27]

[25] HUANG and WILKES, *Analysis of China's Overseas Investment Policies*, p.4
[26] Ibid.
[27] Ibid., p. 5

1.3.4 Fourth level

It includes the ministries of particular sectors, such as agriculture, and all the departments subordinated to those described above, which operate at the provincial level. They are predominantly concerned with the execution of policies.

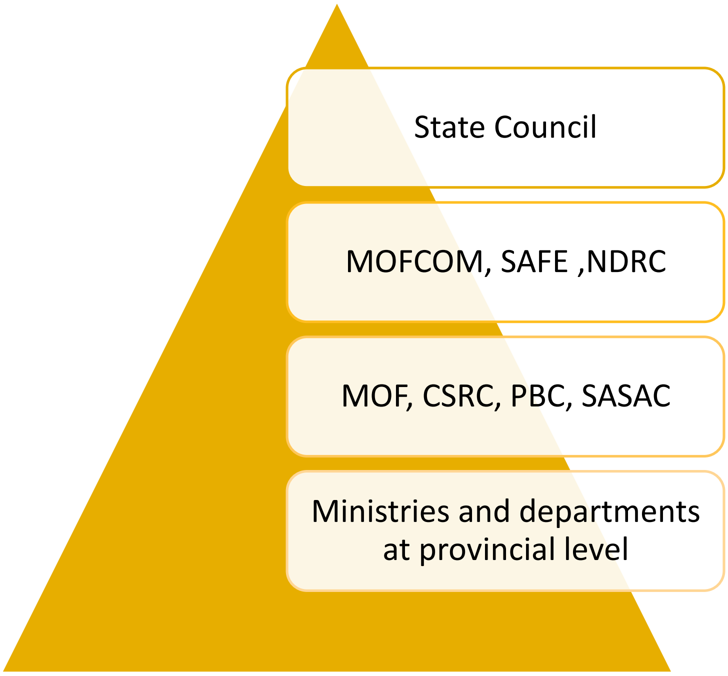

Figure 1: China's OFDI management system. Source: Analysis of China's overseas investment policies (Wang and Wilkes)

1.4 OFDI Approval Procedure: A Changing Framework

This section is focused on the approval procedure applied by the different governmental agencies to Chinese enterprises which aim at investing abroad. In particular, the period between 2004 and 2016 is taken into consideration since it is characterized by a major change in the requirements for obtaining the government's authorization. In general, the evolution can be synthesized by two main phases: the first one is defined by an active promotion of OFDI. Enterprises have been encouraged to execute their overseas investment projects through a series of favorable regulations and policies. Therefore, the transition toward a streamlined approval procedure in 2014 can be explained as a tentative to enhance OFDI growth. The second phase, recently began, is the consequence of the increasing demand for outbound investment. The huge outflows of capital derived from the impressive growth of OFDI have attracted the attention of governmental agencies. Thus, during the last two months of 2016, they have published notices announcing the implementation of new restrictions.

For a better understanding, the paragraph is divided according to the ministerial agency issuing the specific policies.

NDRC

At first, OFDI carried out by Chinese enterprises must be approved and recorded by NDRC or its local offices. The earliest legislation, "Interim Measures for the Administration of Examination and Approval of the Overseas Investment Projects" (in Chinese *waishang touzi xiangmu hezhun zanxing guanli banfa* 外商投资项目核准暂行管理办法), has been issued in 2004 by the NDRC.[28] Article 3 of Interim Measures stated that NDRC should examine and approve the application reports of encouraged or permitted projects with a total investment of US$ 100 million or more and of restricted projects with an overall investment of US$ 50 million or more. In addition, those encouraged or permitted projects that involve an amount greater than US$ 500 million and those restricted projects with a total investment of US$ 100 million or more should be examined and approved by NDRC and then reported to the State Council for further verification.[29] Article 4 also specifies that encouraged projects and restricted ones respectively with investments under the amounts of US$ 100 million and US$ 50 million should be subject to NDRC local branches' examination. In particular, the restricted plans must be checked and approved by provincial level NDRC, and not by lower-level departments.[30] The following articles of Interim Measures deal with the documents that it is necessary to submit for the approval, including the project application report, the business license, the letter of intent and the resolution of the board of directors as

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[28] Clyde & Co., *Approval and Regulatory Requirements for Chinese Foreign Direct Investment,* 2014, https://www.clydeco.com/uploads/Files/Articles/2014/CC005192_Approval_and_regulation_requirements_English_19.05.14_Singles.pdf (accessed March 18, 2017)

[29] See the Chinese version of Article 3 in http://www.ndrc.gov.cn/zcfb/zcfbl/200506/t20050601_5142.html : "按照《外商投资产业指导目录》分类，总投资（包括增资额，下同）1亿美元及以上的鼓励类、允许类项目和总投资5000万美元及以上的限制类项目，由国家发展改革委核准项目申请报告，其中总投资5亿美元及以上的鼓励类、允许类项目和总投资1亿美元及以上的限制类项目由国家发展改革委对项目申请报告审核后报国务院核准". It is possible to find the full English text in http://www.fdi.gov.cn/1800000121_39_1285_0_7.html

[30] See the Chinese version of Article 4: "总投资1亿美元以下的鼓励类、允许类项目和总投资5000万美元以下的限制类项目由地方发展改革部门核准，其中限制类项目由省级发展改革部门核准，此类项目的核准权不得下放".

well as the written evaluation on environmental impact (Article 5 and 6) and the time requested for obtaining the acceptance, which is of about 20 working days.

Due to the strong increase of outbound investments occurred since then, the volume of work of State Council and NDRC became extremely burdensome. Thus, a process of decentralization began in 2011 with the "Notice of the National Development and Reform Commission about Decentralizing the Approval Authority of Foreign Investment Projects", implemented by NDRC. [31] The Interim Measures of 2004 were finally substituted in 2014 by the "Measures for the Administration of Approval and Recordation of the Overseas Investment Projects" (in Chinese *jingwai touzi xiangmu hezhun he bei'an guanli banfa* 境外投资项目核准和备案管理办法). With the new Measures, the extensive approval requirements included in the Interim Measures have been replaced with a general recordation and streamlined approval requirements. An analysis of the main Articles will clarify this point.

According to Article 2, the legislation refers to every type of domestic investors (the Chinese text uses the term *touzi zhuti* 投资主体) with overseas investment projects in the form of newly established entities, mergers and acquisitions, equity participation, capital increase and capital injection, as well as those investors whose projects imply providing financing or guarantees through the overseas company or institution. [32] Article 7 is of particular importance as it highlights the difference with the previous Measures concerning the investment amount threshold. In particular, it claims that those projects with a total investment of US$ 1 billion or more shall be examined and approved by NDRC. The organ is also responsible for the examination and approval of all investments projects, regardless amount, involving sensitive countries and areas, as well as sensitive sectors. Among them, those exceeding US$ 2 billion must be submitted by NDRC to the State Council for approval. Sensitive countries and regions are defined as that ones with which China has not established diplomatic relations or those nations which has been internationally sanctioned, where there are wars or civil unrests going on. Sensitive sectors include baseline telecommunication operations, exploitation and utilization of trans border water resources, large-scale land

[31] Clyde & Co, *Approval and regulatory requirements,* p. 2

[32] See the Chinese version of Article 2 in http://fgs.ndrc.gov.cn/flgz/201507/t20150701_710401.html ："本办法适用于中华人民共和国境内各类法人（以下 简称"投资主体"） 以新建、并购、参股、增资和注资等方式进行 的境外投资项目，以及投资主体以提供融资或担保等方式通过其境 外企业或机构实施的境外投资项目".

development, power transmission lines, power grids, news media and other industries.[33]

For acquisitions or bidding projects totaling US$ 300 million or more, Chinese investors have to submit a projects information report to NDRC before the beginning of substantive work abroad which may imply the signature of binding agreements, binding offers, application submission to foreign counterpart's national or local government departments.[34]

The 2014 Measures define precisely the documents that investors have to provide, such as the project application report (namely name of the project, investors' information, project feasibility analysis, description of the investment environment, implementation plan, risk analysis and so on) accompanied by the resolution of the board of directors or the relevant investment decisions, documents regarding the investor and foreign counterpart capital fund, business and credit worthiness situations, the letter of intent for financing issued by the bank, an audit report and an asset evaluation report. Finally, for bidding, mergers and acquisitions and joint ventures projects, a letter of intent or a framework agreement signed by both parties should be submitted.[35]

As for the approval procedure, projects accepted by NDRC and State Council, precisely those that respect the domestic laws and regulations as well as industrial and foreign investment policies, which comply with the principles of mutual benefit and common development, and do not endanger the State's sovereignty, security and public interest or violate international treaties, shall be subjected to the verification of local provincial NDRC. If the investment project is proposed by centrally administered SOEs, their group or parent company shall make the application request directly to NDRC.[36] As it was for the Interim Measures of 2004, the approval by NDRC will be made within 20 working days.

With respect to the recordation procedures, local firms shall submit the recordation application form to the local provincial DRC. If the involved enterprise is a SOE, the group company shall submit it to the NDRC. A Recordation Notice will be issued by NDRC within 7 working days to eligible companies.[37]

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[33] See the Chinese version of Article 7: "［…］本办法所称敏感国家和地区包括：未建交和受国际制裁的国 家，发生战争、内乱等国家和地区。 本办法所称敏感行业包括：基础电信运营，跨境水资源开发利 用，大规模土地开发，输电干线、电网，新闻传媒等行业".

[34] See Article 10 of Measures for the Administration of Approval and Recordation of the Overseas Investment Projects

[35] See Article 12 of Measures for the Administration of Approval and Recordation of the Overseas Investment Projects

[36] See Articles 18 and 19 of Measures for the Administration of Approval and Recordation of the Overseas Investment Projects

[37] See Article 21 of Measures for the Administration of Approval and Recordation of the Overseas Investment

From the above-mentioned articles, it appears evident the fundamental role played by NDRC in the approval and recordation regimes. Actually, this point is emphasized by the Article 24 which states that “the investors shall go through procedures as foreign exchange, customs, entry and exit control and taxation relying on the approval document and recordation notice provided by NDRC. Without them, it is not possible for other competent departments to carry out the formalities, while financial institutions cannot grant loans”.[38]

MOFCOM

MOFCOM and its provincial branches are responsible for approving overseas direct investments, as established by the “Measures for Overseas Investment Management” (in Chinese *jingwai touzi guanli banfa* 境外投资管理办法) of 2009. In particular, Article 2 of this legislation provides a definition of “overseas investment”, specifying it denotes “Chinese legally established companies which, by way of setting up new entities or mergers and acquisitions, start a non-financial business abroad or acquire ownership, control and management rights of existing non-financial enterprises”.[39] Moreover, Article 4 limits the authority of MOFCOM to the administration and supervision of overseas investments. The competent departments of commerce of provinces, autonomous regions, municipalities directly under the Central Government, cities under separate State planning and Xinjiang Production and Construction Corps, are responsible for administering and supervising overseas investments within their respective administrative areas.[40] It is clear from this statement that the authority to approve foreign investment plans has been decentralized to local departments of commerce.

In this perspective, Articles 6 and 7 are particularly significant as they further explain how the approval procedure is divided between MOFCOM and the provincial departments of commerce. Enterprises should obtain the approval of MOFCOM if:

1. They are making overseas investment in a country which has not established a

Projects

[38] See the Chinese version of Article 24: “投资主体凭核准文件或备案通知书，依法办理外汇、海关、出入境管理和税收等相关手续。对于未按规定权限和程序核准或者备案的项目，有关部门不得办理相关手续，金融机构不得发放贷款”.

[39] See the Chinese version of Article 2 in http://www.mofcom.gov.cn/article/b/c/200903/20090306103210.shtml：“本办法所称境外投资，是指在我国依法设立的企业（以下简称企业）通过新设、并购等方式在境外设立非金融企业或取得既有非金融企业的所有权、控制权、经营管理权等权益的行为”.

[40] See Article 4 of Measures for Overseas Investment Management

diplomatic relationship with China;

2. They are making overseas investment in a specific country or region (the list of them is determined by the Ministry of Commerce together with the Ministry of Foreign Affairs and other relevant departments[41]);
3. The total amount invested overseas by the Chinese party is of US$ 100 million or more;
4. They are making overseas investment which involves several countries or regions;
5. They are setting up a special purpose firm overseas.[42]

Enterprises should obtain the approval of provincial departments of commerce if:

1. The total amount invested overseas by the Chinese party is US$ 10 million up to US$ 100 million;
2. They are making overseas investment in the field of energy or minerals;
3. They are making overseas investment that needs to attract capital from within China.[43]

Furthermore, it is also declared that central enterprises shall directly apply to MOFCOM, while local companies shall refer to their respective provincial commerce departments.[44]
Article 12 prescribes the materials that firms have to submit, as the application form, a copy of the business license, the articles of association of the overseas enterprise and relevant agreements or contracts, the approval or recordation document provided by the relevant State department, a "Preliminary report on Overseas Merger and Acquisition Items" if the overseas investment is in the form of acquisition and other documents required.
After having approved a cross-border investment project, MOFCOM should issue a certificate (whose full name is "Enterprise Overseas Investment Certificate") which states its eligibility.[45]

Changes appeared in the approval procedure with the "Exposure Draft of Measures for Overseas Investment Management (Amendments)", (in Chinese *jingwai touzi guanli banfa*

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[41] The list of countries and regions referred to in Article 6 can be found in the National Overseas Investment Industrial Guidance Catalogue. The first edition has been issued in 2004. Approved cross-border investment in the listed countries and regions obtain preferential policies concerning capital, taxation, customs and so on.
[42] See the full English version of Article 6 in http://www.lawinfochina.com/SearchList.aspx or the Chinese one in http://www.mofcom.gov.cn/article/b/bf/201409/20140900723361.shtml
[43] See the full English version of Article 7 in http://www.lawinfochina.com/SearchList.aspx or the Chinese one in http://www.mofcom.gov.cn/article/b/bf/201409/20140900723361.shtml
[44] See Article 13 of Measures for Overseas Investment Management.
[45] See Article 5 of the Measures for Overseas Investment Management.

(xiuding) (zhengqiu yijian gao) 境外投资管理办法（修订）（征求意见稿））, issued by MOFCOM in 2014, shortly after NDRC's publication of the "Measures for the Administration of Approval and Recordation of Overseas Investment Projects" mentioned here above. The amendment of 2009 Measures is highlighted by Article 6, which provides a clear distinction between outbound investments which necessitate approval and those that need just to be recorded. It states that enterprises' overseas investment involving sensitive countries and regions and sensitive industries shall be approved by the Ministry of Commerce. Enterprises' overseas investment under other conditions shall be reported to the Ministry of Commerce and the competent local provincial departments of commerce.[46] This means that the approval by MOFCOM is needed only when dealing with sensitive matters in terms of location or industrial sectors, while recordation is sufficient in all other cases, whatever is the amount involved. The definition of "sensitive countries and regions" is similar to the one provided by NDRC while that of "sensitive industries" differs.[47] In the Exposure Draft, they are categorized as those involving the use of products or technologies that are limited to export by the State, as well as those that refer to multinational interests.[48] Article 9 provides that central enterprises shall refer to MOFCOM for the recordation while local firms shall be recorded with the competent provincial departments of commerce.[49]

As for the recordation procedure, central and local enterprises have to fill out and print the "Overseas Investment Recordation Form" according to the requirements of MOFCOM "Overseas Investment Management System". After having affixed the official seal, they shall submit it to MOFCOM or the competent provincial departments of commerce, with a copy of the companies' business license and other materials. MOFCOM and the relevant departments will emit an "Enterprise Overseas Investment Certificate" within 3 working days.[50]

The same distinction between central and local enterprises can be found in the approval process. More precisely, central companies should make the application to MOFCOM, while local ones should deal with the provincial departments of commerce.

Differences with the previous edition can also be found in the materials that shall be

[46] See the Chinese version of Article 6 in http://www.mofcom.gov.cn/article/b/g/201407/20140700651533.shtml：“企业境外投资涉及敏感国别（地区）和敏感行业的，报商务部核准；企业其他情形的境外投资，报商务部和地方省级商务主管部门备案”.

[47] See endnote 33

[48] See Article 9 of Exposure Draft of Measures for Overseas Investment Management (Amendments)

[49] See the Chinese version of Article 8: “中央企业报商务部备案；地方企业报省级商务主管门备案［…］”

[50] See Article 8 of Exposure Draft of Measures for Overseas Investment Management (Amendments)

submitted by enterprises. The application form, the copy of the business license, the overseas investment relevant agreements and contracts are still requested. In addition, for overseas investment involving the use of products or technologies restricted to export it is necessary to provide documents of the pertinent departments that authorize the export of them.[51] The "Preliminary Report" related to Mergers and Acquisition as well as the approval or recordation document provided by the relevant State department are excluded from the approval materials. The overall procedure is in this way simplified.

MOFCOM resolution will be given in 20 working days, time used to examine the materials provided by applicants and to seek the views of the embassy located in the host country. [52]

SAFE

Last stage of the approval procedure of overseas investment is represented by the application to the foreign exchange administrative department where enterprises making OFDI carry out registration formalities. In this perspective, the "Provisions on the Foreign Exchange Administration of the Overseas Direct Investment of Domestic Institutions" (in Chinese *jingwai jigou zhijie touzi waihui guanli guiding* 境内机构境外直接投资外汇管理规定), issued by SAFE in 2009, are fundamental as they delineate the foreign exchange registration and the filing procedure. According to Article 1, the formulation of these Provisions aims to "promote and facilitate the overseas direct investment of domestic institutions, regulate the foreign exchange administration of overseas direct investment and keep China's basic balance of payments".[53] SAFE and its branch offices have the responsibility to supervise and administer the foreign exchange revenues and expenditures and foreign exchange registration with regard to OFDI.[54] As stated by Article 3, domestic institutions can implement overseas direct investment using their own foreign exchange funds, domestic foreign exchange loans in accordance with regulations, foreign exchange purchased with *renminbi*, tangible, intangible assets and other sources of foreign exchange approved by foreign exchange authorities. Domestic institutions can retain abroad profits made through

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[51] See Article 9 of Exposure Draft of Measures for Overseas Investment Management (Amendments)

[52] See Article 12 of Exposure Draft of Measures for Overseas Investment Management (Amendments)

[53] See the Chinese version of Article 1 in http://www.safe.gov.cn/wps/portal/!ut/p/c4/04_SB8K8xLLM9MSSzPy8xBz9CP0os3gPZxdnX293QwMLE09nA09Pr0BXLy8PQyNPI_2CbEdFAKLWUno!/?WCM_GLOBAL_CONTEXT=/wps/wcm/connect/safe_web_store/safe_web/zcfg/zbxmwhgl/zjtzwhgl/node_zcfg_zbxm_kjtz_store/2be9f6804850488cb8bbba362e8d3913 :"为促进和便利境内机构境外直接投资活动，规范境外直接投资外汇管理，促进我国国际收支基本平衡，[…]，制定本规定".

[54] See Article 3 of Provisions on the Foreign Exchange Administration of the Overseas Direct Investment of Domestic Institutions

OFDI for their overseas direct investment.[55]

Foreign exchange registration and filing system are applied to OFDI of domestic enterprises, as well as to the assets and relevant equities formed by them. Moreover, when companies go through the foreign exchange registration formalities at the local foreign exchange bureau, they have to indicate the sources of foreign exchange funds used for their OFDI.[56] These formalities can be handled only after having obtained the approval of the overseas direct investment from the competent administrative departments, namely MOFCOM or the local administrative departments of commerce. Among the materials that should be submitted there are a written application and the "Application Form for Foreign Exchange Registration of Overseas Direct Investment", an explication of the sources of foreign exchange funds, the enterprise's valid business license or registration certificate and organizational code certificate, the approval document or certificate provided by the competent administrative department of OFDI, the explanation or remittance receipt in the case of remittance of early-stage expenses and so on. After the examination, SAFE shall issue an "Exchange Foreign Registration Certificate".[57] Finally, enterprises which have obtained both the approval document and the registration certificate mentioned above can handle the formalities for the outward remittance of funds in the appointed foreign exchange bank.[58]

Concerning the approval procedure, a brief commentary should be done about SOEs. Apart from obtaining NDRC project approval and MOFCOM overseas investment approval, they should also apply to SASAC. As already explained, this governmental organ together with its local branches is responsible for the administration and supervision of the assessment of state-owned assets. Thus, local SOEs' asset assessment projects for overseas investment should be examined and approved by local departments of SASAC, while those of central SOEs should be filed with NDRC.[59]

The transformation of approval and recordation procedures occurred during last decade has

[55] See the Chinese version of Article 4: "境内机构可以使用自有外汇资金、符合规定的国内外汇贷款、人民币购汇或实物、无形资产及经外汇局核准的其他外汇资产来源等进行境外直接投资。境内机构境外直接投资所得利润也可留存境外用于其境外直接投资［…］"

[56] See Article 6 of Provisions on the Foreign Exchange Administration of the Overseas Direct Investment of Domestic Institutions

[57] See Article 7 of Provisions on the Foreign Exchange Administration of the Overseas Direct Investment of Domestic Institutions

[58] See Article 8 of Provisions on the Foreign Exchange Administration of the Overseas Direct Investment of Domestic Institutions

[59] Clyde & Co, "Approval and regulatory requirements", p.7

been highlighted by the differences between policies issued from 2004 until 2014. From this comparison, it is evident that decentralization of approval authority for overseas investment and simplification of the overall process have become important issues. Nevertheless, the regulatory situation is constantly evolving. In particular, in 2016, the great increase of outbound mergers and acquisitions directly affected the foreign exchange supply and demand. The renminbi depreciated over 6% against the US dollar, while foreign exchange reserves dramatically dropped. The depreciation and the huge capital outflow together with some irrational overseas investment tendencies raised the concern of Chinese regulatory body.[60] Since the end of November 2016, NDRC, SAFE, MOFCOM, PBC and other regulatory authorities have made public statements to prevent foreign investment risks by imposing new restrictions on OFDI. During a press conference, these four departments responsible cadres highlighted the importance of further promoting outbound investment while closely monitoring them. They specifically required strict scrutiny over the following outbound investments:

- Irrational OFDI involving real estate, hotels, cinemas, entertainment, sports club;
- Large-scale investment in the non-core business;
- OFDI by limited partnership;
- "Small parent, big subsidiary" (in Chinese *mu xiao zi da* 母小子大), involving cases where the size of the target company is larger than the Chinese buyer;
- OFDI by domestic subsidiary recently or just set up (in Chinese *kuai tou kuai chu* 快设快出).[61]

Following this release, each department started to modify the existent measures. For instance, MOFCOM published a notice on its website where it required new materials for OFDI procedure in order to enhance the audit's authenticity. Thus, apart from the already requested documents, enterprises have to submit the articles of association of the company established or acquired abroad (or contracts and agreements), the board of directors' or the investment resolution, the latest audited financial statement, explanation of the implementation of

[60] Allen & Overy, *China's new restrictions on outbound investments and remittance,* "Lexology", December 28, 2016, http://www.lexology.com/library/detail.aspx?g=a684de46-08da-4684-ac50-e4951651e470 (accessed March 20, 2017)

[61] Baker Mckenzie Fenxun, *中国境外投资监管新政观察,* January 2017, http://www.bakermckenzie.com/-/media/files/insight/publications/2017/02/new-restrictions-china-outbound-investments/al_china_newrestrictionsoutboundinvestments_jan2017.pdf?la=en (accessed March 20, 2017). It is possible to find the notice in Chinese in http://www.ndrc.gov.cn/xwzx/xwfb/201612/t20161206_829387.html

preliminary work and the certificate of OFDI authenticity. Concerning mergers and acquisitions, it is also necessary to submit online a "Report Form on Preparations for Overseas Mergers and Acquisitions".[62]

Regarding outbound payments for overseas investments, commercial banks are now required to report projects exceeding US$ 5 million (the previous threshold was of US$ 50 million) to SAFE. This organ also strengthened the supervision over OFDI with a total amount of US$ 50 million or more. To grant authenticity and compliance, such overseas transfer will be re-examined. Furthermore, according to the "Circular of the State Administration of Foreign Exchange on Further Advancing Foreign Exchange Administration Reform to Enhance Authenticity and Compliance Reviews" [63] that SAFE has released in January, domestic institutions should explain to a bank sources and objectives of investment funds and present the resolution of board of directors and other materials, as required by MOFCOM.

By enhancing new restrictions on outbound foreign investments, China hopes to slow down capital outflows which put pressure on *renminbi* and clean out foreign exchange reserves as well as better monitor overseas investment activities by preventing those considered as "irrational" (for instance implemented without a proper due diligence with the purpose of cash in on the dollar's appreciation against *renminbi*).[64]

These tightening measures have already produced some results. According to SAFE newsletter of April 14, foreign exchange reserves have risen, returning back to US$ 3 trillion. Therefore, following the economic strengthening and stabilization, the pressure generated from cross-border capital flow has been eased.[65] This provides room for relaxation of

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[62] Baker Mckenzie Fenxun, *中国境外投资监管新政观察*

[63] SAFE, *Circular of the State Administration of Foreign Exchange on Further Advancing Foreign Exchange Administration Reform to Enhance Authenticity and Compliance Reviews*, January 26, 2017, http://www.safe.gov.cn/wps/portal/!ut/p/c4/04_SB8K8xLLM9MSSzPy8xBz9CP0os3gPZxdnX293QwN_f0tXA08zR9PgYGd3Yx8fE_2CbEdFAM9sw9Y!/?WCM_GLOBAL_CONTEXT=/wps/wcm/connect/safe_web_store/state+administration+of+foreign+exchange/rules+and+regulations/0fdc9d00402693889a509ebf3842e0e1 (accessed March 20, 2017)

[64] Allen & Overy, *China's new restrictions*

Gabriel WILDAU, Don WEINLAND and Tom MITCHELL, *China to clamp down on outbound M&A in war on capital flight,* "Financial Times", November 29, 2016 https://www.ft.com/content/2511fa56-b5f8-11e6-ba85-95d1533d9a62 (accessed March 20, 2017)

[65] SAFE, *国家外汇管理局有关负责人就2017年3月份外汇储备规模变动情况答记者问,* April 14, 2017 http://www.safe.gov.cn/wps/portal/!ut/p/c4/04_SB8K8xLLM9MSSzPy8xBz9CP0os3gTA4NgCydDRwMLU1djA0-30GBPFws_A4MAY_2CbEdFANhRXuo!/?WCM_GLOBAL_CONTEXT=/wps/wcm/connect/safe_web_store/shfj/node_shfj/shfj_fjdt/shfj_fjdt_pt/06de770040c60e18a16be9ef3d432601 (accessed May 12, 2017)

restrictions recently imposed, even if it is likely that there will be a gradual process since authorities have used cross-border capital curbs not only to limit the currency outflow but also to further control where Chinese investment are directed to and enhance their quality.[66]

This section has broadly delineated the approval procedure underwent by OFDI in China, taking into account the period from 2004 until nowadays.
Chinese governmental agencies guide overseas investment not only in relation to location and sector decisions, but also have an influence on the investors typology. Through restrictive regulations, they have limited cross-border activities to state-owned enterprises for several years, thus preventing the development and expansion of private firms. Therefore, it is interesting to explore Chinese outward investment by the ownership point of view, and see the changes occurred during the last decades.

1.5 SOEs and non-SOEs: Who are the actors?

According to the type of ownership, Chinese companies can be categorized in different ways. They mainly take four forms: state-owned companies (in Chinese *guoyou qiye* 国有企业), limited liability companies (in Chinese *youxian zeren gongsi* 有限责任公司)，including joint ventures and privatized companies that were formerly SOEs, individually privately owned companies (in Chinese *siren gongsi* 私人公司), and collective enterprises (in Chinese *jiti qiye* 集体企业).[67]
SOEs and private firms differ in a number of ways. First of all, their definition immediately set a clear distinction between the two. State-owned enterprises are business entities established by central and local governments, and whose supervisory officials are from the government itself. This is, in particular, the case for wholly state-funded SOEs, and does not include those corporations whose majority shares are owned by the government.[68]

[66] Yu XIE, *China eases yuan outflow controls in sign of recovered confidence*, "South China Morning Post", April 19, 2017 http://www.scmp.com/news/china/article/2088772/china-eases-yuan-outflow-controls-sign-recovered-confidence (accessed May 12, 2017)
Rita FATIGUSO, *Cina, la Banca centrale allenta la presa sui flussi valutari*, "Il Sole 24 Ore", April 20, 2017 http://www.ilsole24ore.com/art/mondo/2017-04-20/cina-banca-centrale-allenta-presa-flussi-valutari-091730_PRV.shtml?uuid=AEzhWI8 (accessed May 12, 2017)
[67] HUANG and WILKES, *Analysis of China's overseas investment policies*, p. 31
[68] Since the mid-1990s there are two terms that identify the different nature of these entities. "State-owned enterprise" is used for wholly state-funded firms while "state-holding enterprise" refers to a firm whose majority shares belong to the government.

Nevertheless, what is of the utmost importance here is to underline the predominance of the State, not only in legal terms as owner or shareholder, but also as director and supervisor of these firms' overall situation.

Concerning private enterprises, they are defined as businesses possessed by individual people and not by official organizations. Some peculiarities characterize these entities in China. Usually they are small-medium sized, even if recently they have grown in a speed way. This smaller dimension gives them advantages in terms of flexibility and ability to adapt to the international context. It is then common to find a familiar management system, which is based on kinship relations.[69]

Secondly, being owned or controlled by the State, Chinese SOEs enjoy substantial benefits in comparison with private firms. They have privileged access not only to strategic resources but also to financial funds provided by the government itself. This situation has, in many cases, given rise to a monopolistic system which got private sector into trouble. Actually, it does not benefit from the political support and capital subsidies as the State enterprises do.

Nowadays, private owned enterprises are fundamental components of Chinese economy, together with state-owned companies. In the Thirteenth Five-Year Plan, it is clearly stated the importance of both state-owned enterprises and private firms. As declared, the aim is to develop a mixed-ownership economy where state-owned, collective, non-public and other types of capital are strongly supported and integrated. While the government calls for a reform of SOEs to make them grow better, bigger and become internationally competitive, it also guarantees equal rights and opportunities to private entities, through the abolishment of unreasonable regulations and obstacles to their development. The concept of equality is repeatedly stressed, as it includes the access to factors of production, the participation to market competition and the legal protection.[70]

However, the situation has not been always like this. Looking back to the reform period, one of the key point has been the gradual activation and promotion of private companies in Chinese economy. Actually, before the opening up in the late 1970s, non-SOEs firms were considered illegitimate and systematically discriminated against. During all the Maoist era and even in the early period of economic reform, SOEs played a dominant role. In other words, the country relied on the state entrepreneurship. Thus, these enterprises were also the main or, better to say, only actor of Chinese outward investments. These, in turn, were

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[69] HUANG and WILKES, *Analysis of China's overseas investment policies*, p. 31

[70] "The Thirteenth Five-Year Plan", p. 35

directed and must be approved by central authorities.

Private companies became part of Chinese economy only in 1997 and gained a legal status the following year. When they were at first introduced, after the Cultural Revolution, they played a marginal role as they were merely used as a supplement to the State sector. However, from that moment, private firms started to grow steadily, with a temporary deadlock after *Tian'anmen* accident. Big changes occurred thanks to the transition promoted by Deng Xiaoping in its southern tour in 1992. Through China's adoption of the market-socialist economy, the private system received a great stimulus and in 1999 was finally recognized in the Chinese Constitution as a fundamental component of the economy.[71]

Private sector has been deeply integrated in the economic development promotion since that time. This point is highlighted by the fact that, from 2003, privately-owned enterprises were allowed to invest overseas. Since then, outward investments made by private firms have continued to rise to such an extent that, as a government report announced in September 2016, they have taken the lead over state-owned enterprises. According to the "2015 Statistical Bulletin of China's Outward Foreign Direct Investment" (in Chinese *2015 niandu zhongguo duiwai zhijie touzi tongji gongbao* 2015年度中国对外直接投资统计公报), private companies account for 65.3 percent of the total OFDI, totaling US$ 145.7 billion in 2015, surpassing in this way other outward investment contributors both in the amount invested and in the number of mergers and acquisitions made abroad.[72]

Finally, a fundamental element that distinguishes these forms of ownership is the pattern of their cross-border activities. In general, they differ in the motivations that drive their internationalization, as well as the location of their OFDI.

Concerning the determinants of foreign expansion, Chinese SOEs are guided by economic (in particular resource-seeking) but also political objectives. In this respect, it is important to remember the strong involvement the government has in China's OFDI, which becomes evident in its influence over SOEs, but which is also relevant with regards to private firms.

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[71] Toshiki KANAMORI and Zhijun ZHAO, "Private Sector Development in the People's Republic of China", *Asian Development Bank Institute,* 2004

[72] Lyu CHANG, *ODI led for the first time by private firms*, "China Daily Asia", September 23, 2016, http://www.chinadailyasia.com/business/2016-09/23/content_15499763.html (accessed March 21, 2017)

The rise of private firms in China outbound direct investment, "China Chamber of Commerce in the Netherlands", September 27, 2016, https://www.dccchina.org/2016/09/the-rise-of-private-firms-in-china-outbound-direct-investment/ . (accessed March 21, 2017)

MOFCOM, *2015 Statistical Bulletin of China's Outward Foreign Direct Investment*, http://fec.mofcom.gov.cn/article/tjsj/tjgb/201609/20160901399223.shtml (accessed March 21, 2017)

Thus, if from one side government intervention is helpful as it provides support, from the other side it sometimes creates the conditions for the escape of private firms. Actually, the desire to avoid a non-favorable institutional environment can be listed as one of the overseas investment motives of this type of enterprises. Apart from it, the predominant aim of non-SOEs' OFDI is to maximize profit or to seek new markets.[73]
As for OFDI location, Chinese private firms preferably invest in high-income countries (especially if part of OECD), followed by lower and middle-income countries. By contrast, SOEs are mostly attracted to lower income, and then by high-income countries. In addition, SOEs are more likely to invest in distant countries where they can exploit strategic resources. Market remoteness implies higher costs that these companies are able to overcome thanks to the government support. This trend is not equally found in private firms, since more distant locations negatively influence their ability to sustain the cost and risk of such an investment.[74]

The description made above is useful in understanding how outbound activities may differ according to the ownership. In China, the distinction between state-owned and private enterprises has been and continues to be a key factor of its economy, even if the attitude toward these diverse forms has profoundly changed during the last decade and they have now acquired almost the same importance. Thus, the transition to a more tolerant view of private enterprises is also reflected in the evolution of overseas investment. As already emphasized, in thirty years, Chinese government has switched from giving the OFDI monopoly to SOEs to the legalization and encouragement of new ownership forms, such as the private one. The scenario is thus completely transformed: if before the reform era privately-owned enterprises where a marginal reality, nowadays they have become huge, economically strong entities which drive the growth of outbound investments. Given their fundamental role in the country's economy, their relationship with the government is increasingly close and, in such a perspective, the distinction with SOEs is more nuanced compared to the past. Despite of their operational independence, some of them have senior managers who previously served in governmental bodies or in the People's Liberation Army (PLA). Therefore, the connection with authorities is self-evident and raises serious concerns

[73] Nan ZHENG, "The Internationalization of Chinese Firms", master's thesis, University of York, 2013, pp. 61-63

[74] Alessia AMIGHINI, Roberta RABELLOTTI and Marco SANFILIPPO, *Do Chinese SOEs and private companies differ in their foreign location strategies?,* EUI Working Paper RSCAS2012/27, Florence, European University Institute, 2012

about the level of independence of these entities. A fact which has hindered some of their operations overseas, as will be seen in the following sections. Overall, it is possible to state that, at present, the influence of government in Chinese OFDI is overwhelming, no matter if SOEs or privately-owned companies are involved. In general, and in particular when dealing with large entities, overseas investments are the result of an economic and political compromise, which fits with Beijing's priorities.[75]

1.6 Why going abroad?

1.6.1 The general theory

As stated by Dunning, companies usually have three main motivations when investing in a foreign country: resource-seeking, efficiency seeking and market seeking.[76] According to these diverse strategies, in the first case they will aim at exploiting local resources which are insufficient in the home country as gas, oil or timber in the case of China; in the second one they will try to benefit from cheap labor and, finally, in the latter, their purpose will mainly be to expand in new markets or to defend an established market position.

This is the existing theory behind the overwhelming expansion of developed countries multinationals. Leveraging their distinctive knowledge, skills and capabilities, they could build a global value chain and transfer their rare, scarce and valuable resources in subsidiaries located all over the world.

Is this situation the same of emerging market multinationals?

The recent successful rise in the international scene of the so-called "Dragon Multinationals"[77] cannot be ignored as it raises some interesting questions, the most relevant of which is, for the purposes of this thesis, the objectives sometimes not so evident behind their internationalization process.

The analysis starts from a fundamental truth: these emerging market multinationals, most of the times, do not possess an ownership advantage which can be exploited overseas. Nevertheless, they acquire it through the international experience, which gives them the possibility to overcome lack of knowhow, technology, managerial skills and well-known

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[75] Jie YU, *Firms with Chinese Characteristics: The Role of Companies in Chinese Foreign Policy*, London, LSE ideas, 2012, pp. 34-37

[76] John H. DUNNING, "Location and the Multinational Enterprise: A Neglected Factor?", *Journal of International Business Studies,* 29, 1, 1998, pp. 45-66

[77] MATHEWS, *Dragon Multinational*

brands. Developed countries, as rich depository of knowledge and advanced techniques, become the holy land for hundreds of enterprises in search of a better exposure and rapid development. It has been found that these firms seek technology and market in developed nations while pursue resource-seeking objectives when investing in less developed countries.[78]

Chinese OFDI were driven, in 1990s, by the motive of gaining access to natural resources while, with the new millennium, their attention has been more attracted by technology and strategic assets.[79] Later, with the "go global" strategy, another determinant of outbound investments appeared: the creation and encouragement of global champions, defined as internationally competitive Chinese firms with famous brands.[80]
To better understand the objectives that these enterprises want to achieve when going abroad, it is necessary to explain each of them on a case-by-case basis. A fourth element, namely the institution-seeking dimension which is a distinctive characteristic of Chinese OFDI, will be added to the well-established theory made up of the three motivations already listed above.

Resource-seeking OFDI

Resource-seeking OFDI can be further broken down into:

- Natural resource-seeking;
- Technology-seeking;
- Strategic asset-seeking.[81]

Companies usually decide to invest abroad to pursue natural resources when there is a lack in the domestic market, or it is necessary to sustain the economic growth and secure future needs through a bigger provision. Therefore, they direct their investments to host countries that are rich of raw materials they are in search for. Concerning China, it is in general well-endowed with some natural resources, even if the per capital availability is quite low.[82] Moreover, for certain materials such as aluminum, oil, timber, copper and fish, there are

[78] Shige MAKINO, Chung-Ming LAU and Rhy-Song YEH, "Asset-exploitation versus Asset seeking: Implications for Location Choice of Foreign Direct Investment from Newly Industrialized Economies", *Journal of International Business Studies,* 33, 3, 2002, pp. 403–421
[79] Ping DENG, "Outward Investment by Chinese MNCs: Motivations and Implications", *Business Horizon*, 47, 3, 2004, p. 11
[80] Nargiza SALIDJANOVA, *Going Out: An Overview of China's Outward Foreign Direct Investment,* Washington, U.S.-China Economic & Security Review Commission, 2011, p. 11
[81] ZHENG, "The Internationalization of Chinese Firms", p. 64
[82] DENG, "Outward Investment by Chinese MNCs", p. 11

severe domestic shortfalls, that must be filled up with acquisitions in other countries. Large Chinese multinationals are involved with this type of projects, such as China National Offshore Oil Corporation (CNOOC) or China National Chemical Import and Export Corporation (Sinochem).[83]

Firms can also operate cross-border for purposes related to technology-seeking. Usually their main priority is to establish research and development centers. From developed countries, they can leverage knowledge they do not possess and bridge the gap. In this case, Chinese companies are more likely to acquire already-existing firms rather than establish new ones through greenfield operations. Thus, they can upgrade state-of-the-art technologies and transfer the proprietary knowledge obtained to the subsidiaries located in the domestic market. An example is provided by Haier, manufacturer of refrigerators, freezers, washing machines and air conditioners in China, which is a pioneer in respect of cross-border activities, as it started to internationalize in 1999. Apart from various subsidiaries, mainly established through M&A, it has several technological research institutes and development centers located around the world.[84] It is currently the number one major appliances brand in the world.[85]

Strategic asset-seeking OFDI involves the acquisition of tangible and intangible assets, that are not available inside the company or the home country. Strategic aims are set at corporate level and are useful to improve the firm's performance. Chinese enterprises seem to be no exception in this respect. Among the strategic assets they search for there are brands, distribution channels, management knowhow, marketing skills. Midea Group, a leading producer of home appliances in China, is a good example. It started its internationalization process by establishing subsidiaries in industrialized countries, with the aim to form a global brand name.[86] Recently, it has acquired in Germany one of the most famous companies in the robotic field, raising lots of rumors.[87]
This is just one of the numerous cases of M&A carried out by Chinese companies during last

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[83] ZHENG, "The Internationalization of Chinese Firms", pp. 67-68
[84] DENG, "Outward Investment by Chinese MNCs", p. 13
[85] Haier, *Haier tops Global Major Appliances Brand rankings for seventh consecutive year*, March 22, 2016, http://www.haier.com/uk/newspress/pressreleases/news2016/201603/t20160322_302830.shtml (accessed March 22, 2017)
[86] DENG, "Outward Investment by Chinese MNCs", p. 14
[87] Guy CHAZAN, *德国为何担忧中国投资?*, "Financial Times 中文网", August 12, 2016, http://www.ftchinese.com/story/001068886 (accessed March 22, 2017)

decade. The emergence and intensification of this type of entry mode is strictly connected to strategic asset-seeking motivations. As new players in the international scenario, Chinese investors generally choose cross-border M&A to accelerate acquisition and control of strategic assets.[88]

Efficiency-seeking OFDI

Efficiency-seeking OFDI occur when companies invest in convenient locations, because of low costs in terms of production, labor, administration. The priority is to increase the efficiency through economies of scale and scope, achieved by concentrating or centralizing the production in a specific place.

As for China, it is generally considered as a low-cost location. This explains why cost minimization has not been a driver of overseas investments in the past. In fact, even if production costs have gradually increased in the coastal regions, Chinese companies were more likely to transfer their facilities in the Western part of the country, not affected by the development consequences. Therefore, more than a movement toward external areas, there was a relocation process, with a dual effect: cost cutting and revaluation of poorer areas.[89]

The convenience represented by China is highlighted also by the fact that it is one of the country that attracts the higher amount of foreign direct investments. As it opened to the outside world in the late 1970s, this trend has gradually improved until recently, when China became the place where everybody wanted to be. However, things are rapidly changing, as it entered a new era that has been defined as the "new normal" (in Chinese *xin changtai* 新常态)[90]. After more than thirty years of unflagging expansion, Chinese economic growth is nowadays slowing down. This has implications for the market structure, which is undergoing a deep transformation, trying to adapt to the new conditions. Higher land, labor and production costs are among the principal consequences of the process. Thus, if before the change efficiency-seeking motivations covered only a negligible part of cross-border investments, nowadays they are making their way. The cost advantages provided by South-Asian countries and Africa are among first choices when looking for efficiency.[91]

[88] Carlo PIETROBELLI, Roberta RABELLOTTI and Marco SANFILIPPO, "Chinese FDI strategy in Italy: the 'Marco Polo' effect", *Int. J. Technological Learning, Innovation and Development*, 4, 4, 2011, pp. 277-291
[89] DENG, "Outward Investment by Chinese MNCs", p. 15
[90] *习近平首次系统阐述"新常态"*, "Xinhua net", September 9, 2014, http://news.xinhuanet.com/world/2014-11/09/c_1113175964.htm (accessed March 9, 2017)
[91] ZHENG, "The Internationalization of Chinese Firms", p. 66

Market-seeking OFDI

Market-seeking is the third most popular motivation when investing abroad. The reasons behind it are manifold: the competitiveness of the host country, the level of its infrastructures, a growing and promising market, proximity to customers, favorable policies; these all have a high attractive power in the eyes of investors.

In general, there are two different strategies, known as defensive market-seeking and offensive market-seeking. In the first case, firms try to protect and reinforce an existing market, while in the second one they concentrate their efforts on penetrating and developing new markets.

A defensive maneuver is usually required when the host country enhance protectionism by means of trade barriers. When tariffs imposed to imported goods increase, it becomes really difficult for the exporting subject to sustain growth. Therefore, investing in third countries that are not affected by these restrictions is a way to bypass the problem. China has suffered for a quite intense guerrilla promoted against its products, and there seems to be a revival of this trend in more recent times.[92] In particular, before getting access to the WTO, Chinese-made goods faced lots of limitations when exported to foreign countries. Thus, China started to transfer manufacturing plants or export-platforms in locations free from excessive trade restraints, such as Cambodia, Mauritius and Fiji. Even if, with the admission to the WTO, some barriers were relaxed, Chinese investors have continued to implement this strategy which enables them to avoid constraints and accusation of dumping and, at the same time, take advantage of a preferential treatment given to those countries.[93] An example is provided by Haier, which has established its manufacturing facilities in the United States in order to circumvent American quota restrictions and anti-dumping lawsuits.[94]

Another reason for defensive market that it is worth mentioning is the tentative to escape from an excessive competition at home, a situation that can be found also in China now. The great number of foreign multinationals operating inside the country has created a fierce competition and caused a reduction of profit margins, leading to overcapacity in mature

[92] *China offers hope in fight against protectionism,* "China daily", January 12, 2017 http://www.chinadaily.com.cn/business/2017-01/12/content_27938199.htm (accessed March 10, 2017)
China firmly against protectionism, "State Council", February 16, 2017 http://english.gov.cn/state_council/ministries/2017/02/16/content_281475569390542.htm (accessed March 10, 2017)

[93] SALIDJANOVA, *Going Out,* p.10

[94] DENG, "Outward Investment by Chinese MNCs", p. 12

sectors. This forced some Chinese companies to invest overseas and establish outside their production facilities and distribution centers.[95] According to the European Chamber of Commerce in China, the increased domestic competition is one of the main reason for Chinese enterprises to look outside. It has pushed them to find new markets for sales and become more competitive by means of acquiring technology and brands.[96]

From the offensive market-seeking point of view, firms are motivated by the desire to develop new markets, rise their profile, exploit market growth potential and enhance their brand recognition.

A list of motivations that have pushed well-known Chinese enterprises as Lenovo, Huawei and Haier to expand their activities cross-border. They invest both in developed and developing countries but with different purposes. From one side, they aim at gaining high-end customers and raise brand awareness, for instance in Europe or U.S; on the other side, they focus on poorer economies as the African one, where they support infrastructure development or produce low value-added goods for local populations.[97] Industries including products like clothing, textile, shoes and simple electrical appliances constitute a competitive advantage for Chinese companies, which is used in emerging economies.

Diversification-seeking can be considered as a final, important sub-category of offensive market strategy, even if some researches like Deng treat it as a separate motivation (actually, it may involve both business and market diversification).[98] Many enterprises, in particular the large ones, intensify their presence overseas for the purpose of diversifying their risk portfolio. By operating in different realities and businesses, they avoid the hazard of being concentrated just in the domestic market.

1.6.2 Chinese distinctive features

The three well-known objectives listed above, which bring together both developed and developing countries, are not sufficient to explain China's overseas investments. Another driver, peculiar to this economy, must be considered.

When dealing with China, there is a basic rule that should not be forgotten: The State is

[95] PIETROBELLI et al., "Chinese FDI strategy in Italy", p. 280

[96] European Chamber of Commerce in China, *Chinese Outbound Investment in the European Union,* January 15, 2013,http://www.europeanchamber.com.cn/en/publications-archive/10/Chinese_Outbound_Investment_in_the_European_Union (accessed March 11, 2017)

[97] ZHENG, "The Internationalization of Chinese Firms", p. 66

[98] YIN, "Motivations of Chinese OFDI", p. 89

always present, and permeates every aspect of economy and society. This is true also for firms' cross-border operations.[99]

In this respect, the role played by institutions is fundamental, as they shape and direct the overseas activity of Chinese enterprises. For this reason, it is of the utmost importance to understand when the firms' investment decisions can be explained by the general theory, and when they are the result of the influence that the institutional context exercises on them. As already seen, changes in the direction taken by the government has usually provoked a response by companies. With the "go global" initiative, regulations and policies have fundamentally represented a stimulus for investing abroad, fact which has been welcomed by enterprises. However, it does not always work this way. In particular, when firms' needs are not aligned with the home country institutional situation, there can be the opposite effect. It is not a rare case to see companies that try to escape from constraints imposed by institutions. Instead of being the supporter of cross-border investment, they become the obstacle to avoid by operating outside the domestic market.[100] This last situation happens when institutional structure is not able to respond to the changes occurred in the external environment, such as the business system where companies are deeply embedded. Examples may be outdated labor regulations or the presence of a technological gap when some new techniques have been already approved outside but are illegal inside the country. Of course, these elements can improve the costs of doing business, in comparison to other places without such a constraint.[101]

Concerning China, there are many institutional voids like the absence of legal protection for property rights, non-transparent judicial system, inefficient market factors and political risks (high level of corruption and government intervention, red tape, changing regulations, arbitrary enforcement of laws). Therefore, firms often decide to avoid all these obstacles and invest in countries characterized by greater transparency and efficient institutional body.[102]

This is a trend that involves mainly small private companies. Compared to their counterparts, the big state-owned enterprises, they face great challenges at home and more than be pushed by the government to go abroad, they are "forced" to escape from it. As for large private firms, the situation is quite different as they generally maintain closer relations with the

[99] DENG, "Outward Investment by Chinese MNCs", p. 14

[100] ZHENG, "The Internationalization of Chinese Firms", p. 71

[101] Michael A. WITT and Arie Y. LEWIN, "Outward foreign direct investment as escape response to home country institutional constraints", *Journal of International Business Studies*, 38, 4, 2007, pp. 579-594

[102] Yadong LUO and Rosalie L. TUNG, "International Expansion of Emerging Market Enterprises: A Springboard Perspective", *Journal of International Business Studies*, 38, 4, 2007, pp. 481-498

government itself and try to gain the favor of it by following its declared objectives, as is the case with the "go global" strategy. Actually, in particular when implementing large scale acquisitions or other big projects, they are heavily dependent on government support. Therefore, finding a compromise between their expansionist ambitions and the government development interests may prove to be the key to success. With this is mind, it can be stated that firm size matters since well-connected enterprises, whether these are SOEs or large privately-owned companies, can benefit from institutional advantages.[103]

1.7 Where are Chinese OFDI directed to?

Chinese overseas direct investment is increasingly surging as companies continue their route toward internationalization. During last decade, apart from an outstanding growth in terms of volume, there has also been a great expansion regarding the investments' destination.
Early Chinese investments were made in industrialized countries as United States, Canada and Australia. However, starting from 1990s, there has been a shift toward emerging nations, especially those located in Asia.[104] Even if Asian countries remain the top location for Chinese OFDI, nevertheless, over the years, developed economies recovered their position as important targets for investment' activities. This trend particularly intensified after the international financial crisis of 2008. The world economy growth underwent an impressive slow down, letting large numbers of leading enterprises' value shrink. Thus, it provided a good opportunity for Chinese OFDI, and especially for cross-border M&A growth. According to the United Nations Conference on Trade and Development (UNCTAD), global M&A has rebounded starting from 2008.[105]

The shift toward developed countries can be explained by Chinese investors' change of focus which reflects Chinese economy transformation and upgrade from a labor intensive to a technology-driven one. Thus, if in the past Chinese companies were mainly driven by the acquisition of natural resources, nowadays they are more interested in getting access to state-of-the-art technologies, advanced techniques, services and brands. In this domain, Europe as

[103] ZHENG, "The Internationalization of Chinese Firms", p. 71
[104] Jeremy CLEGG and Hinrich VOSS, *Chinese Overseas Direct Investment in the European Union,* London, Europe China Research and Advice Network, 2012, p. 16
[105] CASS, *中国对外直接投资的发展趋势与战略重点*, 中国社会科学网, November 9, 2016, http://www.cssn.cn/jjx/xk/jjx_yyjjx/wlydzsw/201611/t20161109_3270138_2.shtml (accessed March 11, 2017)

well as USA are plenty of top-ranking firms.[106]

Since MOFCOM Statistical Bulletin of China's Outward Foreign Direct Investment for the year 2016 (in Chinese *2016 niandu zhongguo duiwai zhijie touzi tongji gongbao* 2016年度中国对外直接投资统计公报) have not been published yet, it will be provided here below a configuration of the regional distribution of China's overseas investment for the year 2015.[107] In this way, it is possible to understand the general situation characterizing OFDI destination choice. However, as some comments on 2016 trends have already been provided in MOFCOM official website, they will also be taken into consideration in order to give an up-to-date account of the current situation and see how it has evolved.

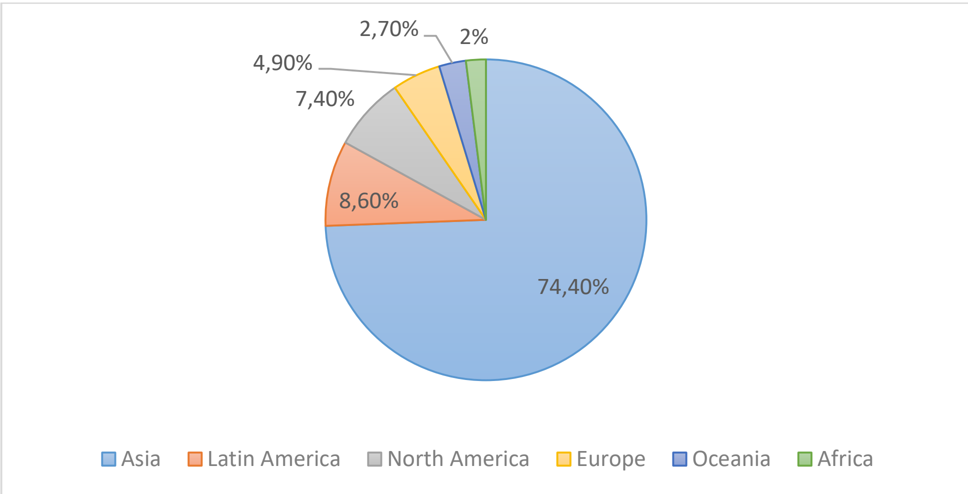

Figure 2: Geographical distribution of Chinese OFDI. Source: MOFCOM 2015 Statistical Bulletin of China's Overseas Foreign Direct Investment

As concerns 2016, MOFCOM published in its website OFDI data covering the period January-October. According to them, China's OFDI reached 162 countries and regions, with Hong Kong, ASEAN, European Union, Australia, United States, Russia and Japan totaling US$ 109.15 billion and accounting for 74,8% of the overall direct outward investment.[108]

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[106] WANG Bijun, ZHANG Ming and MA Jianwen, *中国海外并购步伐缘何放缓?*, "Financial Times 中文网", June 9, 2016 http://www.ftchinese.com/story/001069134 (accessed March 11, 2017)
Spencer LAKE, *谁在推动中国对外直接投资?*, "Financial Times 中文网", July 2, 2015 http://m.ftchinese.com/story/001062801 (accessed March 11, 2017)
[107] MOFCOM, *2015年度中国对外直接投资统计公报*, September 22, 2016 http://fec.mofcom.gov.cn/article/tjsj/tjgb/201609/20160901399223.shtml (accessed March 11, 2017)
[108] MOFCOM, *Regular Press Conference of the Ministry of Commerce (November 17, 2016)*, November 18, 2016 http://english.mofcom.gov.cn/article/newsrelease/press/201611/20161101880506.shtml, (accessed March 25, 2017)

Recently, MOFCOM has also provided a general figure comprising the two last months of 2016. According to it, Chinese investors made direct non-financial investment of US$ 170.11 billion, covering 164 countries.[109]

Despite official statistics report a strong concentration of China's investments in the Asian region, these data may not fully represent the final destination of Chinese OFDI. As is the case in many other countries, some Chinese companies at first invest in tax havens as well as offshore financial centers where there is a favorable taxation, like Hong Kong. Then, they invest the money in other places through subsidiaries located in these financial centers. Official Chinese data take only into account the initial destination and this may explain why there is such a high percentage of OFDI involving the Asian area.[110]

After this brief overview of Chinese OFDI direction, next two sections will provide more details about the situation in Europe and Italy.

1.7.1 The case of Europe

Nowadays, Chinese foreign direct investments have become an important part of the European economy. As stated by the report of the European Chamber of Commerce in China, Europe is perceived by Chinese investors as a safe, stable place destination for investments. It has a large consumer market for sales of goods and services, advanced technologies, an educated workforce as well as desirable brands that can be acquired to help their competitiveness both domestically and internationally.[111]

However, going back to the 1980s, the scenario was completely different, since it was characterized by a one-way flow of investments, those coming from Europe. A great amount of European companies of all sizes and industries have penetrated the Asian giant for almost forty years, investing hundreds of billions of euros and prompting its development. And it is through the exploitation of these huge resources entering the domestic market that China began its OFDI growth trajectory, with an average growth rate of 30% in the period from 2005-2015. According to some estimations, Chinese outward OFDI totaled EUR 35 billion

[109] MOFCOM, *商务部合作司负责人谈2016年我国对外投资合作情况,* January 18, 2017 http://english.mofcom.gov.cn/article/zt_cv/lanmucc/201701/20170102503095.shtml (accessed May 12, 2017)
[110] Lihuan ZHOU and Denise LEUNG, *China's Overseas Investments, explained in 10 graphics*, "World Resources Institute", January 28, 2015 http://www.wri.org/blog/2015/01/china%E2%80%99s-overseas-investments-explained-10-graphics (accessed March 25, 2017)
[111] EU Chamber of Commerce, *Chinese Outbound Investment in the EU,* p. 4

in 2016, in this way reaching an outstanding increase of 77% from 2015.[112]
In 2016, the great deal of transactions made by China has not been offset by the reverse flow of FDI. Due to slower-moving economic growth, lower margins in Chinese market but also rising trade barriers, European firms invested only EUR 8 billion there, an insignificant sum compared to the Chinese one. While China, encouraged by the effects of economic crisis, is reaching the peak in its OFDI activities in Europe, this last is going through a declining phase, perhaps discouraged by the non-reciprocal attitude of Chinese counterpart.[113]
The growing imbalance in two-way FDI flows is represented by the figure here below.

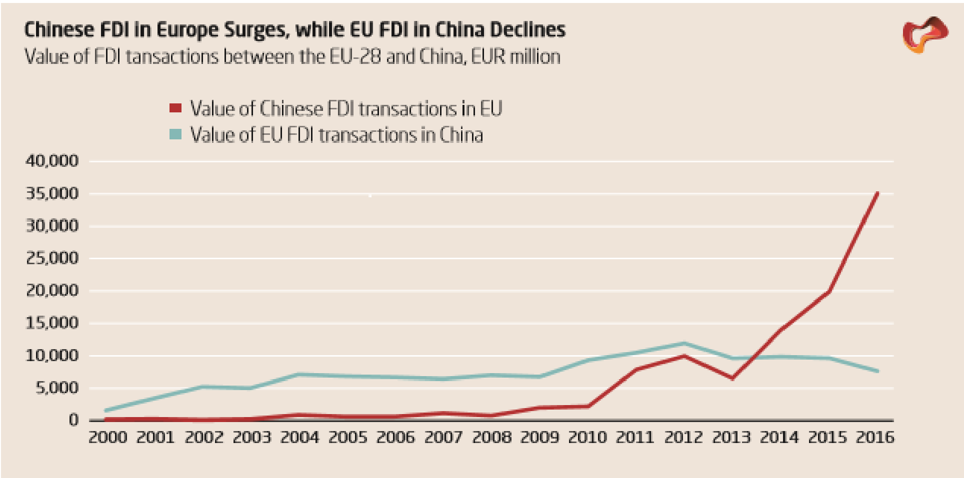

Figure 3: Growing imbalances in EU-China FDI flows. Source: Merics Paper on China Update from Rhodium Group

Once ascertained the rapid rise of the Asian country foreign activities in the Old World, it becomes necessary to investigate the trend and, above all, understand which are the drivers of Chinese OFDI and what are the reactions triggered by them.

M&A upsurge

With the new millennium, and especially after the start of the financial crisis of 2008, the interest of Chinese investors in Europe greatly increased. This is reflected by the evolution of M&A activities. As underlined in the introduction to this section, many Chinese enterprises have profited from the weak financial position of western countries' firms to speed up their penetration into those markets strongly damaged by the crisis. This has been also the case of Europe, where Chinese investors concluded more than four fifths (83%) of

[112] Thilo HANEMANN and Mikko HUOTARI, "Record Flows and Growing Imbalances: Chinese Investment in Europe in 2016", *Mercator Institute for China Studies*, 3, 2017, p. 4
[113] Ibid., p. 4

M&A projects between 2009 and 2013.[114]

In addition, China's supportive financial and political environments gave a strong contribution to the development of this entry-mode. Soft bank loans and increased number of financing sources (including foreign banks, domestic commercial banks etc.) together with governmental initiatives that promote overseas investment such as "One Belt One Road" and "Made in China 2025" further broaden the universe of Chinese M&A.[115] During the last two years, Chinese M&A has received a boost both in pace and takeover size, becoming a landmark for investment in Europe.[116]

Actually, the deals closed by Chinese investors in the European Union involve huge amounts. The biggest transaction, for example, has been that one of a consortium headed by Tencent which bought Supercell, a Finnish gaming enterprise, for EUR 6.7 billion, followed by Midea's purchase for EUR 4.4 billion of Kuka, a German leading company in the robotic field.

It is interesting to note that Chinese private companies started to play a dominant role last year, totaling 74% of overall investments.[117]

Motives for investing in Europe

As summarized by the previous section, the motivations behind Chinese outward investment are manifold and sometimes only one is not sufficient to explain them.

China is transforming its economy from export-driven manufacturing to one driven by consumption, technology and industrial know-how. The Chinese government realized that relying upon the export low-value added goods cannot secure the sustainable growth of Chinese economy in the long term. Therefore, it started to promote a restructuring aimed at equipping Chinese firms with the industrial and commercial knowhow necessary to compete in the global arena.[118] As a consequence, strategic priorities of investors have transformed to reflect this kind of shift.

In general, Chinese buyers are attracted by developed countries as Europe because of

[114] EU SME Center, *Chinese Outward Foreign Direct Investment in the EU − Opportunities and Challenges for European SMEs to Link into the Global Value Chain of Chinese Multinational Enterprises,* July 29, 2014, http://www.eusmecentre.org.cn/report/chinese-outward-foreign-direct-investment-eu (accessed March 27, 2017)

[115] J.P. Morgan, *China's increasing Outbound M&A: key drivers behind the trend* , 2016, https://www.jpmorgan.com/global/insights/chinas-key-drivers , (accessed March 27, 2017)

[116] EU SME Center, *Chinese Outward Foreign Direct Investment in the EU,* p. 3

[117] HANEMANN and HUOTARI, "Record Flows and Growing Imbalances", p. 5

[118] YU, *Firms with Chinese Characteristics,* p. 34

knowledge, technology, brands and other strategic assets they can find there. Key drivers of Chinese OFDI may be listed as:

- Acquiring experience, brands, technology and human capital in order to become more competitive and support China's upgrading towards an advanced economy, helping sectors like information communication technology;
- Getting access to high-quality goods and services which can sustain China's evolution of consumption needs. Therefore, benefits will be provided to agriculture, healthcare, food production and other sectors;
- Creating new markets for products and services that suffer from overcapacity in the home country;
- Diversifying the portfolio risk of Chinese investors;
- Establishing a credible track record which facilitates expansion into new markets, especially in those of developed countries.[119]

The sectors that draw the attention are various. They include manufacturing, energy, communication, entertainment, infrastructure and transportation. Chinese investments cover almost every field, although they are in particular driven by the service industry, accounting for the 61% in 2015. It is the most promising sector for the future and the road less traveled by until now. On the other hand, real estate investments declined a lot.[120]

The Chinese growing interest on sensitive and strategic fields, as high technology and infrastructure, is at the core of new industrial policy plans released by the government. China has the ambitious project to become one of the world's most competitive and advanced economies, thanks to the "smart manufacturing" (manufacturing using innovative technologies). An assumption that is, not coincidentally, similar to those of "Industry 4.0" (in Chinese *gongye 4.0* 工业4.0), a concept promoted by Germany, and of "Internet of Things" (in Chinese *wu lianwang* 物联网)[121]. According to "Made in China 2025" (in Chinese *zhongguo zhizao 2025* 中国制造2025) industrial masterplan, the country will be

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[119] KPMG, *China Outlook 2016*, March 2, 2016, https://home.kpmg.com/xx/en/home/insights/2016/03/china-outlook-2016.html (accessed March 27, 2017)

[120] HANEMANN and HUOTARI, "Record Flows and Growing Imbalances", p. 5

[121] "Industry 4.0" is one of the main projects of new "High-Tech Strategy" promoted by Germany. It is defined as the next frontier of digitization of manufacturing sector, characterized by four peculiarities: rise in data volumes, computational power and connectivity; emergence of business-intelligence skills and analytics; innovations in terms of human-machine interaction and, finally, improvement in transferring digital instructions to the physical world. This concept is closely related to that of "Internet of Things", whose aim is to extend Internet to the concrete, physical world.

transformed into a manufacturing superpower in the near future. Through the upgrade process, the government hopes to overcome the backwardness of Chinese manufacturing sector by strengthening enterprises' competitiveness and global expansion. This means that advanced economies with high know-how and skills in terms of machinery, automotive, energy-saving vehicle, robotics, information technology are all under the close scrutiny of China. The outward-looking dimension characterizing "Made in China 2025" suggests there will be an acceleration in the acquisition of international high-tech companies by Chinese investors.[122]

Investment distribution by Member States

Inside Europe, Germany, UK and France, recognized as the "Big Three" European economies, are the main recipient of China's OFDI. Among them, Germany is the most attractive destination for Chinese investment. In 2016, this EU member state alone accounted for 31 per cent of total Chinese overseas investment in Europe, receiving EUR 11 billion from the completed deals.[123] Germany can be considered as an ideal place for investors as it sums up lots of peculiarities: institutional stability, strong industrial culture, well-established brands and a very significant propensity to technological research and innovation. All these aspects have contributed to the outstanding increase of Chinese investments in Germany. According to the professional services firm Ernst & Young (EY), in the first semester of 2016 Chinese investors acquired 37 German enterprises, while the overall amount of 2015 was of 39 firms.[124]

As for sectors, an analysis made by PricewaterhouseCoopers (PwC) states that, in 2014, machinery and tools were predominant, totaling 32 per cent of acquisitions. They are followed by automotive (14 per cent) and renewable energy (11 per cent).[125] More recently, there has been an expansion of the industry mix towards finance, business service and information technology.[126]

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[122] Jost WÜBBEKE et al., "Made in China 2025: The making of a high-tech superpower and consequences for industrial countries", *Mercator Institute for China Studies*, 2, 2016, pp. 6-7

[123] HANEMANN and HUOTARI, "Record Flows and Growing Imbalances", p. 6

[124] Guy CHAZAN, *German angst over Chinese M&A*, "Financial Times", August 9, 2016, https://www.ft.com/content/e0897e24-598e-11e6-8d05-4eaa66292c32 , (accessed March 23, 2017)
2016 上半年中国企业收购德国企业交易总额为108亿美元, 收购了37家德国公司，2015 年为39家, "全球经济数据", August 14, 2016, http://www.qqjjsj.com/yjbg/127713.html (accessed March 23, 2017)

[125] Pwc, *Chinese Investors in Germany-中国投资者在德国,* October 2015, http://www.pwccn.com/en/german/german-investors-in-china-oct2015.pdf (accessed March 23, 2017)

[126] Andrea GOLDSTEIN, *Capitalismo Rosso: gli investimenti cinesi in Italia,* Milan, Università Bocconi Editore, 2016, p. 59

Even if there are many greenfield investments and R&D centers, nevertheless the great majority of Chinese OFDI in Germany takes the form of acquisitions, since takeovers are a quick way of penetrating the market or leveraging the existing knowledge, brands and other assets. [127] More precisely, acquisitions and mergers of small and medium enterprises represent the main thrust of such investments. Germany is full of this type of firms which constitutes the target for many Chinese investors, both public and private.

Important takeovers made during last five years have been those of the Chinese automotive manufacturer Weichai Power which acquired Kion Group, the world's second-largest forklift maker in 2012 (EUR 467 million); of Lenovo, which purchased Medion, a leader in PC, in 2011 (EUR 530 million) and of Sany Heavy Industry which concluded the deal for acquiring Putzmeister, a high-tech concrete pumps maker in 2012 (EUR 324 million). More recently, in 2016, Fosun paid EUR 210 million for Hauck & Aufhäuser, a private bank founded in 1796. And it is exactly during last year that appeared the first transactions getting closer or exceeding the threshold of one billion. In particular, ChemChina acquisition of KraussMaffei Group for EUR 925 million, Beijing Enterprises purchase of EEW Energy from Waste for EUR 1.4 billion and Midea takeover of Kuka for EUR 4.5 billion are the most significant ones.[128] The common denominator of these M&As is China's willingness to access German know-how. The aforementioned "Industry 4.0" strategy is peculiar in enhancing the Chinese interest as it serves as an example and a model for its own projects, summarized by "Made in China 2025". As stated in ChemChina website: "KraussMaffei Group will instill the robust German Industry 4.0 gene and the manufacturing tradition of craftsmanship into ChemChina's advanced manufacturing segment, […] thus completing our shortcoming".[129]

Summing up, Chinese M&A activities have steadily grown since 2010 and their quality as well as money spent on these deals have significantly increased too. Moreover, the focus of investors has shifted from the acquisition of troubled assets to strategic takeover of leading companies in technological field. German medium-sized companies usually are market leaders in industries playing a pivotal role in Chinese economic development. Taking into account this aspect and considering also the fact that the two countries have a long-lasting trade and investment partnership, it is quite certain that Germany will remain a key

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[127] Thilo HANEMANN and Mikko HUOTARI, "Chinese FDI in Europe and Germany: preparing for a New Era of Chinese Capital", *Mercator Institute for China Studies and Rhodium Group*, 2015, p. 18

[128] Ibid., pp. 59-60

[129] *ChemChina completes takeover of the KraussMaffei Group*, "ChemChina", April 29, 2016, (http://www.chemchina.com/en/xwymt/jtxw/webinfo/2016/04/1461888025236701.htm (accessed March 25, 2017)

investment destination for Chinese enterprises.[130]

Chinese investment has significantly increased also in UK during last years. The history of Chinese investment in UK is quite long, as it was the first destination of Chinese overseas transactions in Europe. In particular, the deal volume of Chinese cross-border M&A received a boost in 2008 and hit a record high in the second quarter of 2016. In general, the targeted sectors are manifold, including finance, consumer and healthcare.[131] However, the majority of investments is concentrated into real estate. London has attracted Chinese investors interested in luxury properties, one example of which is the Nine Elms property project implemented by Dalian Wanda. This Chinese real estate developer acquired the One Nine Elms project for more than £ 850 million in 2013, with the intention to launch a new international hotel brand.[132] Another ambitious project involves the Royal Albert Dock, acquired in 2013 by Advanced Business Park (ABP). The aim was that of transforming the area into a gateway for Asian and other Chinese businesses seeking to set up headquarters in Europe. In October 2015, ABP made a partnership with Sany and Citic in order to carry on the construction of London's new business district.[133] Finally, the second-biggest ever sale of a UK building has been registered in March 2017, with the sale of the "Cheesegrater" (the tallest building in the city of London) to a Chinese property tycoon for £ 1.15 billion.[134]

Brexit effects on property market are still unknown, even if some considered that, being China's real estate oversupplied and overpriced, UK will remain a safe haven where Chinese investors can balance their assets.[135]

Another interesting trend is nowadays emerging. Partly inspired by President Xi Jinping passion for football and ambition to host the World Cup in 2030, several Chinese investments have been attracted by English clubs. For instance, the Championship club Aston Villa of Birmingham has been acquired for £ 76 million by Xia Jiantong, a Chinese businessman

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[130] Deloitte, *Investing in Germany: a guide for Chinese businesses,* August 2016, https://www2.deloitte.com/content/dam/Deloitte/de/Documents/Country%20Services%20Group/Deloitte-Investing-in-Germany-A-guide-for-Chinese-businesses-2016.pdf (accessed March 25, 2017)

[131] Kyla NJOKU, *Cass research reveals Chinese M&A into the UK hit a new record high in 2016*, "City University of London", November 7, 2016, http://www.city.ac.uk/news/2016/november/new-cass-research-on-cross-border-chinese-m-and-a, (accessed March 28, 2017)

[132] *One Nine Elms*, "One Nine Elms", http://www.onenineelms.co.uk/, (accessed March 28, 2017)

[133] *Royal Albert Dock London*, http://abp-london.co.uk/ , (accessed March 28, 2017)

[134] Julia KOLLEWE, *London Cheesegrater sold to Chinese tycoon for more than £1 billion*, "The guardian", March 1, 2017, http://www.theguardian.com/business/2017/mar/01/london-cheesegrater-chinese-tycoon-city-british-land-city , (accessed March 28, 2017)

[135] James KYNGE, *Strong growth for top Chinese investments in UK*, "Financial Times", March 12, 2017, https://www.ft.com/content/262d1258-0725-11e7-97d1-5e720a26771b , (accessed March 28, 2017)

owner of the holding company controlling listed enterprises, Recon Group.[136] Moreover, China Media Capital (CMC) invested £ 265 million and took a 13 per cent share in Manchester City.[137] This tendency will be further explored in the third chapter.

As for France, thanks to its big market located in the heart of Europe and its good connections to the Old continent, it has received a great amount of Chinese OFDI during the years. Although its Chinese OFDI stock is lower than those of Germany and UK, its *savoir faire* continues to attract Chinese investors. Moreover, the government is favorable to a further increase of China's presence in the French economy. Former President François Hollande, during a meeting with the members of China Entrepreneurs Club visiting the country in 2013, claimed that France is willing to attract more Chinese investment in order to seek a balance between the flow of French investments directed to China and the reverse one of Chinese in France.[138] Their transactions in France cover several sectors, and among them tourism as well as agribusiness (especially wine) held an important position.

France is one of the favorite destinations of Chinese tourists. This was a well-known fact when Fosun finally took control of Club Méditerranée (Club Med) in January 2015, after a long takeover fight with the Italian tycoon Andrea Bonomi. The strategic aim behind the Club Med case was to expand and open new clubs in China, that with its huge population and the fastest growing tourism source market offers great opportunities for development. Until nowadays, the results are positive: in 2015 China became Club Med's second largest market after France while its financial performance in the first half of 2016 greatly improved.[139] The same happy ending didn't take place with AccorHotels, Europe's largest hotel group. Last year, the Shanghai-based hotel operator Jin Jiang International (which already possesses Louvre Hotels, Europe number two after Accorhotels) started to increase its stake in the company, passing from the 5 per cent hold in January to 15 per cent five months later. However, Chinese ambition has been blocked by the French State, extremely careful in keeping the shareholding structure diversified.[140]

Apart from the renowned hotel groups, Chinese investors are also interested in the

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[136] KYNGE, *Strong growth for top Chinese investments in UK*

[137] GOLDSTEIN, *Capitalismo Rosso,* 70-71

[138] Brigitte DYAN and Hubert TESTARD, *Quand la Chine investit en France : enquête et portraits*, Paris, Agence française pour les investissements internationaux, 2014, p. 20

[139] Dominic VIDALON and Pascal DENIS, *Club Med back on expansion path with China's Fosun*, "Reuters", June 7, 2016, http://www.reuters.com/article/clubmed-fosun-idUSL8N18U3LE , (March 29, 2017)

[140] *Hôtellerie: Hollande "très attentif" à ce que le capital d'AccorHotels "reste diversifié" (interview à La Voix du Nord),* "La voix du Nord", June 6, 2016, http://www.lavoixdunord.fr/8497/article/2016-06-06/hotellerie-hollande-tres-attentif-ce-que-le-capital-d-accorhotels-reste , (accessed March 29, 2017)

agribusiness sector, an excellence in the French economy. More precisely, their presence is increasing in the region of Bordeaux, famous for its vineyards. There are many Chinese billionaires who managed to make their rêve français come true. They bought high-end chateaux, in this way acquiring status symbol but also meeting the growing domestic demand for French vintages.[141] As the request and interest on wine improve, this trend continues to rise and presents some changes compared to the past. Nowadays, Chinese do not bring only capital, but also expertise in dealing with a difficult business like wine. An example is Jack Ma, Alibaba founder, who bought in 2016 three Chateaux.[142]

It has already been emphasized how the European know-how contributes in attracting Chinese investors, eager to leverage the expertise necessary to upgrade the production process in China. France is no exception. The great bulk of investment is connected to the technological field as, for instance, that one made by Dongfeng in 2014 to buy 14 per cent of stake of PSA Peugeot Citroën. Since then, the cooperation between the two automakers has intensified, reaching a new milestone last year, when they signed an agreement to design a new range of all-electric vehicles for Peugeot, Citroën, DS and Dongfeng brands through a common platform (called Common Modular Platform). Moreover, they also agreed to temporary exchange employees between their operational teams.[143]

The presence of China in France is highlighted by the increasing amount of investment it receives year after year. Although the complexity of doing business and the cultural distance, there are many positive experiences, more than those in other countries as Italy. After all, it is necessary to remember that the relationship between China and France is strong and it is becoming more intense, as recognized by the various groups such as the "Association de Enterprises de Chine en France", a Chinese Chamber of Commerce and "Chine 4D", the association of Chinese executives in French companies.[144]

In general, France has always been eager to find Chinese investors when capital was needed, as shown by the aforementioned cases of Peugeot and Club Med. Although it recognizes the strategic importance of Chinese OFDI and the opportunities that the collaboration with the Far-East country brings, nevertheless it tries not to lose the control, especially when dealing

[141] Henry SAMUEL, *Chinese now own 100 Bordeaux chateaux, as wine mania grows*, The Telegraph, January 30, 2015 http://www.telegraph.co.uk/news/worldnews/europe/france/11380807/Chinese-now-own-100-Bordeaux-chateaux-as-wine-mania-grows.html , (accessed March 29, 2017)

[142] GOLDSTEIN, *Capitalismo Rosso,* pp. 77-78

[143] *PSA Group and DongFeng Motors (DFM) have signed two new agreements to strengthen their strategic partnership*, "PSA", November 5, 2016, http://media.groupe-psa.com/en/press-releases/group/psa-group-and-dongfeng-motors-have-signed-two-new-strategic-agreements , (accessed March 29, 2017)

[144] GOLDSTEIN, *Capitalismo Rosso,* pp. 81-84

with advanced technology.[145]

Finally, a brief look at the situation in South-Eastern Europe (SEE), an area which has been generally neglected but that increasingly attracts Chinese interests. Following the "16+1"[146] initiative enhanced by China in 2011, Chinese investment in this part of Europe has strongly intensified. The economic presence of China in SEE seems to benefit both sides. From the Chinese perspective, SEE countries represent a strategic access to the main EU markets. In addition, its investments in port, railway and highway infrastructure in this region can help to sustain its global trade. Actually, China's plan, namely "the Balkan Silk Road", is of establishing a connection from the Greek port of Piraeus, for the most part under its control (COSCO bought 67 per cent stake in 2016), through the Balkans to EU markets. Concerning SEE countries, China funds are welcomed as a complement to the European ones. Thus, Chinese support is provided in three different forms: lending for transport and energy infrastructures, trade links, and OFDI. As for the latter, there are many aspects which attract Chinese investors: cheap labor costs, sometimes lower than those in China; possibility to circumvent the anti-dumping regulations through non-EU States and strategic sectors as IT and renewable energy. For example, China has obtained oil exploration and production rights in Albania through the acquisition of Banker's Petroleum. In the same country, Chinese Company Everbright Limited purchased the Tirana International Airport. Instead, in Romania China's Energy Company Limited has taken over KMG International, nothing else than the owner of the largest oil refinery of the State.[147]

The analysis made above is mainly concentrated on Europe's three biggest economies, which are also the top recipients of Chinese OFDI, and shortly examines a rising trend which sees South and Eastern Europe countries attracting a growing number of investments. This is an interesting point to consider, as it highlights the expansion of China's interest in the European territory.

Overall, Chinese direct investment in Europe are geographically diversified and includes

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[145] Paul TAYLOR, *Chinese investment welcome in France... up to a point*, "Reuters", June 8, 2016 http://www.reuters.com/article/europe-china-investment-idUSL8N18Z347 , (accessed March 29, 2017)

[146] The 16+1 Summit represents an initiative promoted by China to intensify and expand its cooperation with 11 EU Member States and 5 Balkan countries, namely Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia, Macedonia. The three priorities of economic cooperation listed by China are: infrastructure, green technologies and high technologies.

[147] Oleg LEVITIN, Jakov MILATOVIC and Peter SANFEY, *China and South-Eastern Europe: Infrastructure, trade and investment links,* European Bank for Reconstruction and Development, 2016, pp. 1-6

most of the Member States. The figure below provides a distinction of Chinese OFDI accumulated from 2000-2016 on a country by country basis.

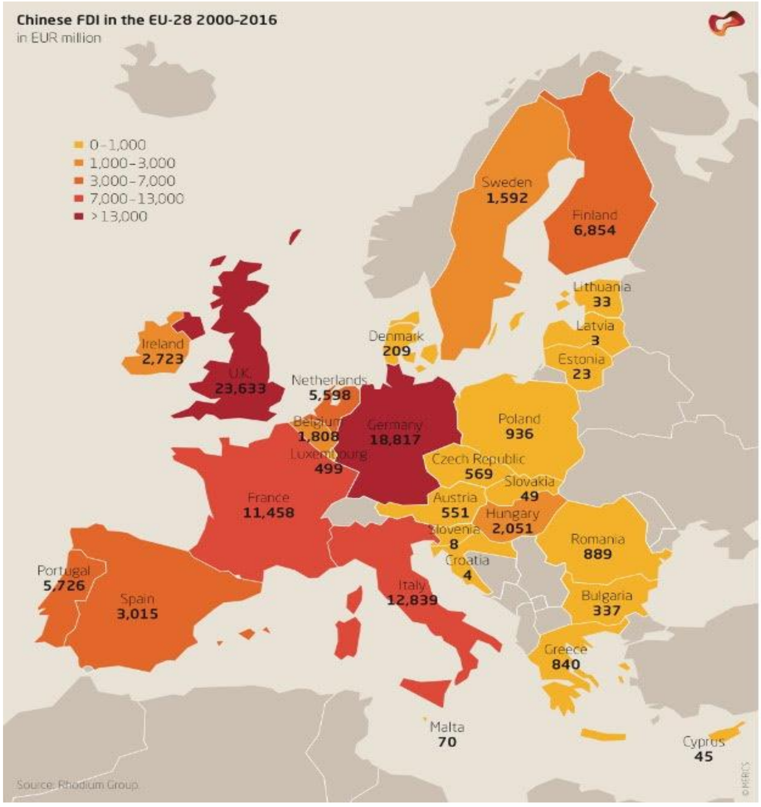

Figure 4: Chinese OFDI in Europe. Source: Merics Paper on China Update from Rhodium Group

EU reaction

China's acceleration of "going global" policy has profound implications on Europe. More precisely, growing levels of investment together with the opacity of some takeovers in sensitive fields have increased the EU awareness of the real risks associated with Chinese OFDI.

In general, foreign investments are welcomed by recipient countries since they enhance the economic development. Moreover, they provide a chance to establish linkages with the overseas markets and facilitate exports. This is especially true for China. Being the second largest economy in the world and a major global investor, it is a source of opportunities for attracting capital. Its relevant role finds particular resonance in the case of Europe, whose investments have rapidly fallen after the financial crisis. Thus, Chinese OFDI can be fundamental in helping the economic growth and re-start investment. In such a perspective, it is important for Europe to enhance its competitiveness in attracting Chinese OFDI and

ensure its openness towards them.[148] Means used by EU are, for instance, the investment promotion agencies (IPAs), organized at national level, which convey useful information to investors and try to persuade them to operate in their specific location.[149]
The opportunities and benefits brought by Chinese investments as well as the importance for Europe to attract them are an established fact. Nevertheless, there are some aspects unique to China that raise great concern.

First of all, as already mentioned, Chinese government is used to give a preferential treatment to state-owned enterprises, usually by means of subsidies and other non-commercial advantages. Even if the predominance of these companies has been downsized over last decades, they still play a fundamental role in different sectors. Moreover, also some large private firms, which cover key areas strictly related to national development goals, benefit from the "State aid". This clearly poses several problems with regard to unfair competition.[150]
The second factor raising the concern of Europe about Chinese OFDI is once again connected to the fairness of competition. While enjoying free market access in EU, China still maintains many formal restrictions on foreign investments in a number of sectors, and in those that are open to foreign ownership, it applies an approval system on a case-by-case basis.[151] A situation like this prevents a level playing field and creates evident market asymmetries between the two countries.
Such an example is provided by the recent Midea's acquisition of Kuka, which fueled the debate in Germany, from the Kuka's employees and managers to the government itself. What this last reproached more was the lack of a reciprocal behavior on the part of China, where foreign investments are strictly controlled and limited to some sectors.
Finally, Chinese investments are also considered as a threat to national security. It should not be forgotten that China is a rapidly developing military power. Knowledge and technologies acquired by European companies may be used not just for civil but also military purposes. Moreover, business world and army are not completely divided in China. For instance, Ren Zhengfei, Huawei's CEO, was previously a soldier of the military's Engineering Corps. The relationship with the army is apparent and may have a negative influence when closing

[148] HANEMANN and HUOTARI, "Chinese FDI in Europe and Germany", pp. 24-27
[149] CLEGG and VOSS, *Chinese Overseas Direct Investment in the European* Union, p. 54
[150] HANEMANN and HUOTARI, "Chinese FDI in Europe and Germany", pp. 37-38
[151] Jerker HELLSTRÖM, *China's Acquisitions in Europe: European Perceptions of Chinese Investments and their Strategic Implications,* Stockholm, FOI, 2016, p. 31

important deals.
To overcome the problem, Europe should screen Chinese OFDI to identify those that imply security risks and block them, as US does with the "Committee on Foreign Investment in the United States (CFIUS)". To tell the truth, many EU States already have review processes in place, but they greatly differ. Thus, coordination among national security reviews is a crucial point to avoid arbitrage among various regulations and defend the general openness to foreign investments.[152]

Suspicions and threats by European Union continue to grow, following the penetration of China in every part of the economic sphere, even the most "sensitive" ones such as high-tech and infrastructures. Among them, of gravest concern are the "critical infrastructures", including power plants, ports, airports, water supply, energy and electricity grids. China already possesses stakes in Heathrow Airport (10 per cent) as well as in Toulouse-Blagnac Airport (49.9 per cent). Moreover, it acquired, in 2016, the Port of Piraeus, the biggest one in Greece, obtaining a direct, convenient access to the continent. As for power plants, an exemplary case is that of China General Nuclear Power Group (CGN) in Hinckley Point C nuclear plant, based in Great Britain. This project has been for one-third financed by the Chinese investor. After a long debate, especially fueled by the Chinese involvement, the British government finally gave the go-ahead to the project last year. However, soon after it has announced new safeguards on projects related to sensitive infrastructures which involve foreign participation.[153] After all, a closer monitoring is becoming common among several nations.

Given the absence of clear information and transparency, and the probability of connections between Chinese government and firms, lots of EU countries may tighten the approval process and the control of investments made by China.[154] Specifically, there are two aspects regarding transparency that cause problems: the funding sources and the ownership structure.

[152] HANEMANN and HUOTARI, "Chinese FDI in Europe and Germany", pp. 41-43
[153] *Xinhua, su Hinkley Point: Gb colpevole di 'sinofobia'*, "AgiChina", September 15, 2016, http://www.agichina.it/in-primo-piano/energia/notizie/xinhua-su-hinkley-point-br-/gb-colpevole-di-sinofobia , (accessed March 30, 2017)
Graham RUDDICK, *China plans central role in UK nuclear industry after Hinkley Point approval*, "The Guardian", September 15, 2016, https://www.theguardian.com/business/2016/sep/15/hinkley-point-chinese-firm-to-submit-essex-nuclear-plant-plans (accessed March 30, 2017)
[154] HANEMANN and HUOTARI, "Record Flows and Growing Imbalances", p. 9
HELLSTRÖM, *China's Acquisitions in Europe,* p. 25
Magda TSAKALIDOU, *Hard Times for Chinese Investors in Europe*, "The diplomat", November 8, 2016, http://thediplomat.com/2016/11/hard-times-for-chinese-investors-in-europe/ , (accessed March 30, 2017)

As for financing aspect, it has already been highlighted above the presence of soft loan and subsides provided by the government to state-owned enterprises, which facilitate their access in new markets and the acquisition of famous foreign companies. The question raised by ownership deals with a related aspect since many Chinese firms going abroad are fundamentally owned by the State.

The implementation of a more prudent approach has already resulted in the revision and rejection of some takeover projects. For instance, last October the German government withdrew its approval for the acquisition by the Chinese Fujian Grand Chip Investment Fund LP of Aixtron, a technology supplier to the industry of semiconductors, signaling the spirit of unease pervading Germany because of security concerns. Two months later, the takeover has also been blocked by US, following the assessment by CFIUS.[155] Also the deal handled by the state-owned company ChemChina to purchase the giant Syngenta has faced lots of obstacles.[156]

Although obstruction to Chinese OFDI seems to systematically increase, there is not a common policy that keep together all the European Member States.

The Lisbon Treaty (2009) entrusts EU with a full competence on FDI as part of the common commercial policy, but the enhanced role of EU does not make all the bilateral investment agreements (BIA) between Member States and third countries disappear.[157] Moreover, the Treaty does not give a definition of FDI, making the exact scope of EU competence unclear. Thus, it is of the utmost importance for Europe to conclude a BIA with China, in this way issuing a single regulation on FDI and strengthening its global economic relevance.

The negotiations between the two countries have been launched in 2013 and are still ongoing.[158] Reaching an agreement is meaningful for both sides as the BIA has the potential

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[155] Maria SHEAHAN and Caroline COPLEY, *Germany stalls Chinese takeover of Aixtron, citing security worries*, "Reuters", October 24, 2016, http://www.reuters.com/article/us-aixtron-m-a-fujian-germany-idUSKCN12O13G , (accessed March 31, 2017)
Shawn DONNAN, *Obama blocks Chinese takeover of tech group Aixtron*, "Financial Times", December 2, 2016, http://www.ft.com/content/0c940900-b8e2-11e6-ba85-95d1533d9a62 (accessed March 31, 2017)

[156] Lino TERLIZZI, *Si allungano i tempi per ChemChina-Syngenta*, "Il Sole 24 Ore", September 7, 2016, http://www.ilsole24ore.com/art/finanza-e-mercati/2016-09-07/si-allungano-tempi-chemchina-syngenta-063837.shtml?uuid=ADRkkHGB , (accessed March 31, 2017)
Rochelle TOPLENSKY, *ChemChina takeover of Syngenta nears EU approval,* "Financial Times", March 3, 2017 https://www.ft.com/content/44777ada-ff5c-11e6-96f8-3700c5664d30 (accessed March 31., 2017)
Syngenta, *Syngenta shareholders accept ChemChina offer,* May 5, 2017 http://www4.syngenta.com/media/media-releases/yr-2017/05-05-2017 (accessed May 24, 2017)

[157] Karel DE GUCHT, *The implications of the Lisbon Treaty for EU Trade policy,* speech at S&D seminar on EU Trade Policy, October 8, 2010, http://trade.ec.europa.eu/doclib/docs/2010/october/tradoc_146719.pdf (accessed March 31, 2017)

[158] European Commission, *EU and China agree on scope of the future investment deal,* January 15, 2016

to increase investment flows and contribute to the economic growth. More precisely, on one hand, China can get the opportunity to prove its reliability and strengthen its status quo. On the other hand, Europe may obtain the reduction of the trade barriers and the implementation of a more reciprocal treatment through the creation of a level playing field. Above all, EU can better coordinate all the investment projects and agreements of the different member states. During last years, the lack of one voice has affected the EU negotiating power and has allowed the emergence of parallel initiatives, as the already mentioned "16+1", which harm the overall cohesion between European countries. Finally, considering China rising interests on Europe sensitive sectors as advanced technology and the rapid growth of strategic M&As, a BIA can be the chance for EU to control FDI flow and limit it when necessary, therefore avoiding poor outcomes.[159]

If the necessity of a BIA between Europe and China is a given fact, another important determinant of the reaction to Chinese investment is China's attitude itself. To cease Europe political backlash, it should provide a greater amount of reliable information, and make progress on reforms that establish a fair competition and increase the role of market.[160] In short, China should not only think about its priorities and goals but also at the reactions that its own progress causes. "Go global" does not merely mean invest in foreign countries and take part to the international economy. It implies above all a win-win condition, where there are not conqueror and conquered but subjects positioned on the same level which aim at achieving an equal prize, for the benefit of all.
An even internationalization process must take into consideration the feasibility of projects, the profitability of the takeover but also the responsibility implied. And that is what China should do.

1.7.2 Is China buying Italy?

The investigation made in the above section has shown how Europe has become, over the years, a favorite destination for Chinese investments. Yet, among the member states, Italy is rapidly emerging as a strategic place where implementing the "go global" policy.
The country has traditionally been classified as a poor performing one in terms of foreign

http://trade.ec.europa.eu/doclib/press/index.cfm?id=1435 (accessed March 31, 2017)
[159] Insa EWERT, "The EU–China Bilateral Investment Agreement: Between High Hopes and Real Challenges", *Egmont Security Policy Brief*, 68, 2016
[160] HANEMANN and HUOTARI, "Record Flows and Growing Imbalances", p. 10

investment attractiveness. The reasons are manifold, including high levels of bureaucracy, difficulties in obtaining visa, rigid labor market regulation, poor infrastructures and criminal activities in some areas of the country. All of them succeeded as deterrent to OFDI.[161] Moreover, these factors contribute to put Italy in a low position in the "Doing business" ranking, issued by the World Bank, which scores economies based on how business friendly their regulatory systems are. According to the figures until June 2016, the Italian country is 50th out of 190 economies.[162]

Nevertheless, Italy, poor of natural resources but with a wide availability of distinctive capabilities and a key geographical position, is attracting the new wave of Chinese investors, interested in the acquisition of strategic assets.[163]

According to Spigarelli, the reasons of the delay with which Chinese OFDI is coming to Italy are to be found in the gradual evolution of the international penetration strategy implemented by China. In particular, there has been a transition from an initial phase, characterized by resource-seeking expansion, to a more mature one, led by the search of new markets and advanced skills. In such a perspective, Italy becomes an interesting target for Chinese investors.

Small and medium-sized Italian enterprises generally represent a fertile ground for implementing relatively low-cost acquisition projects and thus facilitating the penetration in the European market. Thanks to this rapid entry mode, Chinese firms may take advantage of added value resources such as good image and established brand, in this way fulfilling their lack of quality and positive reputation.[164]

As regards data, in general they are not so clear, and sometimes confused since they differ according to sources they are taken from and their country of origin.[165] However, it is

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[161] PIETROBELLI et al., "Chinese FDI strategy in Italy", p. 279

[162] World Bank, *Doing Business 2017: Equal opportunities for all,* October 25, 2016, http://www.doingbusiness.org/reports/global-reports/doing-business-2017 (accessed March 31, 2017)

[163] Francesca SPIGARELLI, "Le multinazionali dei paesi emergenti: gli investimenti cinesi in Italia"*, Economia e politica industriale*, 2009, pp. 131-159

[164] Thomas ROSENTHAL and Francesca SPIGARELLI, "Gli investimenti cinesi in Italia", edited by Cristiana Barbatelli and Renzo Cavalieri, *La Cina non è ancora per tutti: dialoghi sul mercato cinese,* Milan, Olivares Edition, 2015, pp. 208-230

[165] Data sources generally used are those provided by the Bank of Italy, which offers a statistical analysis of the balance of payments; the annual report issued by Fondazione Italia Cina, cited in the text; the database ICE-Reprint and EIM (European Investment Monitor) of Ernst & Young. For insights on M&A, there is also the Zephir database compiled by Bureau van Dijk. Important contributions are also provided by some detailed studies, as those of Francesca Spigarelli and by the specialist business press (including *Il Sole 24 Ore*).

interesting to note the increase of Chinese OFDI over last years. The aforementioned analysis made by Spigarelli identified in 2007 28 societies wholly or partially owned by Chinese investors, while the detailed annual report issued by "Fondazione Italia-Cina" states the existence, at the end of 2015, of 162 Chinese groups. Overall, there were 313 companies with stakes held by Chinese, employing about 17.600 people (without taking into consideration 104 Italian firms run by Hong Kong entrepreneurs).[166]

A temporal evolution has also occurred with regard to the activities carried out by Chinese enterprises in Italy. As happened in other countries, initial investments made in Italy can be considered as "flagship initiatives" and generally took the form of representative offices.[167] This is exactly the case of the first Chinese investment, which can be traced back to 1986 when Air China established a commercial office in Rome. It was then the turn of other occasional operations, including an office of the Nanjing Motor Corporation based in Turin (1986), a commercial office of Cemate Machinery Technology in Milan (1988) and the first branch of the Bank of China in Milan opened in 1998.[168] With the beginning of the new millennium, Italy started to be targeted by Chinese investors as a key destination to acquire more advanced technology. This is reflected by the notable increase of greenfield investments, directed to activities such as R&D and marketing, and, above all, M&As. In particular, the acquisition of Meneghetti in 2001 paved the way for bigger operations, as the one of Pirelli.

The changes occurred are the reflection of the process of structural transformation recently underwent by China's economy, in the tentative to upgrade its production model from labor-intensive to a high-tech driven one. In such domain and, more precisely, in design-intensive, high quality productions, Italy is an exemplary case. Nevertheless, the awareness of the opportunities offered by the Italian country in terms of knowhow and the consequent exploitation of them has not been immediate. In light of these considerations, it is possible to trace the evolutionary path OFDI motivations underwent.

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[166] Fondazione Italia Cina, *Highlights "La Cina nel 2016. Scenari e prospettive per le imprese",* May 2016, http://www.italychina.org/m/cesif/rapporto-annuale/2016/ (accessed April 2, 2017)

[167] Alessia AMIGHINI, Roberta RABELLOTTI and Marco SANFILIPPO, "L'avanzata degli IDE cinesi in Italia", edited by Istituto Nazionale per il Commercio Estero, *L'Italia nell'economia internazionale: Rapporto ICE 2007-2008,* Rome, 2008, pp.292-303

[168] PIETROBELLI et al., "Chinese FDI strategy in Italy", p. 282

Why Chinese firms invest in Italy?

One of the relevant motives guiding Chinese investors in Italy is related to market seeking. In this context, it is possible to distinguish between investments targeting the domestic market and those oriented to enhance existing trade or find new opportunities in host countries.

Some investment projects do not follow the logic of seeking new markets but start with the idea of serving the domestic one in a more efficient way. In case of M&A, this type of strategy can benefit Italian firms since it becomes possible for them to expand the presence in the Chinese market.

Zoomlion, a giant in the construction machinery sector, was thinking about upgrading the production and promoting a differentiated offer when it bought out, in 2008, the majority stake in Cifa, an Italian leading machinery company that was in financial troubles due to production overcapacity. Thanks to a deep integration of several areas as R&D, marketing, sales and production, and by keeping the original establishment as well as the experienced managers of the acquired firm, the operation turned out to be a success. The efficiency and the financial resources of Zoomlion mixed with the expertise and excellence of Cifa created the basis for a further development and expansion both in China and around the world.[169]

On the other hand, some investments aim at supporting trade. An interesting example is provided by Chinese logistic sector, especially the maritime transport, that has undergone a deep evolution over the years. Following the sharp increase in exports since 2003, China's main state-owned logistics companies started to invest in Europe with a view to gain more power within the international logistic chain. In the initial phase, they formed joint ventures and strategic alliances with local partners, while also setting up representative offices through greenfield investments. After having acquired new skills and market power, they begun to reinforce their position by means of acquisition of European companies and investments in infrastructure projects. This strategy has also been applied in Italy by China Ocean Shipping Group (COSCO) and China Shipping Company, both in the top ten world shipping companies, which have recently merged.[170] COSCO invested in the port of Naples in 1995, when it established the container terminal Conateco together with MSC. In 2016, following a sharp drop in trade which was affecting activities, COSCO decided to disengage

[169] Marco SANFILIPPO*, Chinese Investments in Italy: Facing Risks and Grasping Opportunities,* in IAI Working Papers 14|19, Rome, Istituto Affari Internazionali, 2014

[170] Raoul DE FORCADE, *Chinese growing ambitions on EU ports and a golden opportunity for Italy*, "Il Sole 24 Ore"*,* December 7, 2016 http://www.italy24.ilsole24ore.com/art/business-and-economy/2016-12-06/chinese-ambitions-on-eu-ports-103207.php?uuid=ADJJ1T8B , (accessed April 3, 2017)

from Naples and thus completely focus on the port of Piraeus.[171] With regard to China Shipping, it set up its headquarter for the Mediterranean area in Genova.

The Italian economy presents also an appealing sophisticated market. An element not to be underestimated since it is required to raise the international profile of Chinese firms. In the home country, they are used to a different type of customers, with diverse buying behaviors and needs compared to the developed markets. In many respects, Chinese customers are still considered as unacquainted since they do not possess specific knowledge of products and brands. Hence, if an enterprise aims at becoming a global champion, it must have the ability to satisfy a variety of consumers, starting from those belonging to the mass market to the more sophisticated ones, who require a customized offer. Italy, with its abundance of niche markets, can be the right place where testing capabilities and learn how to satisfy exacting customers. As an example, Hisense, a Chinese producer of home appliances, decided to invest in Italy to strengthen its profile and improve the product image. More precisely, considered that the Italian market is highly demanding, it provided a good opportunity to test products and find those more suitable for European tastes.[172]

As already highlighted in previous sections, Chinese companies target developed countries as those in the European Union to get access to superior technologies, advanced capabilities and precious know how. Over the years, also Italy started to attract investments more related to strategic asset-seeking.
Its specialization in different sectors such as automotive, home appliances, textile and clothing, with a long tradition and international prestige, represents a peculiarity of the country and is of particular interest to Chinese investors. In the Italian famous industrial districts, Chinese companies can take advantage of economies of agglomeration and exploit the externalities coming from the collaboration and proximity among firms. In this way, they are able to improve their production and build the desired global champions.
An outstanding example of the trend is Haier, which, in 2001, set up the European headquarters in Varese (moved to Paris in 2010), a city hosting well-known companies as Whirlpool and Philips. The choice of the location was not accidental: being an area with a

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[171] Antonino PANE, *Cosco lascia il porto di Napoli ad Aponte tutto il Conateco*, "Il Mattino", July 8, 2016, http://ilmattino.it/napoli/cronaca/cosco_lascia_napoli_aponte_tutto_conateco-1843855.html, (accessed April 3, 2017)

[172] PIETROBELLI et al., "Chinese FDI strategy in Italy", p. 286

strong tradition in the production of white goods, it could offer great opportunities, as specialized workers and managers, an established chain of reliable suppliers and deep knowledge of the market. Since then, Haier has made two acquisitions: the first one in 2001 when it purchased Meneghetti, a refrigerator producer, and the second in 2009 with the takeover of Elba, specialized in the production of cooking appliances. These transactions were motivated by the need to overcome EU tariff barriers as well as to improve design capabilities, fundamental to satisfy the more sophisticated European market and the Chinese consumers belonging to the high-end segment.[173]
A situation similar to that of Varese can be found also in Turin, where it is located a specialized automotive cluster. The aim to exploit collective efficiency took Anhui Jianghuai Automobile Co. Ltd (JAC), an automotive company, to the Environment Park in Turin, where it founded its first foreign R&D center in 2005. Chang'an Automobile Co. also chose to establish its representative office in the Piedmont capital in 2003, and two years later expanded its presence in the region with the design center of Moncalieri. Finally, in 2013, it opened the European Design Center in Rivoli.[174]
Turin is undoubtedly a key destination for the automotive sector. In comparison to other attractive locations as Germany, its cluster offers top-quality design skills, highly-trained and cheaper workers as well as qualified suppliers.[175] Once again, Italy has been chosen as a springboard for newcomers to the international arena that want to improve their design competencies and learn from others.

The acquisition of famous brand is another relevant driver of strategic asset-seeking investments, traceable in Italy. Purchase of historical fashion companies like Krizia and Caruso or internationally known brand as Benelli are just a few examples. The background of the Italian acquired firms is usually the same: high prestige and wide stock of competencies are inextricably linked to financial vulnerability, a situation which can lead them to bankruptcy. Chinese companies are exactly the opposite. Huge amount of liquidity but low level of knowhow, lack of international experience and unfamiliar brands are their characteristic features. The resulting combination seems to work on paper. However, there must be other conditions as a strong commitment from both sides, a relationship of trust and mutual understanding to make it function. It is a matter of fact that post-acquisition phase is

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[173] PIETROBELLI et al., "Chinese FDI strategy in Italy", p. 286
[174] GOLDSTEIN, *Capitalismo Rosso,* p. 143
[175] PIETROBELLI et al., "Chinese FDI strategy in Italy", p. 286

the most troublesome and requires lot of attention. Examples of failure in managing this delicate stage, as those represented by Benelli and Omas, show how it is important to match the different managerial cultures, build on strengths and correct weaknesses.

Benelli, an Italian historic company producer of motorcycle, was acquired in 2005 by Qianjiang Group, China's largest scooter manufacturer. Even if Benelli possessed a worldwide known brand and technical expertise, nevertheless it was affected by high production costs and financial vulnerability. Thus, it was targeted by the Chinese firm which aimed at acquiring a famous brand as well as getting access to Benelli's manufacturing and R&D facilities. However, communication problems in the technical area which delayed new projects' implementation and a deep cultural shock prevented the success of the transaction. As for Omas, a producer of luxury pens formerly owned by Moët Hennessy Louis Vuitton (LVMH), the 90 per cent of its stakes was acquired by Xinyu Hengdeli Group, a trading company selling luxury goods in the Asian market, in 2007. Although the Chinese firm promised to expand the production of Omas, it was not able to implement a brand relaunch strategy and declared bankruptcy in 2015.[176]

As anticipated, other operations involving the acquisition of established brands occurred in the textile and clothing sector. The Italian glamour became part of Chinese investment portfolio only recently. In 2007, Wenzhou Hazan, one of the main footwear producers in China, completed the acquisition of Wilson, while, in the same year Hembly, a large distributor of fashion products listed in Hong Kong stock market, purchased through H4T Sergio Tacchini, an historic sportswear brand with serious economic difficulties. Then, respectively in 2010 and 2012, it was the turn of Cerruti and Miss Sixty, other well-known Italian fashion brands, the first one bought by Li & Fung Group and the second by Trendy International. In 2014, Fosun International Ltd. purchased the 35 per cent of Raffaele Caruso Spa, a famous Italian dressmaker specialized in high-end menswear, and Krizia, one of Italy's oldest ready-to-wear fashion houses, was sold to Shenzhen Marisfrolg Fashion, a leading Chinese retail group.[177]

Finally, when talking about brand, it is necessary to mention Pirelli, an Italian industrial icon and world's fifth-largest tire maker, purchased by ChemChina in March 2015 for EUR 7 billion. At least, it is the biggest Chinese M&A in Italy until nowadays.[178]

From the examples provided above, it seems clear that precious pieces of Made in Italy are

[176] GOLDSTEIN, *Capitalismo Rosso,* pp. 117-122
[177] Ibid., pp. 123-130
[178] Ibid., pp. 101-105

increasingly feeding the appetites of Chinese enterprises, regardless of the fact that they are driven to the acquisition of skills and knowledge available in Italian firms and localities or they are targeting famous brands.

Regional and sectoral distribution

The evolution of Chinese OFDI in Italy does not cover only the motivations behind investments but can also be found out in the geographical locations and sectors interested by these activities. In general, last decade has seen an expansion of Chinese takeovers, which nowadays include a wide variety of both regions and sectors.

Lombardy has been, since the beginning, the most attractive area in terms of investments. In particular, around the area of Milan are concentrated most part of Chinese OFDI. Chinese financial institutions like Bank of China and Industrial and Commercial Bank of China have opened their branches in the city, where consulting firms as the China Milan Equity Exchange (CMEX), which help other Chinese companies to invest in Italy, are also flourishing.

The second most important region for China's OFDI is Piedmont, thanks to the excellence of its automotive sector. Other specialization clusters are present in several areas of Northern Italy, making white goods of Veneto and the machinery of Emilia Romagna interesting targets for Chinese investors.[179] Although the North has always played a dominant role, since 2006 new regions has emerged as investment recipients. Thus, Chinese OFDI begun to differentiate and spread across the national territory to find, as usual, traditional industrial bases and specialized clusters.[180]

Moreover, the islands are also attracting Chinese investors. In Sardinia, recently visited by President Xi Jinping, Huawei set up a big laboratory on smart cities and has the intention to continue the investments there. The same holds true for another Chinese leading company, Blue River Dairy, manufacturer from the sheep and goat infant formula sector, which signed an agreement with the Sardinian firm Alimenta in October 2016 and now plans to invest more than EUR 40 million in the island over next decade.[181]

[179] PIETROBELLI et al., "Chinese FDI strategy in Italy", p. 284
[180] Francesca SPIGARELLI, *Nuovi investitori globali: le imprese cinesi in Italia,* Working Paper 12, University of Macerata, 2008
[181] Davide MADEDDU, *Huawei per lo sviluppo della Sardegna*, "Il Sole 24 Ore", December 20, 2016, http://www.ilsole24ore.com/art/impresa-e-territori/2016-12-20/huawei-lo-sviluppo-sardegna-113120.shtml?uuid=ADx8hEHC (accessed April 4, 2017)

Concerning sectoral distribution, most of Chinese investments are concentrated in the manufacturing industry, with the predominance of home appliances and automotive inside it. Logistics and transport are very relevant, as well as electronics, telecommunications and clothing. Therefore, it is possible to state that Chinese OFDI in Italy does not include only mature sectors as mechanics, transports, textile and clothing but also increasingly involves the more technology-intensive ones, as electronics, automotive and communications.[182]

In the previous section, it has already been highlighted the case of white goods and automotive, industries in which Italy possesses a strong tradition and competitive advantage and thus attract Chinese investors willing to upgrade and leverage knowhow.

The importance of the logistics sector has also been underlined. Italy, with its strategic position in the heart of the Mediterranean Sea, is considered as a gateway to the European market. Having realized the potentiality of Italian harbors, many Chinese multinationals as COSCO decided to invest especially in Naples and Genova. After all, the Italian port system has never been considered so essential as it is today. Within the context of "One Belt One Road" initiative the advantages offered by Italy are self-evident and its role as hub between the Far-East and the Old Continent is strategically fundamental.[183]

As for clothing, although at the beginning China's OFDI was quite limited in this context, nevertheless it has attracted an increasing number of investors during last years. Italy has long been recognized for its deep knowledge in the fashion field and its brands are famous all over the world. Their success is so huge that many foreign buyers have started to perceive them as a good return on investment, Chinese included. Moreover, through the acquisition of them, Chinese companies can obtain the prestige and good brand image they usually lack.[184]

Finally, concerning electronics and telecommunications, an outstanding example is provided by Huawei, which began to invest in Italy in 2004, initially through commercial activities

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Xi Jinping a cena con Renzi in Sardegna: gli obiettivi della visita, "Il Sole 24 Ore", November 16, 2016 http://www.ilsole24ore.com/art/notizie/2016-11-16/xi-jinping-cena-renzi-sardegna-si-parla-trump-e-investimenti-202342.shtml?uuid=ADmocYwB (accessed April 4, 2017)

Alimenta, *Alimenta: a joint-venture with Blue River Dairy to consolidate itself in the Chinese sheep and goat milk market,* http://alimentasrl.com/2131/alimenta-a-joint-venture-with-blue-river-dairy-to-consolidate-itself-in-the-chinese-sheep-and-goat-milk-market.html (accessed April 4, 2017)

[182] SPIGARELLI, *Nuovi investitori globali*, p. 144

[183] Rita FATIGUSO, *Italia snodo sulla via della Seta*, "Il Sole 24 Ore", February 22, 2017 http://www.ilsole24ore.com/art/commenti-e-idee/2017-02-22/italia-snodo-via-seta-214846_PRV.shtml?uuid=AE0lGPb (accessed May 16, 2017)

[184] *Why Italian Fashion is popular in China*, "Fashion China Agency", http://fashionchinaagency.com/italian-fashion-popular-china/ , (accessed April 4, 2017)

but then also by means of R&D centers, as the one opened in Segrate (Milan) where it studies 5G mobile technology. As shown by other Chinese investments made in Italy, the choice of the location was strategic, in this case justified by the availability of expertise in the field of ICT, famous universities as well as a great number of small and medium enterprises. A similar motive recently took Huawei to the Technology Park of Pula in Sardinia, another key destination since Cagliari is one of the main smart cities in Italy with a public transport system certified at European level. Apart from R&D centers, the electronics sector includes also some cases of acquisitions, as the one of Semiconductor Manufacturing International Corporation (SMIC), China's largest and most advanced foundry, which in 2016 purchased the 70 per cent stake of Lfoundry, an Italian company focused on vehicle electronics.[185]
A further expansion of China's interests has become apparent with the recent dials concluded by State Grid International Development Ltd (SGID), a wholly owned subsidiary of China's State Grid Corporation, and Shanghai Electric (SEC) to respectively buy stakes of Cdp Reti (35 per cent) and Ansaldo Energia (40 per cent). Cdp Reti, an energy grid holding company which controls Snam and Terna, and Ansaldo Energia, a power equipment firm, represent the first investments made by Chinese in the Italian energy industry. Moreover, the Cdp Reti transaction is one of the biggest Chinese OFDI in Italy, involving an amount close to EUR 2.1 billion. Having high debt burdens, these two companies perceived the strategic value of the agreements: from one side, Cdp Reti hoped to grasp the opportunity to better penetrate the Chinese market; from the other side, Ansaldo Energia could exploit its ability to produce gas turbines and dominate, with SEC, the market.[186]
The last frontier of China's concerns for Italy is football. The first step made by Chinese in sport-related area is that of China Everbright and Beijing Baofeng Technology, which together bought a majority stake in MP & Silva (MPS), an Italian-owned company distributing media rights for several sports federations and clubs, Italy's Serie A soccer league included. Thanks to the acquisition, MPS got the chance to expand and target the fast-growing Chinese sports.
In this background, Suning Commerce Group, a Chinese giant in the retail and wholesale business which already owns the domestic club Jiangsu Suning, purchased last year the majority stake of F.C Internazionale. This deal can be considered as part of a wider strategy to enhance European and Chinese football and help the company to extend the target market outside the home country. The takeover has been well-received by Chinese government,

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185 GOLDSTEIN, *Capitalismo Rosso,* pp. 137-141
186 Ibid., pp. 89-93

which issued in 2015 a ten-year plan to promote this sport popularity in China and expand the economy all over the world through it.[187] Suning acquisition of Inter will be further analyzed in the third chapter as it constitutes the case study of this thesis.

The case of AC Milan's acquisition has been much more complicated. The deal was originally supposed to close last year but was then repeatedly postponed for many reasons including uncertainty as to the investors' identity, difficulties in obtaining the necessary funds and failure in getting Chinese government's authorization. Concerning in particular the first issue, during all this time, several assumptions about the possible Chinese buyers have been made until mid-2016, when emerged the name of Sino-Europe Sports Investment, a special purpose entity created for the transaction which involved two main investors: Haixia Capital, a Chinese State fund for development and investment and Yonghong Li, the manager undertaking the negotiation. Over the months, new subjects have been added and other excluded from the Chinese consortium, further complicating things. Finally, after a long period of uncertainty and contrasting news, the deal has been closed. Thanks to a loan granted by the American hedge fund Elliott, last April the ownership of Milan shifted to the Chinese consortium headed by Yonghong Li, for a total amount of EUR 740 million.[188]

Chinese OFDI in Italy greatly evolved over the last decade from several points of view. Beginning from small scale operations in trade-related activities, they then started to take the form of bigger acquisitions, targeting strategic assets. Above all, Chinese investors are now interested in Italian design skills, technological expertise, high quality production and

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[187] GOLDSTEIN, *Capitalismo Rosso,* pp. 147-151
Adam JOURDAN, *China's Suning buying majority stake in Inter Milan for $ 307 million*, "Reuters", June 6, 2016, http://www.reuters.com/article/us-soccer-inter-milan-suning-idUSKCN0YR03T (accessed April 4, 2017)

[188] Marco BELLINAZZO, *Milan: Firmato il preliminare, il club passa al fondo cinese Sino-Europe Investment Management*, "Il Sole 24 Ore", August 5, 2016, http://marcobellinazzo.blog.ilsole24ore.com/2016/08/05/milan-firmato-il-preliminare-il-club-passa-al-fondo-cinese-sino-europe-investment-management/ (accessed April 5, 2017)
Marco BELLINAZZO, *Milan, è caos closing: le tre possibili conclusioni,* March 4, 2017 http://www.ilsole24ore.com/art/notizie/2017-03-04/milan-e-caos-closing-tre-possibili-conclusioni--105414.shtml?uuid=AE1uwwh (accessed April 5, 2017)
Marco BELLINAZZO, *Closing Milan, depositata garanzia finanziaria da 50 milioni e bonifico di 30 milioni: si va verso il 14 Aprile*, "Il Sole 24 Ore", March 24, 2017, http://marcobellinazzo.blog.ilsole24ore.com/2017/03/24/closing-milan-depositata-garanzia-finanziaria-da-50-milioni-e-bonifico-di-30-milioni-si-va-verso-il-14-aprile/ (accessed April 5, 2017)
Carlo FESTA, *Milan, Mr Li trova i 190 milioni per il closing*, April 11, 2017 http://www.ilsole24ore.com/art/finanza-e-mercati/2017-04-11/milan-mr-li-trova-190-milioni-il-closing-063759.shtml?uuid=AExSnC3 (accessed April 20, 2017)
Luca PAGNI, *Milan, firmato il closing: addio a Berlusconi ora è cinese*, "La Repubblica", April 13, 2017 http://www.repubblica.it/sport/calcio/serie-a/milan/2017/04/13/news/milan_firmato_il_closing_addio_a_berlusconi_ora_e_cinese-162884317/ (accessed April 20, 2017)

brands. Thus, specialized clusters spread across Italy are perceived by them as key locations where it is possible to leverage knowledge and capabilities.[189]

Changes are recorded also with respect to the regional and sectoral distributions of Chinese investments in the Italian peninsula. Following the increase of transactions, OFDI coming from the Asian giant begun to cover different regions and sectors.

Overall, Chinese investments in Italy are strongly expanding. According to MOFCOM, until the end of 2016 the overall amount of China's OFDI in the Italian economy exceeded US$ 11 billion, while Italy's investment in China totaled US$ 7 billion. The substantial growth of Chinese inflows highlights the importance of the country as attractive destination for investment.[190] During the recent Italy-China Business Forum, this increase has been defined by the Italian President Mattarella as a reversal of the trend which saw, even in the recent past, a prevalence of Italian OFDI in China. This is a fundamental result that shows how Chinese welcome the growth opportunities offered by Italy.[191]

Conflicting views

The development of such a phenomenon has given rise to conflicting views. Some critics perceive Chinese investments as a threat for the domestic economy. They believe that multinationals having strict relations with Beijing can steal precious knowhow or affect values and practices imbued with tradition. Others are more optimistic: they judge these flows as a natural progression of the global capitalism, which is letting emerging countries' firms take the stage now.[192]

From an economical perspective, foreign investments are generally positive: they can contribute to employment growth, as well as to the expansion of export and other trade activities; they give an impetus to research and innovation; they secure an easier access to respective markets and enhance bilateral agreements. Particularly in the case of M&A, it should not be forgotten that acquisitions made by foreign actors, as Chinese ones, have at least ensured the survival of companies on the verge of bankruptcy. Most of the examples provided in the previous section fall into this category. Obviously, there must be some pre-

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[189] PIETROBELLI et al., "Chinese FDI strategy in Italy", pp. 288-289

[190] MOFCOM, *Cina: Italia principale paese destinatario degli investimenti,* March 3, 2017 http://it2.mofcom.gov.cn/article/headnews/201703/20170302527091.shtml (accessed April 5, 2017)

[191] Nicoletta COTTONE, *Mattarella in Cina: "Ampliare il nostro partenariato strategico",* "Il Sole 24 Ore", February 22, 2017, http://www.ilsole24ore.com/art/notizie/2017-02-22/mattarella-cina-ampliare-nostro-partenariato-strategico-155412.shtml?uuid=AECjiHb (accessed April 5, 2017)

[192] GOLDSTEIN, *Capitalismo Rosso,* pp. 153-155

conditions for the smooth functioning of these operations. The acquiring firm should possess the capacity of managing the execution phase, a factor which sometimes Chinese enterprises lack. Their little international experience, cultural barriers and different managerial styles are among the motivations that lead some acquisitions to failure, as that of Benelli. Nevertheless, there are also successful cases, as Cifa, which are the proof of the opportunities offered by Chinese buyers.[193]

To grasp these opportunities, such as vast amount of capital and easier access to the huge Chinese market, the recipient country, Italy in this case, should endeavor to create better conditions to receive and support foreign investments. To enhance competitiveness, Italy has to remove red tape and concentrates on promoting the country attractiveness.

In this last respect, the situation is quite instable. According to the 2015 FDI Confidence Index of A.T. Kearney, Italy ranked 12th out of 25 economies. Compared to the previous year, it gained eight spots, meaning that it attracted higher levels of foreign investment. However, the 2016 ranking shows a fall to the 16th position while the recently published 2017 Index marks a new improvement, seeing Italy back to the 13th place. Although its FDI stock is lower than neighboring economies as Germany and France, China seems to be very interested in the country.[194]

To further enhance the attractiveness, several initiatives have thus been implemented. For example, the government program "Doing Business" is engaged in the creation of a favorable environment for foreign investors. Among the objectives to be attained there are the simplification of administrative procedures, improvement of the information system, relaxation of labor regulation and acceleration of procedures.

From the institutional point of view, some progress has been made with the Direct Investment Committee set up in accordance with the Decree Law No. 133 of 12 September 2014, Art.30. The Committee, part of the Ministry of Economic Development, has to coordinate all the activities, both at central and local levels, intended to attract foreign

[193] GOLDSTEIN, *Capitalismo Rosso*, pp. 156-157
ROSENTHAL and SPIGARELLI, "Gli investimenti cinesi in Italia", pp. 224-230

[194] A.T Kearney , The 2015 A.T Kearney Foreign Direct Investment Confidence Index, *Connected Risks: Investing in a divergent world,* 2015, http://www.atkearney.it/research-studies/foreign-direct-investment-confidence-index/2015 (accessed April 6, 2017)
A.T Kearney, The 2016 A.T Kearney Foreign Direct Investment Confidence Index, *FDI on the rebound?*, 2016, https://www.atkearney.com/research-studies/foreign-direct-investment-confidence-index/2016 (accessed April 6, 2017)
A.T Kearney, The 2017 A.T Kearney Foreign Direct Investment Confidence Index "Glass half full", 2017, https://www.atkearney.com/gbpc/foreign-direct-investment-confidence-index (accessed April 6, 2017)

investment. In such a perspective, the Italian Trade Agency ICE plays a fundamental role. Through its Foreign Direct Investment Unit, it facilitates the establishment of foreign enterprises in Italy, especially by supporting and offering tutoring services to investors. Moreover, its website "Invest in Italy" can be considered as a point of reference for all the foreign investors interested in the country. Parallel to it, there are online platforms sponsored by some regions as "Invest in Tuscany" or "Invest in Lombardy".
The action of the government does not end here. Significant contributions to the promotion of investment opportunities in Italy are the ongoing reforms related to public administration, finance, justice and labor market, implemented for the purpose of creating a better business climate and thus attracting foreign investors.[195]

As emerges from the brief digression made above, there are many initiatives focused on the improvement of FDI in the Italian territory. It is of the utmost importance to continue along this path and further increase the competitiveness of Italy in order to revitalize the economy and grasp valuable new opportunities. At the same time, it is essential to remain vigilant and examine the investment projects case-by-case, in particular when dealing with non-traditional counterparts as the Chinese.
Overall, two important aspects must be considered to sustain the growth of investment flows: formation and information. Without the preparation to face the changing situation and, especially, without knowledge of respective economies as well as cultures it is not possible to achieve major goals. Both Italy and China should work on these issues.

1.8 Recent trends and future prospects

The above sections have already emphasized the development Chinese OFDI underwent during the last forty years. From an export oriented economy, focused on inviting-in different actors of the outside world, China has become an increasingly globalized country, whose main objective is to promote the going out policy. [196]
Thanks to the opening, China is now achieving greater equilibrium between FDI inflows and outflows. According to UNCTAD, the inward flow reached in 2015 US$ 135 billion, while

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[195] Farnesina, *Attrazione investimenti esteri,* http://www.esteri.it/mae/it/ministero/servizi/imprese/diplomaziaeconomica/cosa-facciamo/l-attrazione-degli-investimenti.html#riforme (accessed April 6, 2017)
[196] Sandra PONCET, "Inward and Outward FDI in China", edited by David Greenaway, Chris Milner and Shujie Yao, *China and the World Economy,* Palgrave Macmillan, 2010, pp.112-134

the outward flow amounted to more than US$ 127 billion. Taking into account that Chinese OFDI totaled only US$ 830 million in 1990 compared to the reverse flow which was of about US$ 3.5 billion, this is an incredible increase.[197]

Scarcity of disaggregated data in relation to OFDI has been the general trend for several years, and even nowadays it is quite a difficult work to collect precise and exhaustive information.[198]

In China, there are mainly two organizations that provide statistics about inward and outward investment flows: MOFCOM and SAFE. However, in both cases there are some weaknesses. Data illustrated by MOFCOM are based on officially approved investments but underreport is common in particular for private companies and they are affected by round tripping.[199]

SAFE provides annually aggregated balance of payments data which give the idea of China's international investment position, but do not give insights into sectoral or geographical distributions.[200] For these reasons, it is essential to make a comparison with statistics published by host countries as those of UNCTAD and Rhodium Group.

It is precisely according to the data provided by the UNCTAD's "World Investment Report" of 2016 that China ranks third among the largest investor in the world, totaling US$ 128 billion.

Although, as already seen, MOFCOM "Statistical Bulletin on China's Foreign Direct" Investment related to last year has not been published yet, official data points referring to the period from January to November 2016 state that China's investments hit a new record high of US$ 161.7 billion.[201] Therefore, the full year prospect can be close to US$ 200 billion.[202]

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[197] UNCTAD, *World Investment Report 2016: Annex Tables*, http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx (accessed April 6, 2017)

[198] Tomoo MARUKAWA, Asei ITO and Yongqi ZHANG, "China's Outward Foreign Direct Investment Data", *ISS Contemporary Chinese Research Series*, 15, 2014

[199] *Round tripping* is defined as the practice of selling an unused asset to another company, agreeing to buy back the same or similar assets at about an equal price. Usually, large investment outflows are channeled through tax havens by means of the establishment of special purpose entities and then re-invested in China or other countries.

[200] SANFILIPPO, *Chinese Investments in Italy,* p. 8

[201] According to official data published in January in MOFCOM website, the overall amount of direct non-financial investment for the year 2016 is equal to more than US$ 170 billion, while that one of the 742 M&A projects overseas is US$ 107.2 billion.

[202] Rhodium Group, *Eu-China FDI Monitor 4Q 2016 Update: Public Version*, January 2017, http://trade.ec.europa.eu/doclib/docs/2017/january/tradoc_155234.pdf (accessed March 10, 2017)

The huge amount of capital outflows has drawn the attention of Chinese leaders, who has implemented a re-tightening of administrative controls to suppress certain types of transactions. The strengthening was reached at first by asking to banks to deeply scrutinize cross-border investments. In a second moment, agencies involved in OFDI policy have started to review some transactions, trying to reject those considered as illegitimate.
The revival of more restrictive measures reflects the government's continuous change of attitude toward reforms. As underlined in the section devoted to regulations, China obstacles liberalization process when it may harm other aspects as economy stability and balance. Thus, the resulting figure is a zig zag line, characterized by periods of intense relaxation and others of strict tightening. Being the government way of acting, it is almost certain that things will not change, at least in the near future. And this is confirmed also by a new, recent ease of the strong supervision over currency flow that was announced just a few months ago. The main reason behind this approach is that China remains a totalitarian regime, under the control of the communist party.
Last decade, globalization broke into the Chinese country and slowly transformed lifestyles, thoughts and, somehow, values. The State itself perceived the opportunities offered by the integration with the outside world and gradually implemented policies which stressed the liberalization of trade and investment flows and the development of a market economy. However, while opening the door, the Chinese government has never forgotten to keep a close eye on the overall society. Thanks to the manipulation and supervision, it could direct and guide the whole process, making concessions from one side but strengthening on the other. Through the intervention of its "visible hand", an increasing amount of enterprises began to invest overseas. At first, only state-owned companies were allowed to operate abroad, even if with several constraints. Following the relaxation of restrictions, also private firms expanded their activities cross-border.

The internationalization process of these firms, as already seen, is not the same as developed country multinationals. Thus, a new framework, which explains the peculiarities of these latecomers in the global market, has been proposed by Mathews. The author suggested three terms to describe the emerging countries' enterprises that internationalize: linkage, leverage and learning. These firms use foreign direct investment and global linkages established through them as sources of advantages and, therefore, try to leverage the resources possessed by the counterpart. The repetition over time of linkage and leverage allows companies to learn how to operate more efficiently and build effective alliances.[203]

The need to acquire externally resources that firms do not own may form the basis for an explanation of the M&A increase over last decade. In comparison with greenfield investment, this entry mode guarantees rapid access to existing knowledge, skills and capabilities. Thus, mirroring the intensification of strategic asset seeking motivations, M&As have become preferred methods for Chinese firms to penetrate foreign market. Just consider that in 2016 Chinese overseas acquisitions reached US$ 221 billion. In value terms, they rise by 246 percent, 3.5 times more than the previous record set at the end of 2015.[204] Concerning location, the main targets have been developed economies such as US and Europe, where they searched for advanced technology, brands as well as huge and mature markets.[205]Asia became a pretty attractive destination too, thanks to its geographical position and influence of "One Bel One Road" project.[206]

As highlighted by China's State Council, acquisitions provide unique opportunities since through them it is possible to get access to design, R&D, marketing and other key factors necessary to improve the performance of Chinese enterprises in the international arena. However, in the process of acquisition, several problems may also arise. Some of them depend on Chinese firms themselves, as for example their irrationality in implementing M&A projects or high financial risks faced abroad. Others stem from host countries' reaction to the rapid increase of Chinese M&A operations. Many foreign governments are strengthening security reviews of Chinese acquisition projects, making the investment implementation more and more difficult.[207]

Considering this last point, it is likely that in the future Chinese investors will face greater obstacles when operating overseas. The current one is a tough situation for Chinese M&A since there are restrictions both from home and host countries. On the one hand, the aim is to curb capital outflows and release the pressure on *renminbi*; on the other, foreign governments' cautious approach is explained by the menace implied in some strategic acquisitions of Chinese firms. In this respect, USA are emerging as the main impediment.

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[203] MATHEWS, *Dragon Multinational,* pp. 18-20

[204] Pwc, *2016年中国企业并购市场回顾与2017年展望*, January 12, 2017, www.pwc.com (accessed April 6, 2017)

[205] Mike BASTIN, *2017 bodes well for Chinese takeovers*, "China Daily Europe", January 13, 2017 http://europe.chinadaily.com.cn/epaper/2017-01/13/content_27941590.htm (accessed May 16, 2017)

[206] Pwc, *2016年中国企业并购市场回顾与2017年展望*

[207] The State Council Information Office of the People's Republic of China, *中国企业海外投资并购增速快属正常现象*, September 22, 2016 http://www.scio.gov.cn/xwfbh/xwbfbh/wqfbh/33978/35181/zy35185/Document/1492089/1492089.htm (accessed April 6, 2017)

As already underlined several times, the role of government is fundamental in the enhancement or restriction of outbound investments and this is particularly true in the Chinese case. After all, in 2016 there was a supportive regime, and strategic policies promoted by the State as “Made in China 2025” or “One Belt One Road” were all consistent with M&A upsurge. This year, as well as for those to come, these policies remain at the core of Chinese foreign affairs, as it was emphasized during the Belt and Road Forum held in Beijing in mid-May. These projects are still in the initial phase and the benefits (especially in terms of economic development) advocated by them will be clear only when concrete plans will be implemented. As an ancient Chinese saying goes: “A long journey can be covered only by taking one step at a time” (in Chinese *bu ji kuibu, wu yizhi qianli* 不积跬步，无以至千里).[208]

Over last years, China has made enormous steps in regard to opening up. This chapter underlined how Chinese companies became active investors in the global scenario. Making prospects is always a tall order. Nobody knows what will happen, especially when apparently there is a contrasting situation: from one side, the re-tightening of Chinese approval regulation, the uncertainty of the international political context as well as the protectionist measures implemented by host countries launch great challenges to Chinese outbound investments, and, in this respect, it is probable that 2017 will not be a new record year for Chinese M&A. After all, the results are already visible. The first quarter (Q1) of 2017 recorded a slowdown of 39 percent compared to last year Q1, reporting 142 outbound M&A deals for a total amount of US$ 21.2 billion.[209] From the other side, Chinese-led initiatives as the aforementioned ones are likely to give a further push to companies to go abroad. As President Xi Jinping stated during the World Economic Forum at Davos: “China will foster an enabling and orderly environment for investment. […] In the coming five years, China is expected to make $750 billion of outbound investment”.[210] Thus, its ongoing support of

[208] *习近平在 “一带一路” 国际合作高峰论坛开幕式上的演讲*, “Xinhua net”, May 14, 2017 http://news.xinhuanet.com/2017-05/14/c_1120969677.htm (accessed May 16, 2017)

[209] *Chinese businesses' outbound M&A slows in first quarter*, “Xinhua net”, April 21, 2017 http://news.xinhuanet.com/english/2017-04/21/c_136224349.htm (accessed May 16, 2017)
普华永道：一季度中国企业海外并购放缓 财务投资者受影响较大, “Finance Sina”, April 20, 2017) http://finance.sina.com.cn/roll/2017-04-20/doc-ifyepnea4291891.shtml (accessed May 16, 2017)
机构：中国企业海外并购回归理性轨道, “Xin hua net”, April 22, 2017 http://news.xinhuanet.com/fortune/2017-04/22/c_1120856387.htm (accessed May 16, 2017)

[210] World Economic Forum, *President Xi's speech to Davos in full*, January 17, 2017 https://www.weforum.org/agenda/2017/01/full-text-of-xi-jinping-keynote-at-the-world-economic-forum (accessed

strategic outward activities will continue to provide great opportunities for those well-established Chinese companies which seek to internationalize.[211] After all, Chinese government strengthening control over some OFDI does not signifies undermining the "go global" strategy but rather tries to direct it and hold the rein of this policy. As stated by the head of SAFE Pan Gongsheng, "The open windows will not be closed again".[212]

In conclusion, China's cross-border transactions are still on the rise and its outbound M&A activity, probably more careful and rational than it was in the past few years, will continue to draw the attention of the world press. Clearly, as the process reaches a more mature stage and involves more and more ambitious plans, all eyes, both of foreign countries and Beijing, are on it.

May 16, 2017)
习近平主席在世界经济论坛2017年年会开幕式上的主旨演讲（全文）， "Xinhua net", January 18, 2017 http://news.xinhuanet.com/politics/2017-01/18/c_1120331545.htm (accessed May 16, 2017)

[211] Ernst & Young 安永，*2017：中国企业海外并购法律环境展望，* January 2017, http://www.ey.com/cn/zh/services/specialty-services/china-overseas-investment-network/ey-2017-outlook-on-chinese-enterprises-overseas-ma-from-legal-environment (accessed May 15, 2017)

[212] *外管局局长潘功胜：打开的窗户不会再关上，* "Xinhua net", February 13, 2017, http://jjckb.xinhuanet.com/2017-02/13/c_136052290.htm (accessed May 15, 2017)

Chapter two: Foreign Direct Investment (对外直接投资)

In the first chapter, the focus has been put on Chinese Outward Foreign Direct Investment (OFDI, in Chinese *duiwai zhijie touzi* 对外直接投资), highlighting peculiarities and distinctive characteristics. In this section, it is therefore necessary to provide a more general and full description of it, especially concentrating on one of its components, namely Mergers and Acquisitions (M&As). For the purposes of the thesis, the core of which is nothing else than Chinese M&A, the phenomenon of acquisitions will be analyzed in detail, in particular giving greater insight into the acquisition process and all the steps characterizing it. The overview does not refer specifically to the case of China, but it is made from a general perspective. The only exception can be found in the classification of M&A and in other parts related to regulation, where the reference point is Italy since the case study presented in the last chapter deals with an Italian entity.

Foreign Direct Investment (FDI) is part of the international capital flows, together with portfolio investment. According to OECD, they are defined as "a category of cross-border investment made by a resident in one economy (the direct investor) with the objective of establishing a lasting interest in an enterprise (the direct investment enterprise) that is resident in an economy other than that of the direct investor. The motivation of the direct investor is a strategic long-term relationship with the direct investment enterprise to ensure a significant degree of influence by the direct investor in the management of the direct investment enterprise […]."[1] "Lasting interest" and "long-term relationship" are the main traits which distinguish FDI from other types of flows as portfolio investments, characterized by short-term activities undertaken by institutional investors in the equity market. In particular, the first term underlines the strong involvement with the foreign entity, that becomes evident thanks to the transfer of knowledge and other skills from and to it.
FDI can be divided into horizontal and vertical. Horizontal FDI occurs when the foreign firm operates in the same or similar business as that of the home country, in this way duplicating the activities. In other words, the same goods or services are produced in multiple plants in different locations. The main drivers are getting access to a foreign market as well as avoiding transportation costs or barriers. Horizontal FDI is usually implemented when benefits arising from establishing new plants abroad offset the additional costs implied in

[1] OECD, *Benchmark definition of Foreign Direct Investment*, Fourth edition, Paris, OECD Publishing, 2008

such an operation. Thus, the company considers the option of producing in a foreign location, which turns out to be more cost-effective than exporting goods.

Vertical FDI refers to the geographical fragmentation of production chain. The term "vertical" derives from the fact that the production process is vertically disaggregated by outsourcing some stages in the host country. This type can be further split into backward, which involves the purchase or merger with supplier (moving up the supply chain) and forward vertical FDI, when the business activity is expanded to control distributors (moving down the supply chain). The motivations behind such a choice is given by the existence of prices differentials across the world. As an example, when there is a large discrepancy among prices it may be more profitable for a firm to establish production facilities in countries with low labor costs. Another time, the final objective is to achieve a trade-off between costs and benefits.[2]

Any firm has two primary modes to implement FDI:

- "Greenfield investment" (in Chinese usually recognized as *xinjian touzi* 新建投资，*chuangjian touzi* 创建投资 or *lüdi touzi* 绿地投资): the company decides to set up a new entity from the ground up. The investment takes, thus, the form of a wholly owned subsidiary. This entry mode involves a high mobilization of resources and competencies since, among other things, it requires the ability to recruit, train and manage the local workforce and expatriate the home country personnel to enable knowledge and technology transfer. Clearly, familiarity with the institutional, legal and commercial environment is strongly recommended when investing in a greenfield operation. Even if several impediments affect the timing and cost of the investment, there are also many advantages such as access to full profitability, maximum flexibility and full control over activities.
- "Cross-border M&A" (in Chinese *kuaguo binggou* 跨国并购): the firm mergers with or acquires an existing foreign enterprise. In this way, it can benefit from the immediate availability of resources, knowhow and competencies as well as access to the local market. This mode calls for cross-cultural integration skills in the absence of which it is difficult to succeed. Hostility toward acquisitions by foreigners which are perceived by some nationalities as an intrusion and high costs further complicate things.[3]

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[2] Anthony BENDE-NABENDE, ed., *International Trade, Capital Flows and Economic Development in East Asia: The Challenge in the 21st Century,* New York, Routledge, 2016

[3] Philippe LASSERRE, *Global strategic management,* Palgrave Macmillan, 2012, I ed. 2002, pp. 211-212

As mentioned above, since the emphasis of the thesis is upon M&A, the following sections will be devoted to a clearer delineation of such a phenomenon.

2.1 Insights on M&A

When dealing with "Merger and Acquisition" it is necessary to make, first of all, a distinction between the two. Even if they are known as a single terminology, they refer to different processes.

2.1.1 Merger（兼并）

According to OECD, a merger implies an "amalgamation or joining of two or more firms into an existing firm or to form a new firm".[4] From an economic perspective, mergers can be classified depending on whether the merging companies are all in the same industries or not and on where they are positioned inside the value chain. They can be divided into three types:

- *Horizontal merger* (in Chinese *tongye hebing* 同业合并 or *hengxiang hebing* 横向合并): indicates the merger between firms belonging to the same industry. The involved enterprises produce and sell the same products;
- *Vertical merger* (in Chinese *zongxiang hebing* 纵向合并): implies the merger between companies that operate in different stages of the production chain, starting from raw materials to finished products and, finally, distribution;
- *Conglomerate merger* (in Chinese *duo hangye qiye hebing* 多行业企业合并, *hunhe jianbing* 混合兼并 or *jituan qiye hebing* 集团企业合并): refers to the merger between firms in unrelated lines of business.

From a legal point of view, a merger can be further defined as a combination of two or more enterprises in which all except from one legally cease to exist.
Before providing a delineation of the main forms of mergers, it is necessary to make a brief comment on the legal aspect. Definitions and requirements about a specific issue (in this case mergers) vary depending on national laws. Taking into consideration the fact that the following chapter will deal with an Italian case, the legislation here treated is the one of Italy. Articles 2501-2505 of the Civil Code are devoted to mergers. According to Art. 2501, there

[4] OECD, *Glossary of statistical terms,* January 3, 2003 https://stats.oecd.org/glossary/detail.asp?ID=3258 (accessed April 10, 2017)

are two forms:

- "Fusione propria", which corresponds to "consolidation" (in Chinese *chuangli hebing* 创立合并 or *xin she hebing* 新设合并)*,* when companies merge to form a new entity;
- "Fusione per incorporazione" (also called "impropria"), which is similar to "long-form merger" (in Chinese *xishou hebing* 吸收合并)*,* in the event that one or more firms are absorbed by the acquiring company, the only one that survives. In this second case, the combined firm operates under the original name of the firm which has survived the transaction. The surviving company thus becomes the holder of all rights, duties, benefits and burdens of extinct corporations.

As regards the merger process, it is divided into several procedural steps. The first one is represented by the drafting of the common draft terms (defined in Italian as "progetto di fusione") that has to convey a number of information such as the name, the type and headquarter of the merging firm, the articles of association, the exchange rate， the eventual cash payment and so on. Together with the draft, it is necessary to prepare other documents, more precisely the financial situation, the director's report and the report of the experts, who generally are an auditor or an auditing company. Once these documents together with the financial statements of the last three financial years of each firm have all been deposited in the registered office of the enterprises taking part to the merger, it is possible to proceed with the approval. The decision can be taken with the consent of the majority of partners, established by their quotas of participation in profits. The deed of merger can be drafted only after sixty days from the merger resolution. During this period, both creditors and bondholders can oppose to the implementation of the merger. The final step is to draw and submit the deed of merger for the registration in Business Register. The merger becomes effective from the last due registration in the Business Register.[5]

Article 2505-*bis* of the Civil Code establishes a simplified procedure for certain types of mergers. In particular, it provides that a streamlined process can be applied to mergers by incorporation involving wholly owned or 90 percent-owned companies. In the case of wholly owned firms, a merger can be implemented without drafting the directors' and experts' reports and other requirements issued by Article 2501 as the indication of the exchange rate in the common draft terms. As for companies owned at 90 percent, the article allows to

[5] Gabriele VARRASI, *Italian Business Law,* Turin, G. Giappichelli Editor, 2015, pp. 159-166

bypass several steps, like those related to the financial situation and the two aforementioned reports. However, the exchange rate is requested since minority shareholders may decide not to sell the holdings (situation that cannot occur when subsidiaries are wholly owned because there are no dissenting minority whose rights and holdings can be affected by the merger). The simplified procedure carried out in Italy is similar to the concept of "short-term merger" as defined by the United States law.[6]

The Italian law provides for the existence of two other forms of merger: merger leveraged buy-out (in Italian "fusione a seguito di acquisizione con indebitamento") and cross-border merger (translated as "fusione transfrontaliera"). A leveraged buyout occurs when a company uses a significant amount of borrowed money to gain the control of another one. After the merger, the assets of the acquired firm are considered as the guarantee of the debts. With regards to cross-border merger, the Directive 2005/56/EC, implemented in Italy with the Legislative Decree No. 108 of 30 May 2008 facilitates cross-border mergers among European Member States. Above all, it requires the submission of additional information when drafting the common draft terms as, for example, the law applicable to the merger and the evaluation methods of assets and liabilities transferred. Moreover, the merger's project cannot only be registered in the Business Register but also must be published in the Official Journal. Finally, with respect to international merger, those involving, on one side, one or more Italian companies and, on the other side, one or more non-EU firms, Italy, considering the heterogeneity of legal regimes outside Europe, decided not to apply the Directive's provisions. Therefore, international mergers remain subject to the Private International Law Act (Section 25, paragraph 3).[7]

2.1.2 Acquisition（收购）

OECD defines acquisitions as "obtaining ownership and control by one firm, in whole or in part, of another firm or business entity. As distinct from a merger, an acquisition does not necessarily entail amalgamation or consolidation of the firms. An acquisition, even when

[6] VARRASI, *Italian Business Law,* pp. 159-166
Fabio GIUMARRA, "La fusione nel diritto statunitense: profili comparatistici", master's thesis, LUISS University, 2012, pp. 90-116, 154-156

[7] Cleary GOTTLIEB, *Implementation of the Cross-Border Merger Directive in Italy*, June 2008, http://www.law.columbia.edu/sites/default/files/document-library/clsbsbdl_document/files/implementation_of_the_cross-border_merger_directive_in_italy.pdf (accessed April 12, 2017)

there is a complete change in control, may lead the firms involved to continue to operate as separate entities […]".[8] While a merger implies the joining of two or more companies which become a single entity, the acquisition mainly involves two different subjects: a buyer, representing the acquiring company and the seller, known as the target company. The acquisition may include a stock purchase (or share deal, in Chinese *gupiao shougou* 股票收购) or an asset purchase (also called asset deal, in Chinese *zichan shougou* 资产收购). In a stock purchase, the target company's stock is wholly or partially transferred to the buyer, who thereby indirectly takes ownership of all underlying assets and liabilities. In an asset deal, the subject matter of the sale is a business branch of the seller or one of its businesses. The buyer can purchase selected assets of the seller, such as equipment, fixtures, knowhow, licenses, contractual relations, assets and liabilities and so on. Thus, in comparison to the share/ quota deal, the buyer benefits from the possibility to choose, in agreement with the seller, the assets to acquire as well as liabilities to assume. This is the main advantage of an asset deal since it offers to the acquiring firm the opportunity to protect from risks related to the previous management.[9]

There are other multiple ways to distinguish acquisitions. In particular, the one mentioned in the previous paragraph which classifies mergers as vertical, horizontal and conglomerate can be applied also for acquisitions. Moreover, in the same way as mergers, they are divided into domestic and cross-border transactions, depending on the nation of the companies involved. A final distinction it is worth mentioning is that between friendly and hostile acquisitions. In the case of friendly acquisitions (in Chinese *shanyi shougou* 善意收购), the purchase of the target firm is done with the consent of the management of this latter. While cooperation is a key element of this type of transaction, the opposite is true for the hostile acquisition (in Chinese *eyi shougou* 恶意收购), characterized by the resistance of the target firm's management and board of directors.

In the following part, a full description of the subjects directly involved will be provided, together with a description of all the phases characterizing the acquisition process.

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[8] OECD, *Glossary of statistical terms*, January 3, 2003 https://stats.oecd.org/glossary/detail.asp?ID=3137 (accessed April 12, 2017)

[9] Chiara STANZIONE, *Asset deal vs Share deal: vantaggi e svantaggi a confronto, con particolare attenzione all'aspetto fiscale*, "Il Sole 24 Ore", January 21, 2013 http://www.diritto24.ilsole24ore.com/avvocatoAffari/mercatiImpresa/2013/01/asset-deal-vs-share-deal-vantaggi-e-svantaggi-a-confronto-con-particolare-attenzione-allaspetto-scale---.php?uuid=ABOTqjC (accessed April 12, 2017)

The subjects of an acquisition

As already underlined above, the main subjects engaged in acquisitions are the acquiring and the target firms. According to Italian law, they may take various legal forms, the most common of which are joint stock companies (in Italian "società per azioni") and limited liability companies (corresponding to "società a responsabilità limitata"). As regards firms' size, restrictions may be imposed by the Italian Competition Authority, which has recently updated the control turnover thresholds stated by the Article 16 of Law No. 287 of 10 October 1990.[10] Prior notifications of M&As are required when:

- The aggregate turnover in Italy of all undertakings involved in the operation exceeds EUR 499 million;
- The aggregate turnover in Italy of the acquired or merged company is above EUR 50 million.[11]

These thresholds are revised every year taking into account increases in the GDP deflator index. Moreover, Article 2, third paragraph of the Council Regulation (EC) No. 139/2004 of 20 January 2004, poses a limit to concentrations that "significantly impede the effective competition in the common market […]". [12]

Except from the two firms which are directly involved in the acquisition process, there are also the advisors, who generally intervene to provide a financial advisory, legal assistance or whatever type of specialized services required by companies (for instance, they may include investment accountants, employment consultants, valuation experts).
Financial advisory is usually performed by investment firms and banks, and sometimes strategy consulting firms. A particular kind of financial intermediaries that often takes part to acquisition process is the so-called "merchant bank". They are devoted, *inter alia*, to consultancy and assistance activities with regard to strategic transactions such as acquisitions.

[10] Autorità Garante della Concorrenza e del Mercato, *Law no. 287 of October 10th, 1990,* http://www.agcm.it/en/comp/1727-law-no-287-of-october-10th-1990.html (accessed April 12, 2017)
[11] Autorità Garante della Concorrenza e del Mercato, *Prior notifications of mergers and acquisitions: updating of turnover thresholds*, March 28, 2017 http://www.agcm.it/en/newsroom/press-releases/2366-prior-notifications-of-mergers-and-acquisitions-updating-of-turnover-thresholds-2.html (accessed April 12, 2017)
[12] EU Commission, "Council Regulation (EC) No 139/2004 of 20 January 2004 on the control of concentrations between undertakings", *Official Journal of the European Union,* January 29, 2004
Article 2, paragraph 3 of the Regulation establishes that "A concentration which would significantly impede effective competition, in the common market or in a substantial part of it, in particular as a result of the creation or strengthening of a dominant position, shall be declared incompatible with the common market."

Overall, financial advices can be given to firms in relation to markets dynamics and trends, valuation, deal structure, pricing and so on.
Concerning legal counsels, their presence is fundamental throughout the transaction, from the negotiation phase, during which the letter of intent and confidentiality agreements are formulated, to the drafting of the final contract. After all, a contract is the heart of any business or financial transaction. Thus, lawyers can be considered as an integral part of processes like acquisitions. Nowadays, many large corporations have their own lawyers inside them, even if they are usually supplemented by outside counsels that provide useful expertise in niche areas. Moreover, relying on outside counsel, the contracting firm may benefit from an unbiased view.[13]
Finally, substantial contributions can be made by other professionals such as the Certified Public Accountant (CDP), who assists the seller in preparing the financial statements and related reports that will be submitted to the buyer and provides useful information about tax implications.[14]

When approaching to advisors, a company has mainly three possible alternatives. The first option is to assign all the consultancy activities to a single entity, equipped with the necessary skills to assist the company throughout the entire acquisition process. The second one is to rely again on one subject, but in this case, he/she is responsible for choosing other specialists who carry out activities falling outside his/her competence. In other words, the advisor (or advisory company) appointed by the firm will turn to its advisory relationship to select "secondary advisors". The last possibility is to engage different specialist advisors, possessing specific expertise on a given field.[15]

Although the "advisory world" is made up of a multitude of subjects, nevertheless the main roles are played by financial and legal advisors that, according to Frankel, "are complementary to each other with regard to skills, approach and demeanor". When working with them, it is important to build a relationship prior to the deal, thereby giving them the opportunity to learn about and understand the company, especially its business, culture and

[13] Michael E.S. FRANKEL, *Mergers and Acquisitions Basics: The key steps of Acquisitions, divestures, and investments,* New Jersey, Wiley, 2005, pp. 31-33
[14] Andrew J. SHERMAN and Milledge A. HART, *Mergers & Acquisitions from A to Z,* New York, Amacon, 2006, pp. 24-25
[15] Ugo DRAETTA and Carlo MONESI, eds., *I contratti di acquisizione di società ed aziende,* "Associazione Italiana Giuristi dell'Impresa", Milan, Giuffrè Editor, 2007

objectives.[16]

Overall, the contribution given by advisors is significant because, thanks to their expertise and experience, they facilitate the agreement between the acquiring and the target firms. In case of acquisition projects involving different nationalities, the support of advisors who have knowledge of the foreign country's legal system is even more important since it helps stop problems of misunderstanding linked to cultural differences from happening.

As seen above, companies usually not only rely on external advisors but also on internal specialists if they possess them. Even in the latter situation, the firm can anyway turn to outside advisors for a number of motivations as confidentiality reasons characterizing in particular the negotiation phase as well the need of a neutral and independent advice.

Before concluding the section related to subjects involved in the acquisition process, it is necessary to briefly mention the regulatory bodies. Actually, all business and financial transactions are in some way regulated by the government and its branches.[17] In respect of private M&A, the aforementioned Italian Civil Code sets the rules governing them while, for public M&A, there are additional provisions issued by the Financial Act and Consob ("Commissione Nazionale per le Società e la Borsa"), a public supervisory authority responsible for regulating listed companies and financial markets and, amongst other things, for supervising public takeover offers. Other bodies involved are the Italian Stock Exchange ("Borsa Italiana"), which manages the Italian Capital markets and AGCM ("Autorità Garante della Concorrenza e del Mercato"), corresponding to the antitrust authority. M&A process also includes national and EU competition authorities.[18]

Transactions in regulated sectors like telecommunications, media, banking, insurance, gas and energy are subject to industry-specific rules and to the control of public supervision authorities.

Concerning cross-border acquisitions, the Italian legislation traditionally does not impose any specific restriction, except from the so-called "conditions of reciprocity", under which same rights must be granted to both sides (in other terms, equal treatment must be granted to Italian investors operating abroad). The existence of these conditions has to be checked in advance if the foreign investor does not come from a Member State of the EU or the EEA or

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[16] FRANKEL, *Mergers and Acquisitions Basics,* pp. 33, 93
[17] Ibid., p. 41
[18] *Italy,* "International Financial Law Review", April 5, 2005, http://www.iflr.com/Article/2027926/Italy.html (accessed April 12, 2017)

pertains to a country with which Italy has not established international agreement or bilateral treaty yet (as for China, it does not fall under this category. A bilateral investment treaty (BIT) with Italy is in force since 1987 [19]).

Since 2014 a regulation which enacts the regulatory framework proposed by Decree Law No. 21 of 15 March 2012 has become effective. This law is related to undertakings operating in strategic sectors. According to Articles 1 and 2 (converted with amendments into Law No. 56 of 11 May 2012), the Italian government assumes special powers over companies engaged in activities considered to be of strategic importance in national security and defense sectors (Article 1) and over companies holding assets of strategic importance in the fields of energy, transport and communication (Article 2). The first article specifies that the following special powers may be exercised in case of threat of serious prejudice to the essential interests of defense and national security:

- Imposition of specific conditions relating to supply and information security, technology transfer and export control in case of acquisition of holdings in any company operating in strategic sectors;
- Right of veto over the adoption of shareholders' meeting or board of directors' resolutions which have as their subject matter mergers, demergers, transfer of a business or business branches, registered office relocation, changes to the business purpose and company's dissolution;
- Opposition to the acquisition of holdings by entities other than the Italian State or Italian public bodies if the acquiring firm's holdings have reached such an extent that they may endanger national security and defense.

In the aforementioned circumstances, upon the submission of a mandatory preventive notification by the interested parties, the government should determine whether to exercise o not special powers it is endowed with.[20]

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[19] UNCTAD, *Investment policy hub*, http://investmentpolicyhub.unctad.org/IIA/CountryBits/103 (accessed April 13, 2017)

[20] Gazzetta Ufficiale della Repubblica Italiana *Decreto-Legge 15 Marzo 2012, n.21*, http://www.gazzettaufficiale.it/gunewsletter/dettaglio.jsp?service=1&datagu=2012-03-15&task=dettaglio&numgu=63&redaz=012G0040&tmstp=1332753773322 (accessed April 14, 2017)
Simone CADEDDU and Alessandro COMINO, *The Italian Government's "golden powers" on strategic undertakings in the defense and national security sectors*, "Bird & Bird", June 9, 2014, https://www.twobirds.com/en/news/articles/2014/italy/the-italian-governments-golden-powers-on-strategic-undertakings-in-the-defense-and-security-sectors (accessed April 14, 2017)

2.2 Acquisition process

2.2.1 The preparation phase

Usually the acquisition process is initiated by the acquiring firm but, sometimes, may also be organized by the target company, inviting potential buyers to negotiate or holding an auction. In any case, for both interested parties it is important to carefully manage the preparation phase.

From the buyer's perspective, the process starts with the development of a strategy. This is a fundamental stage, defined by consultations and internal discussions. The firm needs, above all, to assess the opportunities provided by a potential acquisition, analyzing several factors such as the industry sector, the competitive environment as well as company's strengths and weaknesses and identifying the operating synergies it is possible to achieve.

One of the first step is to determine the key objectives of the acquisition, which may include the achievement of economies of scale, the right of access to a firm's knowhow and various intangible assets like patents, the penetration of new markets and so on. Acquisition goals are manifold and generally vary from company to company. However, when setting them, it is important to verify they are consistent with the firm's overall strategy. [21]

In this phase, the acquiring firm creates the team responsible for conducting the acquisition procedure. Therefore, apart from developing an internal working équipe (in general from the finance, sales and marketing, strategic planning departments), it can select a set of external advisors that will orchestrate the transaction. Together, they draw up the buying strategy, which includes the description of the target company, the definition of the transaction's time frame and the maximum amount of overall investment.

Next step is to identify potential targets. When finding and evaluating targets, the acquiring firm can rely on leads generated internally through screening, industry contacts and networking. Alternatively, advisors may be a valuable aid when generating a list of sellers since they systematically monitor the market and thus have information on market conditions. Before arriving to the shortlisted targets, candidates are carefully examined. More precisely, the acquisition objectives identified during the previous step are compared with the characteristics of each seller, focusing on strengths and weaknesses. In this way, those considered to be inappropriate are crossed off the list, while the ones that pass the screening criteria are contacted by the acquiring firm. At this point, the transaction phase begins.[22]

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[21] SHERMAN and HART, *Mergers & Acquisitions,* pp. 39-42

[22] Ibid., pp. 39-42

Similarly to the buyer, also the seller has to prepare for the deal. Before starting a sale process, a firm need, amongst other things, to assess the transaction's goals, prepare all the documents that must be provided to the acquiring company, determine the potential pricing range for the business. As already seen with the buyer, during this phase it is essential to select the team that will manage the process. Sometimes, the firm turns to external advisors that, thanks to their expertise and experience, are able to get the deal done. Nevertheless, in either case, it is fundamental to build up an internal team to monitor the transaction.

The following step is defined by valuation. Even though a business value is ultimately defined by the amount a buyer is willing to pay, the seller, before launching the sale, can still influence the final valuation. To increment or maximize the company's value, the seller can invest in partial or substantial changes, making the business more saleable. This point highlights the importance of the preparation phase for the selling enterprise. The predominant part of its work occurs before the deal takes place. By contrast, the buyer efforts increase after the deal is closed, and the integration process starts.[23]

Once that the preparation of the business for sale is concluded, it is time for the seller to find and implement the strategy to attract potential buyers. This comprehends identifying the profile of the prospective acquiring firm and collecting the documentation that must be given. These initial materials can be synthetized by the term "offering memorandum" (also called "selling memorandum"), which includes several information like business description, financial forecasts, historical data, operations review, analysis of strengths and weaknesses and risks of the investment.[24] This informational tool essential for the buyer is provided during the initial phase of the transaction.

2.2.2 Let the dance begin

At this stage, both buyer and seller have developed their strategic plans, set their objectives and generally prepared for proceeding with the deal. After having selected the target among the available candidates, the acquiring firm gets in touch with it. When approaching to each other, the two firms can decide whether to use representatives or act on their own behalf. There are many advantages to using proxies, in particular when the negotiation process is complex. Thanks to their expertise and professionalism, they are able to manage difficult

[23] FRANKEL, *Mergers and Acquisitions Basics*, pp. 108-110
[24] SHERMAN and HART, *Mergers & Acquisitions,* pp. 30-31

situations, find the right strategy for their clients and remain emotionally detached. The use of representatives is also common when the buyer or the seller does not want to disclose the identity. Finally, they may act as a buffer. In other terms, they discuss about the more difficult subjects, avoiding a too strong involvement or a crisis in relations between the two counterparts.[25] Whether proxies are used or not, the initial impression is in any case a crucial aspect since it often affects subsequent negotiations.

It is in this phase that the buyer gets access to the target firm's information. The latter may provide some data beforehand, which can take the form of an "offering memorandum", as already underlined. In this way, greater details about the target company such as business sector in which it operates, products, suppliers, human resources, financial statements and reasons of the sale are given to the acquiring company. This document can be drawn up by the company itself if it possesses the necessary skills. However, most of the time, it is prepared by an external advisor expert in the field of M&A.[26]

The selling memorandum is an important starting point as it gives to the buyer the opportunity to gain greater insight into the seller and, on the other side, allows the seller to present its business in the best possible way. Clearly, even if the information provided are not strictly confidential, it is essential to have potential buyers sign a Non-Disclosure Agreement (NDA), also known as Confidentiality Agreement (CA) before receiving the offering memorandum. The aim of this legal document is to protect confidential information from being used against the firm that discloses them and from being disclosed to third parties. Above all, the NDA determines which are the information that must be kept confidential. All the information which are not of public domain are usually considered "classified". For instance, information about products, markets, R&D, patents, financial data are generally included.

Another significant issue relating to NDA is the "term" of the agreement, which specifies how long the information will be kept confidential. The definition of the term is normally affected by market conditions and the type of transaction.

Apart from the definition of "confidential information" and of the agreement's term, there are other key aspects covered in the document, more precisely:

[25] FRANKEL, *Mergers and Acquisitions Basics,* p. 151

[26] Andrea ARCANGELI, Fabio BIANCHI and Luigi RIZZI, *Come gestire le operazioni di M&A. Specifici rischi operativi, due diligence, contrattualistica,* Milan, IPSOA, 2012

- Use of confidential information, which clarifies that information can be used only for the purpose explicitly stated in the agreement;
- Permitted disclosure, that specifies the conditions under which information can be disclosed;
- Proprietary right, which states the ownership of the information;
- Return or Destruction of Confidential Information, that determines how information has to be returned or destroyed upon the termination of the agreement;
- Entire agreement, that defines the scope of the agreement. This clause indicates that what is defined as the Confidentiality Agreement embodies the complete agreement.[27]
- Other significant clauses such as No Waiver, ensuring the party that the failure to enforce any provision does not result in a waiver of rights; No further obligations, stating that the parties have no commitment to enter into further agreements or undertake business relationships with other parties; No License or Right to Reproduce, which prohibits the reproduction or use of confidential information disclosed.[28]

2.2.3 Pre-agreements: The Letter of Intent

Once that the initial contacts have been established and the two companies got to know one another, next step is to prepare and negotiate the interim agreement, which constitutes the roadmap and guide for the parties up to the closing. In general, the negotiation is defined by a long, progressive process, which precedes the execution of the contract. During this phase there are no specific obligation in terms of contractual relation but, in actual fact, there is an ethical principle that should be respected, namely “good faith”. In civil law countries, there is a strong commitment toward negotiations conducted with due regard to *bona fides*. This can be considered as the main pre-contractual liability, which varies from country to country and implies that, if a party terminates negotiations in bad faith, it may be liable for damages. The situation in common law countries is quite different as parties do not have any obligation relating to the conduct of negotiations and have the possibility to stop negotiation whenever they want or to deal simultaneously with other parties.[29]

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[27] SHERMAN and HART, *Mergers & Acquisitions,* pp. 26-27
[28] Ibid., pp. 26-27
[29] Fabio BORTOLOTTI, *Drafting and Negotiating International Commercial Contracts: A Practical Guide,* Paris, International Chamber of Commerce, 2013, p. 110

The negotiation phase is characterized by a variety of documents, starting from very simple and vague to complicate ones, similar to real contracts as they include many elements already decided by the parties. The drafting of the Letter of Intent (LOI, also called "Memorandum of Understanding", known in Chinese as *yixiangshu* 意向书) in the initial stages of the negotiation is a common practice worldwide, which has become popular also in Italy. The reasons behind the execution of the LOI are manifold. First of all, it is useful in stating the progress of negotiation that generally comprises several stages and carries on for a long period of time. Then, considering the complexity of strategic transactions like acquisitions, it is important to settle and put down in writing, since the beginning, the terms and conditions upon which the parties have already found an agreement. Therefore, more than a declaration of intent, the LOI takes the form of an agreement on essential terms, which leaves open for further determinations those provisions that cannot be defined at this stage. This is a key point of difference with preliminary contract since, in comparison with it, the LOI does not involve an agreement on all the essential elements but just part of them. Thus, when the parties, after several negotiations, decide to enter into definitive agreements, these agreements should include all the terms and conditions already agreed to and set out in the LOI. In such a perspective, a well-drafted LOI can help understanding which are the matters that necessitate further discussion and those that have been fully treated.
The content of the LOI may greatly vary, depending in particular on the level of detail and terms provided. Some of them may be more comprehensive and legally precise, while others may be shorter and less formal. The following provisions, however, are typically present:

- Purpose of the LOI, including a description of the proposed transaction;
- List of the agreements to be entered into, inside which the purchase price may be specified together with other details;
- Definition of the time frame of subsequent procedures as the due diligence activities and expiration dates;
- Specific clauses as the confidentiality and the exclusivity or standstill clauses. With the confidentiality close each party agree to treat as confidential the information received from the other one, while with the exclusivity clause the parties limit their freedom to deal with other subjects for a certain period;
- Agreement on the governing law and dispute resolution.

  Considering the importance of them, it is necessary to make a brief explanation.

Whether included in the LOI or in subsequent documents, these two elements are fundamental aspects related to international contracts. This type of contracts, as opposed to the domestic one, is placed within a less predictable legal context. Therefore, one of the first step that must be taken when starting negotiations is the choice of the applicable law. Every State has rules included in the so-called "International Private Law" or "conflict of laws" that allow to apply to international matters the domestic law that appears to be more suitable for governing this kind of situations. In other words, the International Private Law is the part of national law that establishes the rules which regulate cases involving foreign elements. In Italy, Law 218/95 refers to both conflict of laws and jurisdictions.

When choosing the law applicable to their contract, the parties are free to decide without limitations. As stated by the Article 4 of the Rome Convention of 1980, in the case that a choice has not been explicitly expressed by the parties, the contract shall be governed by the law of the country which has the closest connection with it. In other terms, the legislation of the country where the party is to effect the performance which is characteristic of the contract must be chosen. This general rule has been replaced by the Rome I Regulation (Regulation 593/2008), which in Article 4 provides that, if specific rules listed for a number of contracts are not applicable, the criterion of the habitual residence of the party effecting the characteristic performance shall be valid. Only in the case that none the two aforementioned criteria give an answer, the criterion used is that of the country with the closest connection to the contract.[30] As for dispute resolution clause, the parties decide what will happen if they litigate on the contract and who will solve the dispute. Usually, it is the judge of State courts responsible for dispute resolution. Alternatively, it is possible to delegate the power to decide to arbitrators. There are two main types of arbitration: ad hoc and institutional.

With regard to the terms listed in the LOI, a fundamental issue regarding the binding nature of this type of document arises. Overall, there is not a single definition of LOI classifying it as binding or nonbinding. Given the ambiguity surrounding the matter, it is impossible to determine the binding character of this document in general terms. From a practical point of view, it depends on the drafting and also on the applicable law because some legislations are

[30] BORTOLOTTI, *Drafting and Negotiating International Commercial Contracts,* pp. 24-29

stricter and some are looser when considering binding a written document. In some situations, as those in which the parties only confirm their reciprocal interest in continuing the negotiation, the LOI can be classified as nonbinding, even if it is fundamental to carefully control the wording of the document and the applicable law before drawing conclusions. However, when dealing with complex negotiations that are defined by a number of steps, as in the case of M&A, the situation is less clear. As seen above, parties involved in the acquisition process usually sign a LOI in order to sum up the results reached during negotiations, making a distinction between the terms agreed to and those that require further consideration. In this complex background, it is necessary to refer to the specific jurisdiction, and in accordance with it understand which is the value given to the LOI.[31] For instance, as regards Italy, the assessment of the LOI as a binding or non-binding document is not based on the mere qualification as LOI but on the evaluation of the intent put forward by the parties and of the relevant clauses. Confidentiality and exclusivity agreements, as well as those concerning the applicable law and dispute resolution can give rise to obligations which are related to the negotiation itself and so can be considered as exception to the non-binding character.[32]

Starting from the assumption that the ambiguity often derives from the tentative of a party to bind the other one without being bound itself, it is possible to enhance clarity and avoid misunderstandings by drafting a document that specifies which undertakings are binding and which are not.

2.2.4 Due diligence

Following the execution of the letter of intent, the parties should go through with the due diligence (in Chinese *jinzhi diaocha* 尽职调查 or *jinshen xing diaocha* 谨慎性调查). This is a critical step in the acquisition process that starts from the consideration that acquisitions are risky investment decisions. Part of the risk comes from the fact that the acquiring company lacks deep knowledge about the target firm. Consequently, lots of assumptions involving its situation and future projections are made, but they are never sufficient and adequate for taking the final decision. A throughout examination is thus essential, which is

[31] BORTOLOTTI, *Drafting and Negotiating International Commercial Contracts,* pp. 103-105

[32] International Bar Association, *Italy Negotiated M&A Guide,* https://www.ibanet.org/Article/NewDetail.aspx?ArticleUid=77f93863-0705-4fc2-99a2-893276316811, (accessed April 20, 2017)

generally referred to as due diligence.[33] Through it, the seller let the buyer do a series of reviews in relation to legal, financial, commercial, technical and environmental aspects. Checking seller's documents, contractual relations, organizational structure, operations and so on, the buyer can verify the real extent and nature of the target's company and discover potential threats such as problematic contracts or litigation risks. Once that the test has been completed, the buyer can either proceed with the deal or abandon it, in the case that the results of the due diligence are not consistent with expectations and several problems have arisen.

Given the due diligence importance, both parties should carefully prepare to manage it. Thus, the seller together with its team composed by financial, legal, accounting and business experts (they may be internal or external professionals as already seen), must gather and organize all the necessary documentation while the buyer's team should prepare data requests, including the materials sought such as the target's firm history, corporate structure and culture, accounting and financial details, operations, intellectual property, contracts, suppliers, customers as well as other issues related to its business. The acquiring company need to have an overview of the target as comprehensive as possible. Therefore, it does not only check those aspects concerning assets, liabilities and operations but also the less evident and more difficult to assess, like corporate culture. After all, it should be remembered that one of the greatest challenges of an acquisition is the integration occurring after the deal closing. In this perspective, it is fundamental to consider the potential fit between the two entities, especially when they come from two different countries in the specific case of cross-border M&A.[34] Clearly, it is not possible to review every aspects of a firm but rather it is necessary to evaluate what are the relevant matters that drive the acquisition and focus on them.

There are several types of due diligence, based on the topics of the review process. The most common broad categories are:

- *Legal due diligence*: it concerns the company organization, contracts and agreements, legal status of tangible and intangible assets, litigation (including existing, pending

[33] William J. GOLE and Paul J. HILGER, *Due Diligence: An M&A Value Creation Approach,* New Jersey, Wiley, 2009, pp. 8-10

[34] *Due diligence: Main steps and success factors*, "General Electric Capital", 2012, http://www.gecapital.eu/en/docs/GE_Capital_Overview_Due_Diligence.pdf (accessed April 20, 2017)

and potential disputes), legal and regulatory compliance, labor arrangements and employee benefits, intellectual property. Thanks to it, the buyer can understand which are the rights, liabilities and obligations that will be taken over;

- *Financial due diligence*: it verifies the consistency of company's accounts, the assets and liabilities composition, historical financial statements which are useful to understand if there are previous losses and to make future projections. Through financials, the buyer can get a better picture of the operations and the business model of the seller as, for example, pricing, customer base, payment rates;
- *Commercial due diligence*: it analyses the target taking into account the market conditions, the industry and the competitive environment. For instance, it may involve customers, market trends, competitive position and competitors' analysis;
- *Operational due diligence*: it looks at critical operational elements and, more precisely, to the current performance. It provides greater insights on productions and distribution methods, productive capacity, capital expenditures (property plant, equipment, facilities), technology, customer service and so on. Operations are usually the core of the value proposition and therefore, by examining them, it is possible to understand how the company works, what is its strategy and its focus, how it can add value to the acquiring firm's business;
- *Human capital due diligence*: it aims at understanding the organizational culture and people's roles, attitudes and skills. Amongst other things, it tries to investigate the corporate structure managerial staff, employees and all issues relating to labor.

Apart from the aforementioned categories, there are other reviews that can be made depending on the nature of the target company's business. The general principle is that any business area that may imply legal liabilities and obligations or be subject to regulation must be taken into consideration during the pre-acquisition analysis. An aspect that is frequently reviewed is the environmental one. Following the recent focus on ethical and responsible business, environmental issues have become a common element in due diligence. Thus, environmental damages and risks as well as regulatory compliance are strictly scrutinized.[35]

From the procedural point of view, due diligence can be divided into three different phases:

[35] FRANKEL, *Mergers and Acquisitions Basics,* p. 188
A Guide to the Due Diligence Process, "Bishop Fleming", http://bishopfleming.co.uk/wp-content/uploads/2015/03/2729-Bishop-Guides-Due-Diligence.pdf (accessed April 20, 2017)

- Preparation of a checklist that synthetizes all the elements that must be assessed during the analysis and documents that have to be taken into account;
- Analysis of the documentation provided by the target firm. Information are shown in physical or in virtual data rooms, setup with the aim of disclosure to an outside party. Nowadays, the second option, namely virtual data room, is increasingly frequent and consists in a database which presents all the various documents requested by the acquiring company;
- Drafting of the due diligence report, which synthetized all the information gathered during the review. It highlights strengths and weaknesses emerged and therefore it represents a fundamental basis for decision making.

In conclusion, the due diligence can be generally defined as the process of going deep in the assessment of a firm's overall situation in order to ensure that the acquiring company's initial impressions and prospects were correct and, if not, terminate a deal which does not make sense. The final aim is to gather and check all the information necessary to valuate a business (or a business branch), as well as unveil problematic issues that may endanger the transaction's good outcome. The effectiveness of the process is substantially based on cooperation between the parties, communication and honesty. Omission of details, manipulation of data or misunderstandings occurring in this phase will undoubtedly have a negative impact and presumably lead to future disputes.

A due diligence process carefully planned and executed makes the difference in the acquisition's results. In this regard, there are in particular two aspects influenced by due diligence findings: legal documents negotiation and integration planning. The legal due diligence can help buyer's lawyers to draft appropriate agreements and contracts' clauses. Moreover, by showing structural and operational aspects of the business, it can facilitate post-closing integration plans. Giving a holistic view of the target company, it provides relevant information about future integration of human resources and business. Therefore, when planning and implementing integrative procedures, the translation of due diligence results into practice can make a major difference.[36]

[36] FRANKEL, *Mergers and Acquisitions Basics,* p. 153

2.2.5 The dance is almost over: The acquisition agreement and closing

Once that the parties have concluded the due diligence, they need to define a number of key elements. Among them, the most relevant is the pricing, a paramount issue in M&A deals. Before establishing the price, the acquiring firm usually makes a formal valuation of the seller's business, using one of the numerous valuation methods available, namely asset-based, market based or cash-flow-based valuation.[37] They are generally based on both quantitative and qualitative analysis. Valuation can be carried out by the seller during the preparation phase, by the buyer when it has chosen a target company, by intermediaries as investment bankers or by both parties in case of dispute over price during negotiation.[38]

When all details regarding the price has been arranged, the two counterparts can start drafting and negotiating the definitive acquisition agreement and ancillary documents that will finally conclude the transaction. Each of them is preceded by one or more draft, which are drawn up by the legal advisor and submitted to the other party. This progressive process is defined by close cooperation between the lawyer and the client, the aim of which is finding a compromise between the need of the party and the legal requirements. The key issues identified during the discussion become part of the draft. Thus, the two parties start to exchange them for the purpose of drawing up a document agreed between them. Generally, the content of a draft is reviewed and modified many times before setting out the final version. In some cases, particularly when they are engaged in complex negotiation, the parties may agree in advance some contractual clauses. In this perspective, they may decide either to modify them at a later stage or draw up the final content at that point. In the first instance, the drafting of clauses aims at assessing the progress made in the negotiation and in some way memorializes what has been discussed until that moment. The parties acknowledge that the proposed clauses can be subject to changes before executing the definitive agreement. In the second one, the terms already drawn up are to be considered as the final version, in case of conclusion of the contract. The parties commit themselves to continue with the negotiation on other clauses. In this way, they proceed by stages, gradually determining the clauses that will be comprised in the acquisition contract.[39]

Successful negotiations culminate in the conclusion of the purchase agreement, the legal document which specifies all the terms and conditions related to the acquisition. It includes,

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[37] A detailed analysis of the methods for valuation of firms will not be provided since this theme falls outside the purpose of this thesis, which is to offer an overview of the main steps making up the acquisition process.

[38] SHERMAN and HART, *Mergers & Acquisitions,* pp. 131-132

[39] DRAETTA and MONESI, *I contratti di acquisizione di società ed aziende*

amongst other things, a statement of the parties participating to the contract and a description of the items being sold, which indicates whether they take the form of assets or stock. In this connection, several operative terms are defined, in particular the liabilities that must be assumed and the amounts and terms of payment. The variety of issues encompassed by the agreement also involves representations and warranties clause as well as an indemnification provision. As suggested by the name, the first clause deals with representations, which are statements inducing the parties to make the contracts, and warranties, defined as guarantees, or promises, that ensure specific facts or conditions are true. This provision is the foundation for the indemnity claim in case of breach of any obligation undertaken by the parties as inaccuracy or untruthfulness of representations and warranties, and explains the presence in the contract of the related clause, which guarantees protection against harmful events.[40]
In the agreement, the parties specify also the closing conditions and covenants, defined as promises or agreements made by the counterparts, related to pre-closing (period between the execution of the acquisition agreement and the closing if the closing is scheduled to take place sometime after signing) but also post-closing phase.

The acquisition process ends with the so-called "closing". During the closing, the agreement is legally recorded and effected. The target company receives funds while the acquiring entity obtains the ownership of the firm. There is a clear difference between signing and closing a deal. Signing implies that the buyer and the seller actually sign an agreement to sell a business or a branch of it. Closing means executing the final documentation, through which the deal becomes effective. As anticipated here above, some acquisition agreements are signed and closed simultaneously while others imply a deferred closing, made a certain period of time after signing. In a simultaneous closing, the title of the assets or stock is transferred and the due amount of money is paid when the agreement is signed. Therefore, it is not necessary to draw up covenants related to the period before the closing or conditions to closing because this last takes place at the same time that the parties sign the contract. By contrast, in a deferred closing the agreement is first signed but the closing takes place at a later stage.[41] The most common source of gap is usually regulatory approval. In particular, acquisitions dealing with businesses in regulated sectors require the green light by the relevant regulator. In any case, at the end of the closing, the parties sign several documents,

[40] IBA, *Italy Negotiated M&A Guide*, pp. 11-16
[41] James C. FREUND, *Anatomy of a merger: strategies and techniques for negotiating corporate acquisitions,* New York, Law Journal Press, 1975, pp. 148-150

which establish the transfer of the ownership and rights to assets and securities. After the signature, it is time to pay in full the consideration. Eventually, the party may also sign the so-called *closing memorandum,* which lists all the transactions occurred in relation to the acquisition. It is used to review the transaction information and provide a description of decisions made.

2.2.6 Post-closing: The great challenge

"Many acquisitions look great on paper. Yet, no matter how attractive the opportunity, value is not created until after the acquisition when capabilities are transferred and people from both organizations collaborate to create the expected benefits or to discover others".[42]

The pre-acquisition process officially terminates when all the documents are signed and the deal is closed. The closing marks a decisive moment for the future of the acquired company since it signals the start of the post-acquisition integration, where "post-acquisition" can be defined as "the art of combining, not only on paper, but also in reality, two or more companies after these have come under common ownership" while "integration" can be referred to as "the combination of several elements, such as the accounting systems, the assets, the production lines, the information technologies and cultures".[43] This is considered as one of the greatest challenges for the buyer, who, above all, has to understand how to coordinate and control the enterprises composing the group that, until that moment, were independent entities. A gradual process of interaction and combination of both activities and individuals characterizes the post-acquisition integration, the basis of which is to figure out what elements to integrate and how to integrate them. As already seen, integration covers multiple dimensions, going from production, marketing, finance, accounting, distribution to human resources but, in general terms, it can be considered as a two-dimensional process: on one side the task integration looks at operational aspects, more precisely to capabilities transfer and resource sharing while, on the other side, the human integration is focused on the organizational culture, management and employees. Although in theory they can be treated as two separate processes because they require different managerial skills and are implemented with diverse pace, in practical terms they must converge since they are strongly interdependent. Therefore, a successful integration builds on the premise that value creation

[42] Philippe HASPESLAGH and William JEMISON, *Managing acquisitions: creating value through corporate renewal,* New York, Free Press, 1991
[43] Mariana VANCEA, "Challenges and stakes of the post-acquisition integration process", *Annales Universitatis Apulensis Series Oeconomica*, 13, 1, pp. 167-180

is achieved only focusing on both operational synergies and personnel's satisfaction. The acquiring entity cannot put the emphasis only on one side at the expense of the other one, but rather find the right equilibrium between them. In other words, this substantially signifies pursuing efficiency at operational level, improving economic performance and, at the same time, motivating employees, creating a positive climate of mutual understanding as well as building a shared identity.[44] The figure proposed here below exemplifies the implications of this discussion. In particular, it shows how reaching human integration without paying the necessary attention to the organization and combination of tasks leads to negative outcomes; the same situation verifies in the opposite case, when the integration process is more task-oriented than people-oriented. The basic assumption is another time underlined: task and human integrations need to work together. The acquiring firm has to understand how to enhance the acquired company's competitive position and create value by allocating resources and transferring skills. However, it must also create the conditions that allow both managers and employees to collaborate and actually realize the synergies' potential.

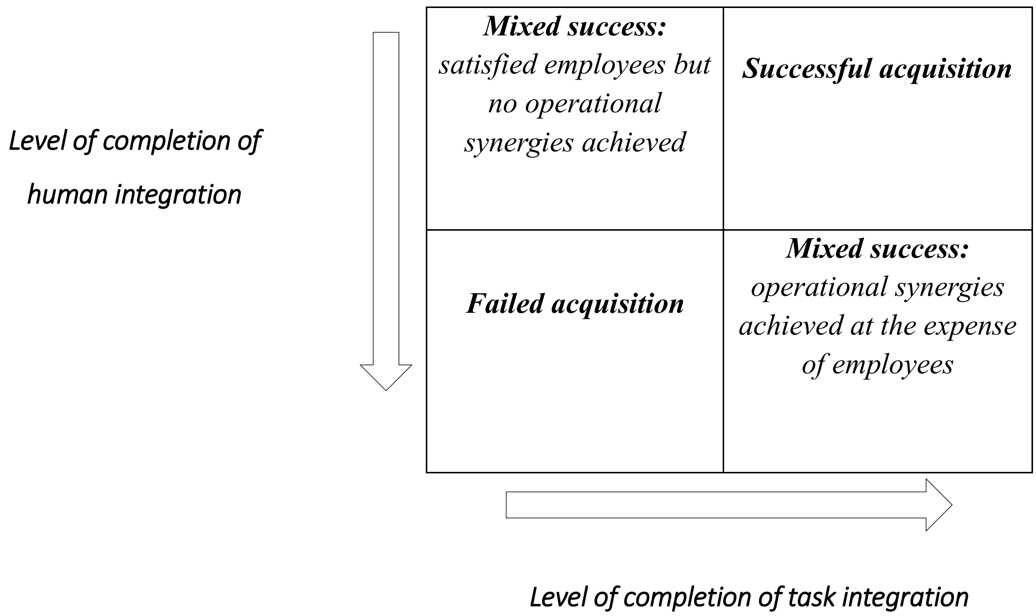

Figure 5: Human and task integration. Source: Birkinshaw et al. (2000)

Knowing the elements characterizing the integration process is fundamental. Starting from them, it is possible to identify the approach required and implement the integration plan.

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[44] Julian BIRKINSHAW, Henrick BRESMAN and Lars HÅKANSON, "Managing the post-acquisition integration process: how the human integration and task integration processes interact to foster value creation", *Journal of Management Studies,* 37, 3, 2000, pp. 395-425

2.2.7 How approaching to integration?

According to Haspeslagh and Jemison, there is not a unique approach to integration. In their contingent framework, they propose three integration modalities which are dependent on the following elements:

- the degree of required operational interdependencies between the acquired and acquirer. This aspect refers, for example, to the transfer of capabilities and exchange of resources between the two companies;
- the degree of required organizational autonomy that the acquired firm necessitates. In such a perspective, it must be underlined the fact that the acquired company operates in a different environment compared to the acquirer. This is particularly relevant when the acquisition takes place in a diverse country or business.

The outcome of the above distinction is four categories:

- *Preservation* mode applied when there is a high need for organizational autonomy and low need for operational interdependence. In this case, there are few advantages in integrating processes, assets as well as in a combining the decision-making. Therefore, the strategy being pursued is to maintain the identity and autonomy of the acquired firm and keep the business separate. Without changing, as far as possible, the original organization of the company, the acquiring entity tries to gradually learn how to manage the business. Competencies are transferred only when necessary and changes are made carefully when the impact on the recipient company has been assessed. In addition, while developing new features, existing strengths are preserved.[45] Generally, preservation integration occurs when the acquisition's main objective is to penetrate new markets, where the acquiring company does not possess the necessary capabilities, or to pursue a diversification strategy, aiming to get new strategic capabilities, integrate new activities and update resources;[46]
- *Symbiotic* mode used when there is high need for both organizational autonomy and operational interdependencies. The objective is to keep the autonomy at the organizational level while, at the same time, achieving interdependencies of operations. The key is to find a balance between the convergence of synergies and independence.

[45] LASSERRE, *Global strategic management,* pp. 161-162
[46] VANCEA, "Challenges and stakes", p. 171

For implementing this mode of integration, it is necessary to start with preservation, gradually identify the joint sources of synergies and then slowly increase the interaction by developing a common culture while still preserving autonomy.[47] It is by far the most complex procedure since the acquired company have to manage contradictory exigencies: progressive adaptation of the acquired firm have to go hand in hand with a certain level of organizational independence. In this way, it is possible to contribute to the evolution of the two companies and create new advantages[48];

- *Absorption* mode which takes place when there is a low need of organizational autonomy and a high need for operational interdependencies. The acquirer firm completely absorbs the acquired company. The objective is to fully integrate the two entities through the recognition of complementarities and adoption of the best practices. This situation is usually explained by the presence of duplicate activities and strong strategic connections which leads to a rationalization strategy, designed to achieve scale and scope economies and strengthen the competitive position.[49] Given the tight closeness between the two organizations, feeling part of the same entity is extremely important and, thus, particular care must be paid to the creation of a common culture.
- *Holding* mode indicating a low need of both organizational autonomy and operational interdependencies. In most cases, there is no reason to integrate at all.[50]

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[47] LASSERRE, *Global strategic management,* p. 162
[48] VANCEA, "Challenges and stakes", pp. 171-172
[49] Ibid.
[50] HASPESLAGH and JEMISON, *Managing acquisitions*

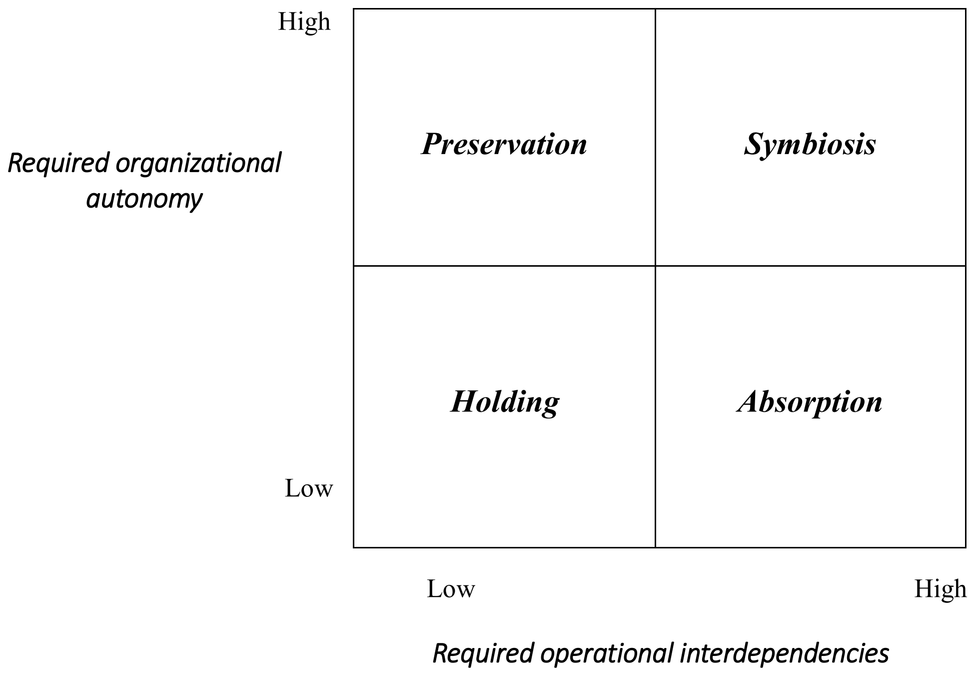

Figure 6: Integration modes. Source: Haspeslagh and Jemison (1991)

2.2.8 Going through the integration planning and implementation

Integration is often considered as the major determinant of the success or failure of M&A.[51] Therefore, it is extremely important to devote great attention to all integration phases, starting from the planning.

The first step is to develop an integration plan that explains how the process is done. When creating it, the integration team, appointed for leading the integration process, should refer to the due diligence, during which essential information on the acquired firm has been gathered. This can be considered as the starting point for preliminary considerations in the plan. Afterwards, depending on the strategic aim of the acquisition and the nature of both businesses, the team has to identify the right approach among those cited above. Actually, the need for integration is strictly related to the acquisition's objectives. In the case that the acquisition involves related businesses, benefits can be achieved by strongly integrating activities in order to obtain economies of scales or operating efficiencies. By contrast, acquisition of unrelated businesses generally requires little or no integration and sharing of resources. Therefore, the primary thing to assess is whether integration is necessary or not.[52]

[51] VANCEA, "Challenges and stakes", p. 167
[52] Deepak K. DATTA, "Organizational Fit and Acquisition Performance: Effects of Post-Acquisition Integration", *Strategic Management Journal*, 12, 4, 1991, p. 283

Then, after having decided the components to be integrated, it is necessary to define the mode in which integration has to be implemented. Clearly the focus of the integration process varies from deal to deal but there are some issues which underpin and are considered as significant in all integration planning. Examples are operations and human resources. The main purpose in post-acquisition integration of operations is to make a more effective use of existing capabilities. Through it, the acquired firm can achieve synergies in terms of cost savings, best practices and efficiency improvements. Thus, it has to determine whether processes and procedures require standardization or adaptation, if there are redundancies that must be eliminated and where changes need to be made. Above all, the final objective is to find a trade- off between cost savings, cost of integration and the benefits coming from it.[53] Another area that raises big challenges is human resources management. It is worth noting that in some instances people are the key asset that triggers the acquisition decision. In any case, human resources are one of the most valuable elements inside a firm and the most difficult to integrate. Generally, an acquisition is a source of uncertainty and threat for the employees of the companies involved, in particular for those of the acquired firm. A clear integration plan, that does not hide but explains the actual fact is an essential prerogative for getting good results. By contrast, leave things uncertain can affect the performance and, therefore, be very damaging. Even in the case of an acquisition where little integration of people is required, it is important to take care of them, make efforts to motivate them and create a common organizational culture as well as a shared sense of belonging.[54] In this respect, the fundamental element to take into account is the corporate culture, originated from common history and experiences and translated into values, attitudes, ways of thinking and acting. It has a profound influence on several areas, such as decision-making style, leadership style, willingness to change, the way in which people work together and perception of personal success.[55] It is shaped by the organization itself but, first of all, by the culture of the country of origin. That is why it becomes an essential assumption particularly when dealing with cross-border M&A, where cultural distance is predominant and may harm the success of the integration plan if not carefully assessed. It is a well-known fact that the more diverse the cultural background of the two enterprises is, the higher are risks.[56]

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[53] FRANKEL, *Mergers and Acquisitions Basics,* pp. 235-346

[54] Ibid., pp. 235-346

[55] Deloitte, *Cultural issues in Mergers and Acquisitions*, 2009, https://www2.deloitte.com/content/dam/Deloitte/us/Documents/mergers-acqisitions/us-ma-consulting-cultural-issues-in-ma-010710.pdf (accessed April 26, 2017)

[56] VANCEA, "Challenges and stakes", p. 169

In conclusion, when going through integration, the acquired firm should pay attention to the way it acts in relation to the acquired entity. It is during this phase that it establishes its credibility and shows its ability to manage the new situation. By implementing the integration, the acquirer has to demonstrate its commitment to the development and support of the acquired firm. In doing this, it should explain what is the role played by the acquired entity and confirm its strategic relevance in order to give it a sense of direction and infuse a revived self-esteem. In this perspective, communication is an essential instrument as it can provide a clear vision of the situation and make employees less resistant to change. Obviously, in order to be effective, words must be coherent with deeds.
Finally, apart from providing an identity and a specific role to the acquired firm in the overall strategy, the acquirer has to fulfill a number of challenging tasks, the aim of which is decisive for the success of the integration: gradually become an insider more than an invader and make the acquired company feel part of the family.[57]

2.3 Cross-border M&A: When the going gets tough

Cross-border M&As are a large component of FDI activities.[58] They are a mean often used by companies to increase their global reach and level of competitiveness since they offer several benefits like rapid access to the foreign market, achievement of scale economies, acquisition of advanced skills and technologies as well as valuable international experience, extension of brand presence and other advantages related to the specific location. Clearly, this does not come without costs. One of the major challenges posed by the international scope is nothing else than the integration process, the difficulty of which is greater compared to within-border M&As. This is mainly due to the fact that firms implementing cross-border M&As have to face the so-called "double-layered acculturation", according to which they have to contend with both corporate and national cultures.[59]

With regard to the organizational culture, it is useful to cite the process of acculturation

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[57] LASSERRE, *Global strategic management,* pp. 162-166
[58] According to the World Investment Report of 2016 provided by UNCTAD, the rebound of global FDI in 2015 has been led by a surge in cross-border M&As, the value of which increased to US$ 721 billion from US$ 432 billion in 2014.
[59] Harry G. BARKEMA, John H.J BELL, and Johannes M. PENNINGS, "Foreign entry, cultural barriers, and learning", *Strategic Management Journal*, 17, 2, 1996, pp. 151–166
Yaakov WEBER, Oded SHENKAR and Adi RAVEH, "National and Corporate Cultural Fit in Mergers/Acquisitions: An Exploratory Study", *Management Science*, 42, 8, 1996, pp. 1215-1227

developed by Berry, described as "changes induced in systems as a result of diffusion of cultural elements in both direction".[60] This process occurs at the individual and group levels in the three stages of contact, conflict and adaptation. Through it, the author provided an explanation on how societal groups adapt to each other and resolve conflicts. Although this concept was primarily developed for social and not industrial organizations, it can be applied also to the latter.[61] In particular, Nahavandi and Malekzadeh proposed a model of the acculturation process directly referred to acquisitions, suggesting that, in the case of M&A, the acculturation method is determined by the characteristics of the acquired and acquiring firms. More precisely, from the acquired firm's perspective, the preference for a specific acculturation mode is determined by the extent to which its members are willing to preserve their own culture and the degree to which they want to adopt the acquirer's culture. As concerns the acquiring firm, the preferred mode of acculturation depends on the level of multiculturalism of the enterprise. A multicultural organization, in comparison to a unicultural one, values, tolerates and encourages cultural diversity and therefore is likely to allow the acquired firm to maintain its own culture. Another variable that affects the choice of acculturation mode for the acquirer is the nature and intensity of connections between the two companies or, in other terms, the degree of relatedness of businesses. Basically, when the acquisition is made in related fields, it is more likely for the acquirer to impose its own corporate culture.[62]

The four alternatives provided are: integration, assimilation, separation and deculturation. Integration involves a reciprocal influence between the two cultures that results in a combination of the two. Through this mode, structural but not cultural assimilation is achieved, since there is no loss of cultural identity by either side. Clearly, the basic condition for the implementation of integration is the willingness on the part of the acquirer to leave the acquired firm independent. By contrast, assimilation relies on a one-way flow, more precisely the adoption by the acquired company of the acquirer's culture. This can be the case of an unsuccessful firm, in which dysfunctionalities at cultural level endanger the overall performance. Separation involves the preservation of the two cultures as well as organizational systems. In this case, the two firms keep their own, separate identities. Finally,

[60] John W. BERRY, "Acculturation: A comparative analysis of alternative forms", edited by R. J. Samuda & S. L. Woods, *Perspectives in immigrant and minority education*, Washington, University Press of America, 1983, pp.65-78

[61] Afsaneh NAHAVANDI and Ali R. MALEKZADEH, "Acculturation in Mergers and Acquisitions", *The Academy of Management Review*, 13, 1, 1988, pp.79-90

[62] Ibid., pp. 81-82

deculturation, also known as marginality, occurs when the acquired company resists the imposition of the acquirer's culture. As a result, the acquired enterprise disintegrates as a cultural entity and does not integrate in a new whole.
If both the organizations have the same preference with regard to the acculturation mode, the two firms' cultures may be made compatible and thus the post-acquisition integration can be smoothly implemented. Otherwise, disagreement about the acculturation mode may give rise to organizational resistance and acculturative stress, determined by disruptive behaviors. Incongruences that are not overcome can cause damages as the loss of key managers and employees and thus of valuable competencies.[63] In addition to it, conflicts may arise at several levels as structures and working systems (control, delegation, motivation, remuneration and so on), management styles (values and practices) or exercise of power within units (hierarchical system). All these elements greatly vary depending on the cultural context and therefore can take the form of cultural shocks.[64]

The acculturation model was developed in relation to domestic M&As. However, cross-border deals are further complicated by the existence of diverse national cultures, with their prejudices, stereotypes and nationalism that may lead to conflict. Therefore, starting from the assumption that differences among the two companies do not only come from the organization itself but are deeply rooted in the national background, it is very difficult to find a consensus on an acculturation mode, suggesting a limited applicability of the acculturation model to international acquisitions.[65]

With respect to the role of national culture in cross-border M&A, the first researcher to develop a theory about it was Hofstede, who initially elaborated four national cultural dimensions (after extended to six), namely individualism/collectivism, power distance, uncertainty avoidance and masculinity/femininity (the fifth and sixth dimensions added later are respectively long-term/short term orientation and indulgence/restraint), to explain international acquisitions' success. As defined by the author, national culture is the "collective programming of the mind that distinguishes the members of one group or category of people from another".[66] It encompasses several aspects of a society as language,

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[63] NAHAVANDI and MALEKZADEH, "Acculturation in Mergers and Acquisitions", pp.84-86
[64] VANCEA, "Challenges and stakes", pp. 175-176
[65] Daniel ROTTIG, "Successfully Managing International Mergers and Acquisitions: A Descriptive Framework", *International Business: Research Teaching and Practice,* 1, 1, 2007, p. 102
[66] Geert HOFSTEDE, *Culture's Consequences: Comparing Values, Behaviors, Institutions, and Organizations*

religion, customs and traditions as well as historical heritages. In acquisitions' perspective, it is important as it defines the perception of foreign investors by the host country and the government's preference for economic forms. Moreover, nations, by means of their institutional body, influence norms applied by acquiring firm during the post-acquisition process. Hofstede himself suggested a separation between national and organizational culture by identifying six dimensions related to the latter, including process-oriented/result-oriented, employee-oriented/job-oriented, parochial/professional, open/closed system, loose/tight control, and normative/pragmatic. This distinction reflects the different levels of culture.[67]

The presence of a double layer of culture, which translates into an increased difficulty in implementing the post-acquisition integration, is not just an explanation of why cross-border M&A may end in failure, but can also constitute the foundation for the development of strategies that curtail problems and prevent negative outcomes. In respect of the latter, it is useful to cite the "Five C's Framework" provided by Rottig. Starting from the assumption that cultural combination is a leading factor of acquisition's success, the author suggested key elements to be taken into account when implementing international M&A. The first one is cultural due diligence. Many acquirers fail to consider the cultural aspect during the pre-acquisition phase since the main focus is generally put on financial issues. However, it is fundamental to assess the cultural compatibility looking at the target company and analyzing its own organizational and national cultures. This is a valuable tool to identify and avoid potential clashes arising from cultural differences.

The second element is cross-cultural communication. The importance of communication has already been highlighted in the previous section. Clearly, when referring to cross-border acquisition, this aspect becomes even more significant. Since culturally distant organizations are generally characterized by prejudices and stereotypes about the "conqueror", it is essential for the acquiring firm to establish from the beginning an effective communication in order to prevent the upsurge of hostile behaviors as well as to overcome linguistic barriers and ethnocentric or nationalistic attitudes. Moreover, through cross-cultural communication, the acquirer is also able to eradicate workforces' uncertainties and fears related to the potential loss of job, which is a typical problem raised by M&A, and thus give voice to

Across Nations, Thousand Oaks, CA., Sage, 2001, p. 9

[67] Mehdi MAJIDI, "Cultural factors in international Mergers and Acquisitions: when and where culture matters", *International Journal of knowledge, culture and change management,* 6, 7, 2007, p. 2

personnel's concerns.

The third component of the framework is connection. This is divided into formal and informal channels of interaction between the two organizations. The organizational hierarchy defines the structural ties and allows the communication and collaboration between the managers and employees of the two firms. By contrast, relational ties fall outside the formal structure and are considered especially valuable as they promote the establishment of commonly shared values and mutual trust. To encourage the development of these connections, the acquiring firm can organize meetings, create cross-cultural teams and rotate personnel.

The last factor is control. The acquirer has to ensure that the acquired organization understand who is in control and should use a type of control that enhance the commitment and cooperation of the workforce. This means that a dominant approach is not the only solution but other types of control can be used. For example, the acquirer can create specialized task forces and cross-functional teams from both organizations, in this way promoting interaction, socialization and mutual understanding.[68]

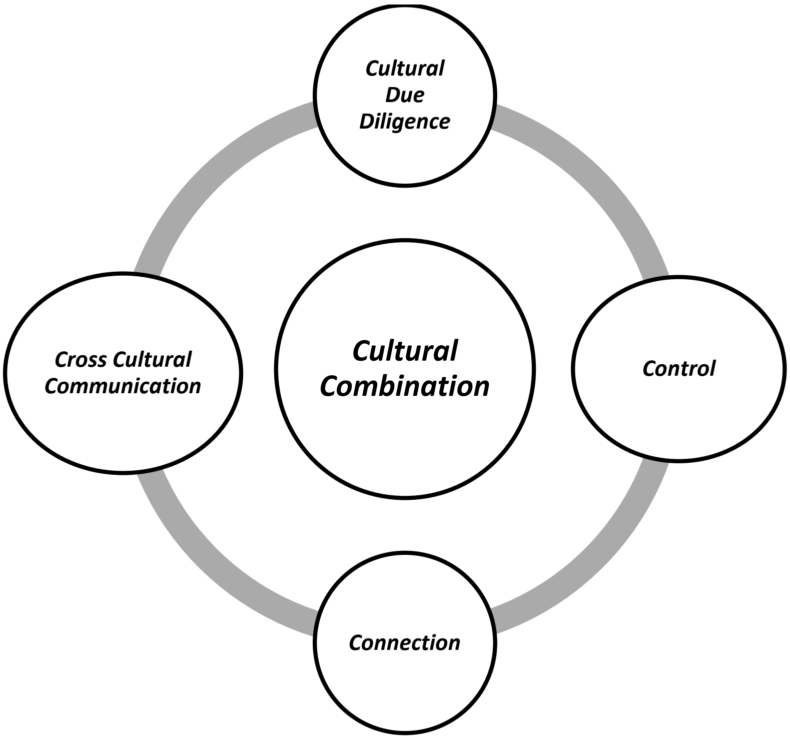

Figure 7. Source: The Five-C's Framework (Rottig)

Overall, when dealing with international M&A there is one thing that cannot be neglected but rather has to form the basis for taking action, which is cross-cultural approach. Here

[68] ROTTIG, "Successfully Managing International M&As", pp. 103-113

above, the term "cross-cultural" has been used with regard to communication and management. Yet, I suggest that it has to constitute the fundamental attitude for implementing cross-border acquisitions. More precisely, it is of the utmost importance to train a managerial body able to handle difficult situations as those which imply a great cultural distance. Thus, open-mindedness and cultural sensibility become key words. If the acquirer wants to successfully implement the post-acquisition integration, it needs to act, but above all think "cross-culturally". In this regard, there is a term which sums up fairly well the concept, namely cultural intelligence. This characteristic refers to individuals' capacity to adapt across cultures and to perceive the different cues concerning appropriate behaviors across cultural settings.[69] In a context where cultural differences are magnified, it is fundamental to be able to acknowledge and manage diversity. As can be deduced, everything starts from knowledge: without knowing the cultural background of the acquired firm it is not possible to handle it. Therefore, before implementing any projects or making any decisions, it is necessary to have at least an idea of the differences and commonalities between the two organizations. In this way, the acquiring entity can understand if the usual way of doing things fits or if changes are needed. In the latter case, it will redesign the organizational structure, human resources programs and practices.

If one considers the brief digression here above, it becomes clear how crucial culture is in the success of M&A operations, in particular when dealing with cross-border transactions. Before concentrating on the operational side, the acquiring company has to focus on a comprehensive assessment of the acquired entity's culture, both at national and organizational levels (more precisely involving aspects as systems and processes, structure and governance, leadership, customers and so on). By doing this kind of analysis, it can gradually learn to look the world differently and successfully adapt to the new situation. This point leads directly to a final consideration: integration is not a matter of speaking exactly the same language but can rather be regarded as the art of finding the right way to effectively communicate.

[69] Andrea PONTIGGIA, ed., *International Organizational Design and Human Resources Management to China,* MacGraw-Hill Education, 2016, p. 60

Chapter three: The Case of Inter- the Golden Road to Europe

3.1 Chinese M&A and football: A general picture

As already seen in the first chapter, Chinese M&As have gained momentum since the proclamation of the "go global" strategy in 2001. Thanks to a greater confidence in taking part to the global economy, many Chinese enterprises started their paths toward internationalization and, over the last years, their presence around the world have greatly expanded. In almost two decades, Chinese outbound M&A activity has increased not only in pace and deal size, in this sense hitting records both in 2015 and 2016, but also with respect to their targets. If the first Chinese overseas deals were mainly driven by the hunt for raw materials to support the domestic production and to provide much-needed natural resources, nowadays technologies and brands are more likely to feed Chinese investors' appetites. A shift that follows China's transition from an export-driven manufacturing economy to one driven by domestic consumption (enhanced by a rising middle class), technology and advanced industrial know-how.[1] Thus, the major part of Chinese M&A is now targeting Western firms, imbued with precious knowledge, groundbreaking techniques and strong brand equity. The sectors most involved are those of technology, energy and consumer.[2] Recently, a new target sector turns out to be one of the most attractive to Chinese investors, which is nothing else than football. In the past three years, China invested in sixteen football clubs, making it possible to talk about an upsurge of acquisitions in the football field. Important European clubs, as the English Premier League, the Spanish La liga, the French Ligue 1, the German Bundesliga and the Italian Serie A, known as the "Big Five", have all a Chinese component.[3] Concerning England, a big transaction which is worth mentioning is that of Manchester City F.C., whose 13 percent stake was purchased by China Media Capital and CITIC Capital in 2015.[4] Another highly valued acquisition, dated back to June 2016, is that of the Premier League's club Aston Villa, bought for US$ 88 million by the Chinese tycoon Tony Jiantong Xia, chairman of Recon Group. Always with regard to England, also Wolverhampton Wanderers, West Bromwich Albion and Birmingham City

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[1] J.P. Morgan, *China's increasing outbound M&A*
[2] Ibid.
[3] *3年收购15家海外足球俱乐部：中国富豪为何爱上"赔钱货"*， "Renmin.cn 人民网"， August 23, 2016, http://world.people.com.cn/n1/2016/0823/c1002-28656918.html (accessed May 19, 2017)
[4] Josh NOBLE, *Manchester City: Chinese investors pay $400m for 13% stake*, "Financial Times", December 1, 2015 https://www.ft.com/content/feb69226-9803-11e5-95c7-d47aa298f769 (accessed May 19, 2017)

have all already gone into Chinese ownership.[5] Finally, the English Football League have recently approved the takeover of Reading F.C.by Dai Yongge and sister Hawken Xiu Li, who had previously attempted to acquire the Premier League club Hull City. Unfortunately, that time they failed to conclude the transaction due to Premier League's concerns on the Chinese family sources of funding. In comparison to the first tentative to acquire a football club, in the second one things went more smoothly and the Chinese investors were finally able to get the go-ahead.[6] As for Spain, one of the most significant deal was concluded in 2014, when Wang Jianli, owner of Dalian Wanda Group, purchased 20 percent stake of the Spanish club Atletico Madrid. (One year later, the same Chinese company acquired Infront Sports & Media, the Swiss sports group that manages the rights of Series A. In 2016, it became Fifa's sixth sponsor, together with international brands like Adidas, Coca Cola, Gazprom, Hyundai and Visa). Always Chinese are the investors of two other Spanish clubs, namely Granada, whose owner is Desport since 2016, and Espanyol, where Rastar Group holds 45 percent stake. In France, Chinese companies invested in Auxerre, Lyon, Nice and Sochaux. In particular, only this last is wholly owned by the Chinese Tech Pro Technology Development, while the first three football clubs just involve a partial control. Recently, China's interests also shifted towards Italy. In June 2016, Suning bought F.C Internazionale while, almost one year later, a Chinese consortium purchased AC Milan, thus ending a year-long deal.[7] Finally, with regard to Germany, Fosun group (owner of the aforementioned Wolverhampton Wanderers) has approached several Bundesliga clubs, as Werder Bremen, Borussia Dortmund, Hertha BSC, VfL Wolfsburg, Hamburger SV and Borussia Mönchengladbach. If Fosun concludes a deal with one among them, it will become the first Chinese investor in the Bundesliga and, in this way, overcome the protectionist law 50+1 that blocks foreign takeovers.[8]

Actually, China's acquisitions in European football clubs are not just concentrated in the Big

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[5] Sam WALLACE, *Great haul of China is changing European football and up to 30 more billionaires are looking to invest in clubs*, "The Telegraph", September 7, 2016 http://www.telegraph.co.uk/football/2016/09/07/great-haul-of-china-is-changing-european-football-and-up-to-30-m/ (accessed May 19, 2017)

[6] Murad AHMED and Ben BLAND, *Red flags were raised over Reading FC' Chinese suitors,* April 21, 2017 https://www.ft.com/content/681342ec-251f-11e7-8691-d5f7e0cd0a16 (accessed May 19, 2017)

[7] *Calcio, la mappa della presenza cinese in Europa*, "Il Sole 24 Ore", August 21, 2016 http://www.infodata.ilsole24ore.com/2016/08/21/calcio-la-mappa-della-presenza-cinese-in-europa/ (accessed May 11, 2017)

China invests big in European football clubs, "ABS-CBN News", April 14, 2017 http://news.abs-cbn.com/sports/04/13/17/china-invests-big-in-european-football-clubs (accessed May 11, 2017)

[8] Thomas STEINMANN, *Fosun Interessiert sich für Deutshe clubs*, "Capital", March 23, 2017 http://www.capital.de/dasmagazin/fussball-bundesliga-finanzinvestor-fosun-sondiert-einstieg-8654.html (accessed May 19, 2017)

Five. This is shown by the purchase, in 2014, of the Dutch football club Ado Den Haag by United Vansen International Sports and that of the Czech soccer team Slavia Prague by Cefc China Energy Company the following year.[9]

As can be seen by the list here above provided, China has already invested a lot in European football and, over the past few years, managed to get into some of the most prestigious clubs in the Old Continent. It has been highlighted how this phenomenon is the proof of the extension of Chinese overseas investments, which nowadays encompass several sectors. More than that, it also testifies the great expansion and upsurge of the Chinese sport industry, and especially of the football one. Thus, having ascertained these points, it is time to go deeper into the matter to uncover the motivations behind Chinese shopping in European football market. As is often the case of China, economic drivers go hand in hand with political aims. The M&A activities targeting the world of football are no exception in this respect. With the analysis hereinafter provided, it becomes clear that, besides the self-evident aims, there are other factors at play, strictly related to the Chinese economic and political background. This means that, if we want to understand the origin of the trend, we cannot but take into consideration the recent Chinese economic development and, above all, the regulatory regime issued during last years in relation to football.

With regard to the economic side, this kind of acquisitions can be, first of all, interpreted as a tentative to diversify. China has entered the so-called "new normal", which means that it is no longer typified by the impressive double-digit growth. Thus, the slowdown that has recently affected Chinese economy is yielding the first results since traditional sectors like real estate and steel are not doing well. Hence the need for restructuring economy by finding new growth opportunities and for expanding the portfolio by addressing investments to other sectors as sports. Actually, given its potential, sports has been chosen as one of the new areas of economic development.[10] However, concerning football, it should be noted that it is not exactly a guaranteed source of income. Many football clubs, as Inter and Milan but also those of the English Premier League, considered among the richest in the world, are deeply in debt and only some of them are consistently profitable. In general, the three main sources of profit for a football club are the match day income, media rights receipts and commercial

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[9] *Calcio, la mappa della presenza cinese in Europa*

[10] *China football clubs told to rein in spending*, "Financial Times", January 10, 2017 http://podcast.ft.com/2017/01/10/china-football-clubs-told-to-rein-in-spending/ (accessed May 9, 2017)

revenues (including sponsorship, product sales and so on). According to Deloitte data on Football Finance, while in 2016 England, Germany and Spain recorded operating profits, France and Italy still made losses, due, in the Italian case, to high dependence on TV broadcast copyrights and increased wage costs.[11] Thus, from an economic point of view, this type of acquisitions is not just motivated by profit itself but rather by marketing reasons. Thanks to football's international exposure and prestige, it is possible for those Chinese companies investing in clubs to get access to the global market. In other words, these investments that, from the economic return perspective, can be labeled as a "bottomless hole", in marketing terms are nothing else than a "gold mine".[12]

To explain the rationale underlying Chinese acquisitions of football clubs the economic driver is not sufficient. As anticipated, in China economy and politics are intertwined and therefore when assessing a complex and sensitive issue as outbound M&A it is fundamental to consider both and, in particular, understand the way and extent to which the State is involved. The first chapter emphasized that Chinese government is deeply engaged in economic-related issues. By means of policies and regulations, it guides the economic development and influences the final outcomes. Whatever is the matter concerned, the government has always the final say. Therefore, it is not difficult to envisage the political leverage in outbound investments, in this specific case targeted at the football world.[13]

To find the connection between the Chinese State and football it is necessary to go back just a few years and take a closer look at Xi Jinping's policies. The president has never hidden his fondness for this sport, a fact which is synthetized by his three wishes expressed in 2011, when he was still vice-president, after a meeting with Sohn Hak-kyu, South Korea's main opposition Democratic Party leader. They are respectively to qualify for, host and finally win a World Cup.[14]

At that time, the level of Chinese football was very low: just think that China qualified for the World Cup once, in 2002, but failed to score. Moreover, the woeful performances on the

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[11] Deloitte, *Annual Review of Football Finance 2016,* June 2016, https://www2.deloitte.com/uk/en/pages/sports-business-group/articles/annual-review-of-football-finance.html (accessed May 10, 2017)

[12] *3年收购15家海外足球俱乐部*

[13] Liu SHA, *Why Chinese companies are investing in football clubs overseas*, "CKGSB Knowledge", September 26, 2016 http://knowledge.ckgsb.edu.cn/2016/09/26/sports/chinese-companies-investing-football-clubs/ (accessed May 8, 2017)

[14] *习近平对中国足球三大愿望*, "Xinhua net", July 6, 2011, http://www.js.xinhuanet.com/xin_wen_zhong_xin/2011-07/06/content_23174284.htm (accessed May 8, 2017)

pitch were mired by a number of corruption scandals off it.[15] However, after Xi Jinping's appointment as president in 2013, things started to change. Almost one year later, in November 27, it was announced that football should become a compulsory part of the national curriculum at schools. Actually, the main idea under such a provision was that the improvement of football should "start with children". In this regard, specific goals were set as the construction of new pitches and training facilities in 20,000 schools by 2017 and the inclusion of football as an option in national university-entrance exam in 2016.[16] This framework has been further delineated in 2015 when the General Office of the State Council published the "Overall Plan to boost the Reform and Development of Soccer in China" (in Chinese *guowuyuan bangongting guanyu yinfa zhongguo zuqiu gaige kaizhan zongti fang'an de tongzhi* 国务院办公厅关于印发中国足球改革发展总体方案的通知). According to it, football is seen as having a "great social impact" and "is loved by the great masses". Therefore, football development and regeneration is considered to be of the utmost importance since it "will improve the physical condition of Chinese people, enrich cultural life, promote the spirit of patriotism and collectivism, cultivate sports culture, and develop the sports industry".[17] To reach the goal, a number of changes must be made: reform the structure and management model of professional football clubs, improve the football competition and professional league systems, promote widening participation, raise awareness of health benefits, strengthen the construction of football pitches and optimize investment mechanisms. Overall, the final purpose of this transformation is, from a short-term point of view, to improve the environment and atmosphere for the development of football as well as of the football education across the country. In the long-term horizon, this should translate into the participation of Chinese football to the global competition. Thus, the government set the following targets: increase the number of school specialized in football to 20,000 by 2020 and 50,000 by 2025. Moreover, the number of part-time and full-time football coaches should reach 50,000 by 2020. Finally, China aims to create a sports industry worth US$ 850 billion by 2025.[18]

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[15] James MONTAGUE and Jaime FLORCRUZ , *China crisis: Soccer rocked by corruption scandals*, "CNN", May 24, 2010 http://edition.cnn.com/2010/SPORT/football/05/11/football.china.corruption.scandal/ (accessed May 10, 2017)

[16] *The party's goal*, "The Economist", December 11, 2014 http://www.economist.com/news/china/21636097-football-long-national-shame-becomes-compulsory-school-partys-goal (accessed May 8, 2017)

[17] Cameron WILSON, *Read Chinese Football's 50-point reform plan in full-exclusive translation,* "Wild East football", February 22, 2016 https://wildeastfootball.net/2016/02/read-chinese-footballs-50-point-reform-plan-in-full-exclusive-translation/ (accessed May 8, 2017)

[18] The State Council, *国务院办公厅关于印发中国足球改革发展总体方案的通知*, March 8, 2016 http://www.gov.cn/zhengce/content/2015-03/16/content_9537.htm (accessed May 8, 2017)

In such a perspective, soccer acquires a fundamental role in the realization of a powerful sports nation, one of the core elements of the so-called “Chinese dream” (in Chinese *zhongguo meng* 中国梦) promoted by Xi Jinping himself. In football terms, the Chinese dream, expressed by the willingness to revive after a century of humiliation, is that of winning over the traditional football powers, which have their origin in Europe.[19]
Actually, becoming a world football superpower, thus showing the national strength, is the goal set by the “Chinese Football Medium Long-term Development Plan (2016-2025)” (in Chinese *zhongguo zuqiu zhong changqi fazhan guihua (2016/2050 nian)* 中国足球中长期发展规划（2016/2050年）), published by the Chinese Football Association. According to the report, since “China is experiencing the critical phase of building a well-off society, the revitalization and development of football is a fervent hope as it deals with the physical and mental health of masses and the cultivation of a fine culture. It has also a significant meaning with regard to the establishment of sports power, promotion of the socio-economic development and realization of the Chinese dream represented by the great rejuvenation of the Chinese nation”.[20] The plan states that there should be one football pitch for every 10,000 people by 2030. In addition, the men’s football team should become one of the best in Asia, while the female team should be classified as world-class always by 2030. Finally, the long-term objective for 2050 is to make China a top-class football powerhouse, contributing to the international football.[21] An ambitious project, considering that nowadays it is ranked 81st by FIFA.[22]

These policies have provided the background to the boost of Chinese outbound investment in the football field. Given the lack of a mature system, technical competencies and managerial skills necessary to upgrade football inside the country, the acquisition of foreign

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[19] Emma LUPANO, *Calcio in Cina, la rinascita nazionale nel <sette>,* “Il Manifesto”, March 31, 2017, https://ilmanifesto.it/calcio-in-cina-la-rinascita-nazionale-nel-sette/ (accessed May 8, 2017)

[20] Chinese Football Association, *关于印发中国足球中长期发展规划（2016—2050年）的通知*, April 11, 2016 http://www.fa.org.cn/bulletin/zcfg/2016-04-11/496626.html (accessed May 8, 2017). “[…] 当前，我国正处于全面建成小康社会的关键时期，振兴和发展足球是全国人民的热切期盼，关系到群众身心健康和优秀文化培育，对于建设体育强国、促进经济社会发展、实现中华民族伟大复兴的中国梦具有重要意义 […]”.

[21] Ibid.
Cina: piano trentennale per diventare una superpotenza del calcio, “Il Sole 24 Ore”, April 11, 2016 http://www.ilsole24ore.com/art/mondo/2016-04-11/cina-piano-30-anni--diventare-superpotenza-calcio--162339_PRV.shtml?uuid=ACykJN5C (accessed May 8, 2017)

[22] FIFA, *FIFA/Coca Cola World Ranking*, http://www.fifa.com/fifa-world-ranking/associations/association=chn/men/index.html (accessed May 11, 2017)

clubs with a long history and a strong reputation became a priority.[23] As mentioned earlier, since 2014, many M&As have targeted European soccer clubs, following the issue of governmental plans openly encouraging the development of this sport. In particular, Suning's purchase of Inter, which will be hereinafter examined, fits perfectly well within this supportive framework and, therefore, can be looked at as a significant example.[24] Overall, the great increase of this kind of acquisitions is strictly related to the government's plan. As a matter of fact, both the government and firms can benefit from these transactions: if, from one side, they offer the State the opportunities to implement its strategy and pursue the strongly desired football development, from the other side, they are an excellent chance for enterprises to strengthen the connection with government, a fundamental aspect in China as underlined many times. In general, Chinese companies "find it wise to be publicly seen supporting State policy".[25] Therefore, it is no coincidence that several Chinese businessmen, after having completed important deals, told that through them it was possible to acquire valuable knowledge and thus enhance Chinese football.[26] As will be seen, this was also the case of Suning Chairman Zhang Jindong. Like he said, Inter's acquisition was not only driven by the necessity of improving the international economic performance and reputation of Suning. It covered also a wider strategy, aimed at enhancing the national football as well as the cohesion of the whole society.[27]

This argument is also sustained by Professor Simon Chadwick of the University of Salford, expert in soft power and geopolitics of sport in Asia. According to him, football is a tool used both internationally and in the domestic realm that allows companies to play a "political game". In this respect, he cited the example of Evergrande, one of the biggest real estate group in China, which purchased the Guangzhou Football Club in 2010 (since referred to as Guangzhou Evergrande). More precisely, he explained that "Evergrande's business is real estate […] and to be able to acquire the right to build on that land and get planning permission, they require the support of the State. So, […] Evergrande is more likely to be given the right to build if they are supporting the football vision".[28] Therefore, behind these investments,

[23] NIE Pin 聂品，*海外并购监管趋严 足球俱乐部资产或首当其冲*, "中国证券网 cnstock.com"， March 21, 2017 http://company.cnstock.com/company/scp_gsxw/201703/4052054.htm (accessed May 20, 2017)
[24] *体育产业已成资本市场绝对"风口"*, "新华网 Xinhua net", June 7, 2016 http://news.xinhuanet.com/fortune/2016-06/07/c_129045538.htm (accessed May 20, 2017)
[25] SHA, "Why Chinese companies are investing in football clubs overseas"
[26] Ibid.
[27] *苏宁收购国际米兰 70% 股份*, "新京报 The Beijing News", June 7, 2016 http://epaper.bjnews.com.cn/html/2016-06/07/content_638701.htm?div=0 (accessed May 8, 2017)
[28] Tom RODDY, *The hard cash and soft power driving China's footballing ambitions*, "Newsweek", March 16, 2017 http://www.newsweek.com/sport-chinese-super-league-president-xi-jinping-568441 (accessed May 9,

that usually imply a considerable burden in terms of costs, there may be an ulterior motive, namely the hope for a better return concerning *guanxi* with the government.
It has already been emphasized in the first chapter the importance given by the government to building national champions, which in some way expresses Chinese need for dominating and being successful in everything it does. In addition, this chapter further underlined that, under President Xi Jinping's leadership, the Chinese Communist Party clearly issued a new national target: improve the level of Chinese football. With this in mind, the recent cross-border acquisition activity in football area can be viewed as a way to achieve visibility in the eyes of the omnipresent (and omnipotent) Chinese government.

The claim that China investment on football is not just an end in itself but a means to some other ends is proved by the fact that every acquisition in the European football clubs has precise motivations, including strengthening the relationships with the State at issue or gaining knowledge for developing football industry, as already seen. In the practice, the argument is, for instance, supported by China Media Capital and Citic Capital's acquisition of 13 percent stake in Manchester City, whose majority owners are from Abu Dhabi. This transaction seems to be strictly connected to mineral interests. Actually, in 2014, a year before concluding the football deal, China made an agreement with Abu Dhabi concerning oil and gas exploration rights. In such a perspective, football is used for diplomatic reasons.[29]

The "internationalization" of Chinese football which is, by the way, promoted by the 2016-2050 Plan cited above, does not end with those big acquisitions which recently hit the worldwide headlines. It encompasses also the engagement of foreign players and coaches for huge amounts of money.[30] The aim is in line with the government's strategy to learn from the experience of developed countries, acquire their competences and technical skills. More precisely, by purchasing soccer stars it is possible to increase the level on the pitches of the Chinese Super League, while by hiring well-experienced European coaches training techniques can be introduced. As concerns the purchase of foreign players, the situation has

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Simon CHADWICK, *Xi Jinping's vision for Chinese football*, "China Policy Institute: Analysis", November 7, 2016 https://cpianalysis.org/2016/11/07/xi-jinpings-vision-for-chinese-football/ (accessed May 9, 2017)
[29] Simon CHADWICK, *How One Belt One Road is guiding China's football strategy*, "South China Morning Post" November 10, 2016 http://www.scmp.com/sport/soccer/article/2044812/how-one-belt-one-road-guiding-chinas-football-strategy (accessed May 10, 2017)
[30] Ben BLAND, *Chinese football: More than a game*, "Financial Times", March 27, 2016 https://www.ft.com/content/3a4b5e92-e5e4-11e5-bc31-138df2ae9ee6 (accessed May 20, 2017)

changed in recent years: if, at the beginning, only big players at the end of their careers went to China, nowadays also promising players from Serie A or other premier divisions in the middle of their career path are transferred to Chinese football teams.[31] Examples of this trend are the 26-year-old Alex Teixeira, coming from Shakhtar Donetsk to Jiangsu Suning, or the 25-year-old Oscar, purchased by Shanghai SIPG.

Chinese football clubs have always spent lots of money to hire these European top stars. However, recently, things seem to have gotten out of hand. In 2016, almost US$ 450 million have been spent for transfer fees, in this way classifying only behind four of the traditional Big Five, namely England, Germany, Spain, and Italy. In terms of spending, China thus went from ranking 20th worldwide in 2013 to ranking 5th in 2016.[32] Among the latest, biggest deals, Shanghai SIPG bought the Brazilian midfielder Oscar from Chelsea for US$ 63 million, and Shanghai Greenland Shenhua signed a contract with the Argentine Carlos Tevez, former striker of Manchester City and Manchester United, for more than US$ 20 million per season.[33] In the past, huge amounts as the aforementioned were pretty unknown in China. Thus, following these high profile signings aimed at enlisting top foreign stars, last January the General Administration of Sport decided to take action against clubs "high-priced signings" (in Chinese *gaojia yin yuan* 高价引援) and foreign players "excessive salaries" (in Chinese *guogao shouru* 过高收入). As declared by the administrator, "A cap on players' salaries and transfer fees will be established to control irrational investment" (in Chinese *shezhi julebu goumai qiuyuan ji qiuyuan gongzi zijin zhichu shangxian, yizhi fei lixing touru* 设置俱乐部购买球员及球员工资资金支出上限，抑制非理性投入).[34] Therefore, clubs with exceeding liabilities in comparison to their assets will be banned from professional competition and irregularly signing fees and under-the-table contracts will be severely punished.

This announcement in some way reflects that one made at the end of 2016 by the main four Chinese agencies (namely NDRC, MOFCOM, SAFE and PBC), trying to monitor "irrational" overseas investment. The incredible upsurge which has particularly affected the world of

[31] Matteo SPAZIANTE, *Pioggia di yuan sul calcio: l'Europa scopre la Cina, nuova frontiera del mercato*, "Calcio e Finanza", February 12, 2016 http://www.calcioefinanza.it/2016/02/12/cina-calcio-mercato-yuan-europa/ (accessed May 10, 2017)
[32] FIFA, *Global Transfer Market Report 2017*, https://www.fifatms.com/data-reports/reports/ (accessed May 10, 2017)
[33] *Tevez agrees to join China club Shanghai Shenhua*, "Reuters", December 29, 2016 http://in.reuters.com/article/soccer-china-tevez-idINKBN14I094 (accessed May 10, 2017)
[34] General Administration of Sport of China, *国家体育总局新闻发言人就足球相关问题答记者问*, January 5, 2017 http://www.sport.gov.cn/n323/n11056/c784273/content.html (accessed May 9, 2017)

football did not go unnoticed, but rather it attracted the attention of authorities who intervened to curb record-breaking capital outflow taking the form of M&As as well as high-priced signings.[35]

Changes were therefore implemented in both directions. As concerns outbound M&As, those targeting football clubs started to encounter greater obstacles. An example of this trend is provided by the acquisition of AC Milan, which requested a long period of time. Among the factors which delayed the deal closing, there was also the restrictive policy enhanced by Beijing. As stated by the head of SAFE Pan Gongsheng during the recent China Development Forum, "Overseas mergers and acquisitions can sometimes resemble a rose with thorns, you must be careful and you must do your due diligence". With regard to football itself he claimed that "Last year Chinese firms bought lots of football clubs overseas. If these purchases help improve the standard of Chinese football, then I think that's a good thing".[36] Considering the close attention paid to sports-related M&A, cited among the "irrational investments" that the government is willing to control, the closing of the AC Milan's sale has been much decelerated. To this, should also be added the fact that this transaction was not so welcomed by Chinese authorities as it was that of Suning-Inter because Yonghong Li, the leader of the Chinese consortium eager to buy Milan, has a bad reputation in China. Capital restrictions together with poor relations with the government thus prevented a smooth negotiation process.[37]

With regard to the spending spree, in accordance with the objective of slowing down high-priced signings in Europe, the Chinese Football Association published a statement which regulates some rules as the one concerning the number of overseas players, now set at three per game. Previously, the rule was "4+1", meaning four players of any nationalities plus one

[35] Tom HANCOCK, *China vows to curb record spending on football transfers*, "Financial Times", January 5, 2017 https://www.ft.com/content/7ad5bb4c-d332-11e6-9341-7393bb2e1b51 (accessed May 9, 2017)

[36] Rita FATIGUSO, *Cina, troppe aziende indebitate per comprare squadre di calico straniere*, "Il Sole 24 Ore", March 20, 2017 http://www.ilsole24ore.com/art/mondo/2017-03-20/cina-troppe-aziende-indebitate-comprare-squadre-calcio-straniere-093353_PRV.shtml?uuid=AEfrGkp (accessed May 9, 2017)
China FX head says overseas M&A like 'a rose with thorns': paper, "Reuters", March 19, 2017 http://www.reuters.com/article/us-china-economy-odi-idUSKBN16R05J (accessed May 9, 2017)

[37] Marcello FURGIUELE, *Will China's capital controls jeopardize Milan sale?*, "Calcio e Finanza", March 16, 2017 http://en.calcioefinanza.com/2017/03/16/will-chinas-capital-controls-jeopardize-milan-sale/ (accessed May 20, 2017)
Marco BELLINAZZO, *Milan, è caos closing: le tre possibili conclusioni*, "Il Sole 24 Ore", March 4, 2017 http://www.ilsole24ore.com/art/notizie/2017-03-04/milan-e-caos-closing-tre-possibili-conclusioni--105414.shtml?uuid=AE1uwwh (accessed April 5, 2017)
LIU Wu 刘武, *AC 米兰的神秘买家*, "中国证券网 cnstock.com", November 23, 2016 http://news.cnstock.com/industry,cyqb-201611-3957988.htm (accessed May 20, 2017)

Asian player in a match day team. Moreover, always according to the statement, it should be enlisted at least two Chinese players aged under 23, one of whom must be part of the starting lineup. While giving precise guidelines, the notice further stated the necessity to introduce a series of measures to regulate the management of football club, following "irrational investments" (in Chinese *fei lixing touzi* 非理性投资) as well as "high amounts paid for transfer fees of domestic and international players and players' salaries" (in Chinese *gao'e zhifu guonei*、*guoji qiuyuan zhuanhuifei he qiuyuan xinchou* 高额支付国内、国际球员转会费和球员薪酬).[38] Clearly, the hope is for cultivating grassroots players more than just going on hiring top stars from the outside. Indeed, enlisting foreign footballers should help developing Chinese young players.

The political push toward the development of football is extremely strong and it is undoubtedly a major contributor to the overseas acquisitions as well as domestic investments made by Chinese companies. President Xi Jinping encouragement has been observed: the efforts of those investing in Chinese football today will be repaid in the future, when China will finally host the World Cup.[39] In relation to the political sphere and its profound influence, there is another consideration which is worth mentioning and which in some way summarizes what has been discussed above. Through football, China has a chance to improve its soft power[40] (in Chinese *ruanshili* 软实力), which substantially addresses to a positive international reputation and cultural significance. Elements yet lacking in China but that strongly matter, especially considering its intention to become a superpower from the economic to the cultural point of view.[41]

Football is the most popular and most watched sport in the whole world. To understand the potential reach of this game, just think that, in 2014, more than 3 billion viewers watched the World Cup held in Brazil. As a vehicle of soft power, football has many strengths: it has a global resonance as illustrated by the numbers offered here above; its "international nature" does not require any specific communication skills but rather overcome any cultural barrier

[38] Chinese Football Association, *中国足协将对中超中甲联赛部分相关规程内容进行调整*, January 16, 2017 http://www.fa.org.cn/news/cls/2017-01-16/516234.html?spm=0.0.0.0.hSAem0 (accessed May 9, 2017)
[39] Giovanni BATTISTUZZI, *Il calcio di Xi Jinping*, "Il Foglio", January 7, 2017 http://www.ilfoglio.it/sport/2017/01/06/news/il-calcio-di-xi-jinping-113863/ (accessed May 9, 2017)
[40] As defined by Joseph Nye, who first coined the term, soft power is "the ability to get what you want through attraction rather than coercion or payment". It included means like "culture, values and foreign policies". (Joseph S. NYE, Jr., *Soft Power: The Means to Success in World Politics*, New York, Public Affairs, 2004)
[41] David SHAMBAUGH, *China's soft power push*, "Foreign Affairs", July/August 2015, https://www.foreignaffairs.com/articles/china/2015-06-16/china-s-soft-power-push (accessed May 9, 2017)

by bringing together different nationalities, both on and off the pitch. Moreover, the message it conveys is not connected to the political realm but it is an end in itself, related only to the sport's world. China can benefit from this, as it can avoid the frequent accusations of interference in matters which are outside the scope of politics.[42]

To use an expression of The Economist, "China is spending billions to make the world love it"[43] and this is particularly true in the case of football industry, which is considered as the new "soft power" of China. In this light, some transactions as that of MP & Silva media group and the interests in Stellar Group, one of the world's leading soccer agencies, recently shown also by Suning, acquire a significant meaning. They are another sign of China's intent to expand in global soccer, going from football club ownership to sponsorship and sports media rights. It started with sports, and more precisely football, but now needs advertising channels in order to promote the development of football itself and, more than that, to show its strength to the world. Advertising is important, but it is the way and what is advertised that constitute the fundamental points. Therefore, China is willing to use the fascination of football, its prestige as well as impact in the fields of sport and trade to "attract" the global audience.[44]

The process which will take to the demonstration of some form of soft power by means of football is long and difficult. Nevertheless, there are good basis, at least inside the country. First of all, the government's support, as already mentioned several times, is of the utmost importance. Without it, it is quite impossible for any industry to succeed and prosper. Then, the State's positive attitude is accompanied by the increased popularity that football is gaining in the country. It is an established fact that China is full of football supporters but short of top players. The policies issued by the government, as the 50-point program announced in 2015 and the long-term plan for 2016-2050 directly addressed this point. As a result of the efforts to improve football's status, the involvement of Chinese citizens in the game is showing a marked rise. It may be that, in the not too distant future, China will have its football national champions of the highest caliber as the well-known basketball star Yao

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[42] Aédán MORDECAI, *Is football the key to China's soft power push?,* "The Diplomat", May 5, 2016 http://thediplomat.com/2016/05/is-football-the-key-to-chinas-soft-power-push/ (accessed May 9, 2017)

[43] *China is spending billions to make the world love it*, "The Economist", March 23, 2017 http://www.economist.com/news/china/21719508-can-money-buy-sort-thing-china-spending-billions-make-world-love-it (accessed May 10, 2017)

[44] *足球资产是中国新的"软实力"*, "俄罗斯卫星通讯社 Sputnik", May 28, 2016 http://sputniknews.cn/opinion/201605281019454673/ (accessed May 10, 2017)

Ming.[45] Even if the gap with Europe is big, China is following a multi-track approach to fill it: regulations, overseas acquisitions, players' purchase and coaches' recruitment are the most evident aspects. Whether this strategy will be successful or not, it is necessary to wait for the future outcomes.

Overall, the financial weakness of European football clubs together with the Chinese government support have helped create the best conditions for Chinese overseas investments as well as football expansion within the national boundaries. China's recent operations in the world of football and, more precisely, overseas investments in football clubs can be interpreted as a vehicle necessary to achieve other objectives: the access to foreign market, the favorable look of authorities, the promotion of China's soft power. But, that being said, these aspects must be further assessed. From one side, establish commercial channels through cross-border acquisitions may prove to be the easy part thanks to Chinese businessmen deep pockets and their strong desire to attain a world-wide recognition. On the other side, increase China's worldwide influence through football will quite certainly be a difficult challenge. This point is actually complicated by the necessity to focus on the construction of a real "football culture" and attachment inside the country before looking outside. To become a soft power symbol, China need first to concentrate on football internal development, which means both fostering homegrown talents by changing the attitude toward this sport and attracting a great deal of fans, these being two core elements for the success of a football club.
No matter how hard it is, China is making every effort to realize its dream: recover from the humiliation of the past and add soccer to the country's modern sporting brilliant record, in this way translating it from a shameful blot to a source of national pride. A step in this direction has already been taken by Suning with the acquisition of F.C. Internazionale.

[45] MORDECAI, *Is football the key to China's soft power push?*

3.2 Let's ring up the curtain: The Actors

3.2.1 F.C. INTERNAZIONALE

"Nascerà qui al ristorante "L'orologio", ritrovo di artisti, e sarà per sempre una squadra di grande talento. Questa notte splendida darà i colori al nostro stemma: il nero e l'azzurro sullo sfondo d'oro delle stelle. Si chiamerà Internazionale, perché noi siamo fratelli del mondo."

[Milano, 9 marzo 1908][46]

The story of Inter started in 1908, when the Italian football club was established under the name of "Football Club Internazionale Milano" (abbreviated as "Inter", called in Chinese *guoji milan* 国际米兰). Its founding is dated back to a period in which football was at an embryonic stage and soccer teams had only just begun to bloom. Nevertheless, it represents an interesting case, as everything started with a separation from an already existing team, "Milan Football Cricket Club" (full name of "Milan", in Chinese *AC milan* AC 米兰). The motive of the break-up is to be found in the discussion about foreign players which, at that time, resulted in two different lines of thought: according to one side, it was necessary to implement nationalistic policies, without making foreigners join the football team. On the other side, it was underlined the importance of a foreign component inside the society. Therefore, shortly afterwards, more than forty dissident partners of Milan, those belonging to the faction that supported the "internationalization" of the soccer team, decided to establish a new football club. That is how the story of Inter began. Giorgio Muggiani, a futurist painter and member of the newly-established football club, was given the fundamental task to design the logo. Taking inspiration from the colors of the night, he drew the golden acronym FCIM inside two circles, one blue and the other black: the stars and the sky was thus reflected in the team crest.[47]

Since then, Inter had good and bad moments, ups and downs. Only two years after its foundation, it gained its first scudetto, while the first Coppa Italia trophy came at the end of 1930s, the period which saw one of Inter's best players ever, Giuseppe Meazza. He is still nowadays Inter's leading goal scorer, and the stadium is named in his memory. Overall, in more than a century, Inter gained great victories but also suffered crushing defeats. Among the honours received, there are 18 Italian league titles, 7 Coppa Italia, 5 Italian Super Cups,

[46] Matteo ARRIGONI and Tommaso POZZA, *La storia dell'Inter,* Good Mood, 2012

[47] Maurizio PINOLI, *La nascita dell'Inter e il primo scudetto (1908-1919),* https://www.bauscia.it/storia-inter/inter-le-origini-e-il-primo-scudetto-1908-1919/ (accessed April 28, 2017)

1 UEFA Champions League, 3 UEFA Cups, 2 European Cups (the ancestor of UEFA Champions League), 2 Intercontinental Cups and 1 FIFA World Club Cup.[48]
Over the years, there has been several changes in terms of leadership, both foreign and Italian. The initial period was marked by a fast turnover of managerial staff. The first president was the Jewish industrialist of Venetian origin Giovanni Paramithiotti, replaced only after one year by Ettore Strauss, who then left in favor of Carlo De Medici. Under the direction of this last, the team led by the head coach Virgilio Fossati won his first scudetto in the season 1909/1910, defeating the reigning champion Pro Vercelli. The subsequent seasons were not so successful: the losses on the pitch were accompanied by the instability at the highest leadership level. Actually, the position of president was, in a short period of time, respectively filled by Emilio Hirzel (1912/1913), Luigi Ansbacher (1913/1914) and Giuseppe Visconti di Modrone (1914/1919). Then, the outbreak of the First World War temporarily interrupted football matches, that started again in 1919. New era, new chairman: this time was the turn of Giorgio Hülss, substituted by Francesco Mauro a year later. Apart from this further shift, Inter's return to the field was a triumph as it gained its second scudetto in 1920. During the fascist period, the football club went through big changes. First of all, F.C Internazionale merged with another Milanese club, the "Unione Sportiva Milanese" to form the so-called "Associazione Sportiva Ambrosiana" (a name taken from St. Ambrose, the patron saint and bishop of Milan). The club's renaming seemed to follow a fascist diktat which was against all foreign names and words. Also the colors of the uniform changed, at least until the end of the war: the black and blue clothes were replaced by a white outfit, marked with the coat of arms of the city and the fascist flag. The hand-overs of presidency occurring in that period were not something new. After Mauro, the following presidents were Enrico Olivetti (1923/1926), Senatore Borletti (1926/1928), Ernesto Torrusio (1928/1929) and Oreste Simonotti (1929/1931). It was in 1929, under the guidance of the twelfth Inter's chairman, that the Italian football saw the emergence of Serie A, the still existing national championship. The debut in the new tournament was pretty successful as Inter managed to win the third scudetto, this time thanks to the head coach Arpad Weisz and one of the most powerful player, the aforementioned Giuseppe Meazza. After the victory, the president then in charge Simonotti passed the torch to Ferdinando Pozzani, the first to remain in office for a long period, more precisely from 1931 to 1942. Amongst other things, he was able to change the name of the football club, which thereinafter became Ambrosiana-Inter. At that

[48] Inter, *Honours*, http://www.inter.it/en/palmares (accessed April 28, 2017)

time, the team started to compete not just at national level but also at the international one. The victory of the Serie A cup in 1929 ensured Inter's qualification to the newly-established European championship, but it didn't win. After years of uneven performance, Inter finally achieved its fourth success in the national league, defeating the heavily favoured Juventus team in the season 1937/1938. In the following season, the squad also won another prestigious trophy, namely Coppa Italia and, one year later, it gained the fifth scudetto, beating Bologna. These successes, however, were not repeated in the subsequent years. The team symbol Meazza transfer to Milan together with a new dark age fueled by Italy's entry into the Second World War marked the football club's decline. In this unfavorable climate, Pozzani decided to quit his position and was thus substituted by Carlo Masseroni, who led the club for the following thirteen years. In 1945, things finally went back to normal: football matches started again after they were another time suspended because of the war and the new president announced the restore of the football club's original name "F.C Internazionale". A year later, Meazza returned to Inter, to hang up his boots once and for all in 1947. From then on, Inter began to share with Milan the San Siro stadium, built in 1926, in this way leaving its previous home Arena, the impressive amphitheater built by Napoleon located right in the centre of Milan.[49] Overall, during Masseroni's presidency, many foreign footballers as well as national champions like Nyers, Skoglund and Lorenzi joined the football team and led it back to the top of the charts. In those years, another important figure became part of the club, the lawyer Giuseppe Prisco. Since then, he has served the club under five presidents, at first as secretary and councilman and later on as vice-president, and he is still now remembered as an Inter icon. To see Inter's new victories it was necessary to wait until 1952, when Alfredo Foni was appointed as head coach of the first team. Under his guidance and his defensive approach known as "catenaccio", Inter managed to win two scudettos in three years. These victories were followed by a disappointing season which culminated, in 1955, with the change of ownership. Angelo Moratti, a successful oilman and entrepreneur, thus took the reins of the football club and held them until 1968. When he became president, Inter was going through a difficult phase, as already anticipated. In the first five years of the new leadership, the team changed coach eight times, without any positive result. The turnaround came when Italo Allodi was engaged as general director and Hellenio Herrera was appointed as head coach in 1960. With them at the side of Moratti, a golden period began, known as the "Grande Inter" era. The Ballon d'Or winner Luis Suarez

[49] Inter, *La storia dell'Inter nel cuore di Milano*, November 6, 2013 http://www.inter.it/it/news/64008 (accessed May 22, 2017)

joined the team, in this way completing the squad (composed, among the others, by Giacinto Facchetti, Sandro Mazzola, Mario Corso) that took Inter to incredible triumphs.[50] The first victory was the one of the 8th scudetto in 1962/1963, followed by the European Cups of the two subsequent seasons (1963/1964 and 1964/1965) and the two Intercontinental Cups of 1964/1965 and 1965/1966.[51] That successful time officially ended in 1968 with the change of head coach, director and, above all, owner. Moratti, after some stinging defeats, sold the football club to Ivanoe Fraizzoli, who took back to Inter a former coach, Alfredo Foni, soon replaced by Herirberto Herrera. Only after two seasons, in 1970 he was substituted with Giovanni Invernizzi. Thus, Inter was finally able to bounce back and win its 11th scudetto. The period which followed this trophy was marked more by defeats than successes, apart from the Coppa Italia, won under the new coach Eugenio Bersellini. After another transitional season, in 1980 arrived the 12th scudetto and in 1982 the third Coppa Italia. Two years later, the football club's ownership passed into the hands of Ernesto Pellegrini. His presidency started with a big purchase, that of the attacker Rumenigge who, at that time, was one of the strongest players in the football arena. Then, it was the turn of the coach. The position was filled by Giovanni Trapattoni, former coach of Juventus team. Thanks to a reorganization of the squad, joint by new players as Brehme, Matthäus and Diaz, Inter gained its 13th victory in Serie A. Moreover, prior to his departure, Trapattoni brought credit to the football club by winning two trophies never won before: The Italian Super Cup and the UEFA Cup. Other seasons, other coaches: in three years, the team changed four trainers, but it continued to collect defeats, with the exception of the UEFA Cup gained in 1994. This year was so bad that the football club found itself at the bottom of the rating and was close to being relegated. However, by avoiding the relegation, Inter became the only Italian soccer club to never drop from the top division in its 109-year history. An important change opened the season in 1995: Moratti's family took back the football club as Pellegrini sold it to Massimo Moratti, the son of the historic owner Angelo Moratti. His eighteen year-long presidency saw difficult moments and big failures but also huge victories, incredible coaches and some of the strongest footballers play with the Nerazzurri uniform. His first purchase was that of Javier Zanetti, still nowadays part of the club as vice-president, which was followed by other important deals, as that concluded for buying Ronaldo in 1997 and Roberto Baggio one year later. After a rough start, it was in the season 1997/1998 that the third UEFA Cup was won, the first victory since Moratti took lead. However, following this

[50] ARRIGONI and POZZA, *La storia dell'Inter*
[51] Inter, *Honours*

success, the dark ages began. Spending spree (as the huge transfer fee paid for Christian Vieri), wrong purchases, ongoing rotation of coaches (in the season 1998/1999 they were even four: Simoni, Lucesco, Castellini and Hodgson, finally substituted with Lippi for the next one)[52] all contributed to the failure of the football club on the pitch. Fortunately, in 2004 the appointment of Roberto Mancini as coach opened a new chapter in the story of Inter, marked also by a temporary shift in ownership, passed to Giacinto Facchetti who under Moratti's presidency had already acted as CEO and vice president. During the biennium of Facchetti, Inter won the first of five consecutive scudettos, two Coppa Italia and one Italian Super Cup.[53] In particular, the 14th scudetto of the season 2005/2006 was assigned to Inter through a press release of FIGC, the Italian Football Federation.[54] Following the football scandal in Italy, also known as "Calciopoli", which unveiled a system of match-fixing and sports fraud, Juventus was deprived from two scudettos (those of the seasons 2004/2005 and 2005/2006) and was relegated to Serie B. Other football clubs as Lazio, Milan and Fiorentina were penalized. Being ranked number one after the sanctions imposed to Juventus and Milan, Inter thus received the coveted championship trophy.[55] Facchetti's death in 2006 put an end to his brief period as chairman and ensured the return of Massimo Moratti as well as the beginning of its great era. This time, the president could rejoice: the purchases of top players as Ibrahimovic, Milito, Eto'o, Sneijder and the enrolment of the coach José Mourinho in 2008 produced the desired outcomes. The season 2008/2009 was definitely a success: Inter won the 17th scudetto and the 4th Italian Super Cup. These results were not just replicated but even improved in the following season. Actually, 2010 is considered as a very momentous year in Inter's story since it was then that Inter became the first Italian football team to complete a Treble by winning Serie A, Italian Cup and the Champions League.[56] With this dream coming true, the amazing Inter of Massimo Moratti entered a phase of decline. The season 2010/2011 was the last to record important victories, including the 7th Coppa Italia, the 5th Italian Super Cup and the first FIFA Club World Cup, won under the guidance of the new coach Benitez.[57] Thus, after seventeen years, a change of ownership

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[52] Inter, *Archive*, http://www.inter.it/en/archivio_allenatori (accessed May 23, 2017)
[53] Inter, *Honours*
[54] FICG, *Comunicato stampa*, July 26, 2006 http://www.figc.it/Assets/contentresources_2/ContenutoGenerico/72.$plit/C_2_ContenutoGenerico_6164_upfDownload.pdf (accessed May 22, 2017)
[55] *L'Inter conquista a tavolino il quattordicesimo scudetto*, "Il Sole 24 Ore", July 27, 2006 http://www.ilsole24ore.com/fc?cmd=art&codid=20.0.1986570532&artType=Articolo&DocType=Libero&chId=30 (accessed May 22, 2017)
[56] Martin WAHL, *Fc Internazionale*, http://www.footballhistory.org/club/internazionale.html (accessed May 1, 2017)
[57] ARRIGONI and POZZA, *La storia dell'Inter*

and, more than that, a generational change seemed to be imminent. Moratti has managed Inter as a family-run business, with a truly unique passion and quite "unlimited" wallet (during his presidency, he has allocated more than EUR 1 billion). However, the football club's debts have grown so quickly after 2010 that selling it was the only possible option. After all, Inter's crisis reflected that of the Italian refinery sector, in which Moratti's family was deeply involved. In 2011 and 2012, the family firm Saras started to record significant losses and finally gave up 13,7 percent of shares to the Russian group Rosneft. In such a scenario, the negotiations for selling Inter began. The first potential acquirer was the Chinese company China Railway 15th Bureau Group Co. Ltd. But, soon after the formalization of the acquisition of 15 percent stake Inter announced that the deal was off. Then, it was the turn of the Russian group Mabetex, but even in this case the deal was not concluded. Finally, in 2013, the happy ending: following months of negotiations, Massimo Moratti sold a 70 percent stake to the Indonesian consortium led by Erick Thohir, a young businessman owner of the media and entertainment company Mahaka Group and co-owner of the American football team D.C United. For him, Inter was a strategic asset as it was well-known all over the world but in financial difficulties, fact which made the acquisition a convenient option. For a total amount of EUR 75 million and taking on EUR 200 million debts, the special purpose entity International Sports Capital, run by Erick Thohir, Rosan Roeslani and Handy Soetedjo, became the controlling shareholder of Inter. The remaining stake was divided as follow: 29.5 percent retained by the former president and 0.5 percent hold by minority shareholders. The aim of Thohir was to take Inter back to the glories of the past and exploit its great business opportunities, in particular in the Asian market. According to him, it was (and still is) of the utmost importance to internationalize the brand and this specifically was the reason why the focus was put on foreign partners' support as Deutsche Bank and Oknoplast. Despite these good intentions, during the post-acquisition phase the team continued to have negative results and governance-related problems started to emerge (more precisely concerning conflicts between new and old leadership and changes in corporate structure).[58] With the purpose of restructuring debts, in 2014 Thohir introduced a new model through a financial operation realized together with UniCredit and Goldman Sachs. Financial debts were not paid by owners' "generosity" as it was done in the past, but rather by institutional investors and banks in exchange for guarantees on lucrative sources of income. The subsidiary Inter Media and Communication Srl, to which were conveyed sponsorship

[58] Marco BELLINAZZO, *Goal economy: Come la finanza globale ha trasformato il calcio,* Milan, Baldini & Castoldi, 2015

agreements, Inter brand and TV rights, was thus established to secure the loan.[59] A strategic movement which was not sufficient to restore the economic situation of the club and that re-opened the negotiations for selling the football club two years later.

3.2.2 SUNING (苏宁)

"引领产业生态、共创品质生活"
"百年苏宁，全球共享"[60]

The story of Suning cannot be read in isolation from its founder and Chairman Zhang Jindong (in Chinese *Zhang Jindong* 张近东). The company was established in 1990 as *Suning jiao jiadian* 苏宁交家电 (literally "Suning Domestic Appliance"), when Zhang, a man of humble origins, decided to open up his own shop of air-conditioners in Nanjing, the provincial capital of Jiangsu. In the subsequent years this small shop was transformed into one of the major retail store in China. More precisely, in 1998 it started selling a wide variety of general and home appliances. It grew to such an extent that it formed a nationwide chain of retail stores and, in 2004, it was listed in Shenzhen Stock Exchange as *Suning dianqi liansuo jituan gufen youxian gongsi* 苏宁电器连锁集团股份有限公司 (Suning Appliance Chain Store Group Co., Ltd.). Later on, the company name was further changed to *Suning yunshang jituan gufen youxian gongsi* 苏宁云商集团股份有限公司 (Suning Commerce Group Co., Ltd). After having completed its retail network layout in China, through the consolidation of its presence in both primary markets and tier-three, tier-four cities, it further expanded its operations by acquiring in 2009 the Japanese retail company Laox and the Hong Kong based retail chain Citicall.[61] The following year was marked by the launch of the e-commerce store platform, which led way to a new strategic path characterized by the integration between online and offline stores. A strategy which took to important acquisitions as that of RedBaby, one of Chinese largest business-to consumer (B2C) shopping sites

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[59] BELLINAZZO, *Goal economy*
Marco BELLINAZZO, *L'Inter di Thohir, come tramutare un rifinanziamento in un giacimento (di 220 milioni) di plusvalenze*, "Il Sole 24 Ore", November 12, 2015 http://www.ilsole24ore.com/art/notizie/2015-11-12/l-inter-thohir-come-tramutare-rifinanziamento-un-giacimento-di-220-milioni-plusvalenze-100029.shtml?uuid=AC2MrOYB (accessed May 23, 2017)

[60] Suning's business mission is translated as "Leading the Industrial Advancement in Creating High Quality of Life for All"; the second statement represents the new vision of the company and it means "Global Suning, Built to last". They all can be found in Suning Official Website, section of Remarks by Chairman (董事长致辞).

[61] Suning, *发展历程*, http://www.suning.cn/cms/companyHistory/1947.htm (accessed May 2, 2017)

focused on maternal and infant goods which gave Suning the possibility to broaden its core business[62], as well as to significant partnerships, the most recent one of which is that with Alibaba, worldwide leader in e-commerce.[63] At the beginning of 2016, Alibaba agreed to invest US$ 4.6 billion for newly issued Suning shares, ultimately holding 19.99 percent stake. Suning, in turn, purchased 1.1 percent of Alibaba for US$ 2.28 billion. This deal can be clearly explained by the willingness of the two companies and also of the Chinese policymakers to combine offline and online sectors, an integration perceived as the new lucrative frontier. Actually, it is in line with the governmental action plan "Internet Plus" (in Chinese *hulianwang jia xingdong jihua* 互联网+ 行动计划), according to which it is necessary to promote more technology-driven and high-value economic output and enhance the development of e-commerce as well as its international market.[64]

The expansion of Suning is not limited to the field directly related to its core business and this is shown by the purchase of the Video Site PPTV in 2013 and of Jiangsu Football Club in 2015, thereafter known as Jiangsu Suning[65]. Suning has already invested a lot in both of them. As concerns PPTV, Suning has recently concluded a three-year deal worth almost US$ 700 million to acquire the television rights of English Premier League starting from the season 2019/2020. Moreover, some months ago it entered into deal for Bundesliga rights, for the period 2018/2023. If we finally consider that the Chinese streaming service already possesses the rights to Spain's La Liga, it becomes apparent that Suning is trying to expand its presence in all the major European national leagues by means of TV rights acquisition.[66] Regarding Jiangsu Football Club, Suning bought players as Brazil's Alex Teixeira from

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[62] Zhuoqiong WANG, *Suning acquires Redbaby to broaden product lines*, "China Daily USA", September 26, 2012, http://usa.chinadaily.com.cn/epaper/2012-09/26/content_15784680.htm (accessed May 2, 2017)

[63] Suning, *阿里苏宁战略合作升级 推动零售业与制造业深度融合,* January 6, 2016 http://www.suningholdings.com/cms/suningdqnewsjson/17142.htm (accessed Mat 2, 2017)

[64] Gerry SHIH, *Alibaba to invest $4.6 billion in China electronics retailer Suning*, "Reuters", August 11, 2015 http://www.reuters.com/article/us-alibaba-suning-appliance-idUSKCN0QF0VP20150811 (accessed May 2, 2017)

2015 年十大国内互联网政策, "Tencent Research Institute", December 31, 2015 http://www.tencentresearch.com/4374 (accessed May 2, 2017)

[65] Paul MAZUR, *China's Suning Invests in Video Site PPTV,* "Wall Street Journal", October 28, 2013 https://www.wsj.com/articles/china8217s-suning-invests-in-video-site-pptv-1382969939?tesla=y (accessed May 2, 2017)

Chinese Football Association, *江苏国信舜天主要股权转让并更名为江苏苏宁的公示*, January 4, 2016 http://www.fa.org.cn/bulletin/file/2016-01-04/490392.html (accessed May 2, 2017)

[66] Adam JOURDAN, *English Premier League sells China TV rights for $700 million-source*, "Reuters", November 28, 2016 http://uk.reuters.com/article/uk-soccer-china-tv-idUKKBN13D07D (accessed May 11, 2017)

Inter, Suning si compra la Bundesliga: 235 milioni per le gare in tv in Cina, "La Gazzetta dello Sport", April 3, 2017 http://www.gazzetta.it/Calcio/Bundesliga/03-04-2017/inter-suning-bundesliga-gare-cina-diritti-tv-milioni-190483700112.shtml (accessed May 11, 2017)

Shakhtar Donetsk and former Chelsea midfielder Ramires, investing huge amounts of money.[67]

In reality, Suning started to connect to the world of football well before the acquisition of Jiangsu, more precisely in 2014 when it established a strategic partnership with Barcelona Football Club and became the Spanish club's first ever Chinese sponsor. This cooperation also made Suning an official partner of FC Barcelona's fans base in China.[68] After all, Suning is fully aware of the potentiality of this sport for economic expansion. Football is an emerging sector and represents for the Chinese company the opportunity to diversify and grow by exploring new paths.

After decades of ongoing development, nowadays Suning includes six vertical industries, which are all part of the so-called "Suning Holdings Group" (in Chinese *Suning konggu jituan youxian gongsi* 苏宁控股集团有限公司). They comprise: Suning Commerce (in Chinese *Suning yunshang* 苏宁云商), the branch which have been listed in the Shenzhen Stock Market as already cited above and which owns an online platform, Suning.com, now ranking as the top three Chinese B2C platform; Suning Real Estate (in Chinese *Suning zhiye* 苏宁置业), focused on high-end real estate and contemporary urban space development; Suning Financial Service (in Chinese *Suning jinrong* 苏宁金融), which expands through the acquisition of insurance, security and trust licenses; Suning Media and Entertainment (in Chinese *Suning wen chuang* 苏宁文创), dealing with the management of culture, entertainment, media and technology; Suning Sports (in Chinese *Suning tiyu* 苏宁体育), in charge of sports-related issues and, finally, Suning Investment (in Chinese *Suning touzi* 苏宁投资), whose stated mission is to support business expansion and manage financial assets.[69]

According to Forbes, Suning market cap is equal to US$ 12.6 billion, it has almost 18 thousand employees and sales which amounts US$ 21.47 billion. As for 2016, it possessed 1600 retail stores scattered throughout China and Japan and ranked second in China's top

[67] Cheo CONDINA, *Suning, l'identikit del nuovo patron. Colosso globale alleato di Alibaba*, "Il Sole 24 Ore", June 8, 2016 http://www.ilsole24ore.com/art/finanza-e-mercati/2016-06-06/suning-identikit-nuovo-patron-colosso-globale-alleato-alibaba-125859_PRV.shtml?uuid=ADApfrW (accessed May 2, 2017)

[68] FC Barcelona, *Suning FC Barcelona's first Chinese Sponsor,* November 6, 2014 https://www.fcbarcelona.com/club/news/2013-2014/suning-fc-barcelona-s-first-chinese-sponsor (accessed May 5, 2017)

[69] Suning, *苏宁控股集团有限公司*, http://www.suningholdings.com/cms/profile/index.htm (accessed May 4, 2017)

500 private enterprises. Moreover, its Chairman Zhang Jindong is the 41th richest man in China and the 427th in the world with a net worth of US$ 4.1 billion.[70]

3.3 Act I: Stop loss

Before arriving to the turning point of the history, consisting in the meeting between the two companies and the final acquisition of Inter by Suning, it is necessary to take a step back in order to understand the conditions leading to such an event.

The consolidated financial statements of 2015, including FC Internazionale Milano Spa and the controlled companies Inter Media & Communication and Inter Brand, ended with a net loss equal to EUR 140.5 million (the financial statement of FC Internazionale Milano Spa recorded by itself a net loss of EUR 74.4 million). An amount significantly beyond the threshold set by UEFA which, according to the Financial Fair Play criteria, established that the net loss for the following year should not exceed EUR 30 million for avoiding the sanction of EUR 7 million. The negative result, in particular, took into account the financing by shareholders totaling EUR 103,7 million at an interest rate between 8 and 9.5 percent and was aggravated by the funding of Goldman Sachs, which provides for monthly instalments of EUR 1 million together with a balloon payment of EUR 184 million to be repaid within July 2019, for an overall amount of EUR 230 million. In this critical situation, Inter's qualification for the Champions League could have provided a temporary relief as it would have implied significant revenues, useful to reduce the debt burden. Nevertheless, given the position in Serie A table, it remained just a dream.[71] In such a background, one thing was certain: Inter needed to find liquidity in a situation dominated by the overwhelming presence of debts, increase of costs and lack of revenues.

The first rumors about a potential sale as solution of the problems go back to the beginning of 2016, when Italian news media, more precisely *Il Sole 24 Ore, Il Corriere della Sera* and

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[70] Forbes, *Suning Appliance*, May 2016 https://www.forbes.com/companies/suning-appliance/ (accessed May 2, 2017)
Forbes, *The World's Billionaires*, https://www.forbes.com/billionaires/list/#version:static (accessed May 2, 2017)

[71] Marco BELLINAZZO, *Per l'Inter conti in profondo rosso nel 2015: Fc chiude a -74 ma il consolidato segna -140 milioni*, "Il Sole 24 Ore", October 20, 2015 http://marcobellinazzo.blog.ilsole24ore.com/2015/10/20/per-linter-conti-in-profondo-rosso-nel-2015-fc-chiude-a-74-ma-il-consolidato-segna-140-milioni/ (accessed May 2 , 2017)
John STOCK, *Bilancio consolidato Inter 2015: ecco i veri conti della società nerazzurra*, "Calcio e Finanza", December 7, 2015 http://www.calcioefinanza.it/2015/12/07/bilancio-consolidato-inter-2015-ecco-i-veri-conti-della-societa-nerazzurra/ (accessed May 2, 2017)

La Gazzetta dello Sport announced that Erick Thohir gave a mandate to the investment bank Goldman Sachs to find a partner in the Asian market, especially in the Chinese one. According to them, the football club final objective could be not just to establish a partnership to consolidate Inter's current position but, more than that, to transfer the ownership of the football club.[72] An assumption that has been immediately denied by Inter president in the official website, claiming that the contact with Goldman Sachs were explained by the necessity to find a reliable partner from the commercial point of view. Always according to the statement, the focus was put on the Asia-Pacific area, especially China, because it was and still is where Inter's commercial future lies and the majority of fans live. Finally, despite these declarations, the intention of selling majority share proved to be true some time later.[73]

3.4 Act II: The turning point

Only after two months, the first changes began to show up. At the beginning of April 2016, the situation seemed to have had a breakthrough as the name of potential partners suddenly appeared. According to rumors announced by news media, there were mainly three candidates: the first one was Suning Commerce Group, apparently intending to purchase 20 percent stake (more precisely 14 percent from the 70 percent stake hold by Thohir and 6 percent from Moratti's 29.5 percent stake) for an amount of between EUR 60 and 90 million. Other Chinese indicated as potential partners were Wang Jing, chairman of the Shanghai-listed Beijing Xinwei Telecom Technology Group, who recently made a big splash by promoting the construction of a canal across Nicaragua, and ChemChina, already connected to Inter thanks to Pirelli, which is one the main sponsor of the football club since 1995.[74]

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[72] *Thohir pensa a vendere, ma l'Inter nega,* "Il Sole 24 Ore", February 25, 2017 http://www.ilsole24ore.com/art/notizie/2016-02-25/thohir-pensa-vendere-ma-inter-nega-114510.shtml?uuid=ACH7CkbC (accessed May 3, 2017)
Guido DE CAROLIS, *L'Inter va alla ricerca di un partner, Thohir: "Ma io non voglio vendere",* "Corriere della Sera", February 25, 2016 http://www.corriere.it/sport/16_febbraio_25/inter-caccia-un-compratore-thohir-potrebbe-vendere-d35af450-db33-11e5-956c-6f7e55711737.shtml (accessed May 3, 2017)
Ilaria TAIDELLI, *Inter, i conti non tornano. In giro per l'Europa a caccia di investitori*, "La Gazzetta dello Sport", February 25, 2017 http://www.gazzetta.it/Calcio/Serie-A/Inter/12-02-2016/inter-conti-non-tornano-giro-l-europa-caccia-investitori-140639388868.shtml (accessed May 3, 2017)
[73] Inter, *Erick Thohir: No intention of selling majority*, February 25, 2016 http://www.inter.it/en/news/51437 (accessed May 3, 2017)
[74] *Inter, futuro cinese: Thohir cede il 20% o la maggioranza?*, "Il Sole 24 Ore", April 5, 2016 http://www.ilsole24ore.com/art/notizie/2016-04-05/inter-futuro-cinese-thohir-cede-20percento-o-maggioranza-131519.shtml?uuid=ACF0zO1C (accessed May 3, 2017)
Inter, Thohir cede il 20% ai cinesi. O la maggioranza? E Moratti si muove…, "La Gazzetta dello Sport", April 5, 2016 http://www.gazzetta.it/Calcio/Serie-A/Inter/04-04-2016/inter-thohir-cede-20percento-cinesi-o-maggioranza-moratti-si-muove-150116090697.shtml (accessed May 3, 2017)

As the days went on, the possibility of a negotiation between Suning and Inter actually became reality. At the end of the month, a delegation of twelve top executives led by the Chairman Zhang Jindong went to Milan, where they met Thohir, Moratti as well as the mayor of the city and attended the team training session and night game. The confirmation of talks with the football club arrived soon after the visit through an official statement which declared Suning's interest in a strategic cooperation with Inter. As claimed by the Chinese company, the two parties aimed at evaluating the possibility to develop a broad partnership considered to be mutually beneficial: from one side, Suning could take advantage of the international cooperation to enhance the promotion of its activities and brand. The exchange could also improve its operational ability in the world of football and contribute to the development of this sport in China. From the other side, Inter had a chance to boost the presence in the huge Chinese market and make up the deficit thanks to new capital injections. Thus, at that time, the alternatives taken into consideration were mainly as follow: strategic cooperation and reciprocal investments.[75]
The Chinese visit to Milan was followed, in May, by that of the Italian delegation, composed by the president Thohir, the CEO Michael Bolingbroke, the general manager Giovanni Gardini and the advisor to Nanjing, where Suning is headquartered. This was the signal that the negotiation was going on and the two parties were getting to know each other. At that point, the companies had to discuss several aspects as the opportunities involved in the transaction, the valuation of the football club and of stake percentage. Overall, this phase is particularly delicate and may require a long time as rights and obligations must be carefully assessed together with all the technical details that surround the negotiation.[76]

3.5 Act III: The unexpected change of course

Soon after the visit to China, a surprising news was announced: Suning was willing to purchase the majority stake of Inter, passing from the declared 20 percent to the 70 percent.[77]

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[75] *苏宁回应投资国际米兰传闻：有意展开战略合作，不排除互相投资*, "Tencent Technology News", April 25, 2016 http://tech.qq.com/a/20160425/051119.htm (accessed May 3, 2017)
Suning, il comunicato: vogliamo una cooperazione strategica con l'Inter, "La Gazzetta dello Sport", April 25, 2016 http://www.gazzetta.it/Calcio/25-04-2016/suning-comunicato-vogliamo-cooperazione-strategica-l-inter-150365665515.shtml (accessed May 3, 2017)
[76] *Blitz cinese dell'Inter: Thohir va da Suning per accelerare l'affare*, "La Gazzetta dello Sport", May 21, 2016 https://www.pressreader.com/italy/la-gazzetta-dello-sport/20160521/282308204336531 (accessed May 3, 2017)
[77] *Inter, clamoroso: 70% ai cinesi, Moratti se ne va,* "Il Sole 24 Ore", May 31, 2016 http://www.ilsole24ore.com/art/notizie/2016-05-31/inter-clamoroso-70-percento-cinesi-moratti-se-ne-va-174613.shtml?uuid=ADo7LMT (accessed May 3, 2017)

Suddenly, the tables have turned. This would have implied a new composition of the football club's ownership, with the transfer of all the shares hold by Moratti and great part of those of Thohir to the Chinese company. Until that moment, Suning's desire to gain the control of the football club had encountered opposition on the part of Thohir, who had not wanted to hand over its stake. Therefore, the debate had always been centered on the possibility of bidding for 20 percent of the company, maximum 30 percent. However, things changed with the intervention of Moratti, who decided to take part to the discussion, in this way making the transfer of his share a probable scenario. By acquiring the majority stake, Suning would have assumed responsibility for the debt with Goldman Sachs and paid almost EUR 180 million to the two present owners.[78]

Concerning Suning's plans, behind the purchase of majority stake of the Italian soccer club there seemed to be a greater ambition, consisting in the creation, through strategic expansion and acquisitions, of a global sporting "ecosystem" including club ownership, sports media rights, training institutions, player agencies, sports-related e-commerce and so on. After all, the purpose to "establish a leading sports media group and world-class management group of sports industry" forms the basis of Suning Sports Group, one of Suning Holdings Group's vertical industries.[79] In such a perspective, the role played by the majority stake in Inter was fundamental as it represented a watershed by making Suning the first mainland Chinese firm to control an important European football club. Given these strong motivations, the deal for Inter seemed to be imminent. [80]

3.6 Act IV: A dream come true

In the early days of June 2016, Thohir flew to Nanjing, where the deal was to be concluded shortly thereafter.[81] The negotiation, which overall had not requested a long period of time and had been kept strictly confidential until that moment, was finally close to the end. It was

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Marco BELLINAZZO, *I cinesi di Suning a un passo dalla maggioranza dell'Inter,* "Il Sole 24 Ore", May 31, 2016 http://www.ilsole24ore.com/art/notizie/2016-05-31/i-cinesi-suning-un-passo-maggioranza-dell-inter-201237.shtml?uuid=ADPcZYT (accessed May 3, 2017)

[78] Marco BELLINAZZO, *Inter-Suning: ecco i dettagli del piano da 400 milioni per conquistare il controllo del club nerazzurro*, "Il Sole 24 Ore", May 31, 2016 http://marcobellinazzo.blog.ilsole24ore.com/2016/05/31/inter-suning-ecco-i-dettagli-del-piano-da-400-milioni-per-conquistare-il-controllo-del-club-nerazzurro/ (accessed May 3, 2017)

[79] Suning, *苏宁体育*， http://www.suningholdings.com/cms/suningSports/index.htm (accessed May 4, 2017)

[80] Adam JOURDAN, *As Inter deal nears, Chinese retail giant Suning eyes soccer empire*, "Reuters", June 5, 2016 http://www.reuters.com/article/soccer-inter-milan-suning-idUSL4N18V2YA (accessed May 3, 2017)

[81] *Inter, Thohir in Cina per la cessione a Suning,* "Il Sole 24 Ore", June 2, 2016 http://www.ilsole24ore.com/art/notizie/2016-06-02/inter-thohir-cina-la-cessione-suning-101802.shtml?uuid=ADTl7TU (accessed May 3, 2017)

during the press conference hold on June 6 at the Sofitel Zhongshan Golf Resort in Nanjing that the acquisition of Inter has been officially announced. Suning paid approximately EUR 270 million for 68,55 percent stake of the football club, obtained via subscription for new stock and acquisition of old stock. Thohir has remained president, with shares equal to 30 percent, while Moratti has completely left the club, after 21 years.[82]

According to the words of Suning's Chairman Zhang Jindong, "the acquisition of Inter is not just a glory, but a mission which implies great responsibility". When listing the reasons for acquiring Inter, he explained that the transaction was part of the Chinese company's strategy in expanding sports industry and driving their campaign in the health and lifestyle consumer market. In this respect, Zhang Jindong's speech touched some key aspects, underlying the fact that football is the most popular sports in the world while China will become the largest football market in the future. Moreover, sport is supposed to form the basis for Chinese healthy consumption. Therefore, combine football with China seems to be the main trend for the future development of the global football industry. Another major driver of the acquisition he cited was the necessity to expand Suning's technique system and operational capability. Clearly, through this transaction, the Chinese firm can take advantage of Italian football club know how as well as of a long experience in training and management of such a complex field as soccer. Finally, Suning's chairman emphasized how important Inter is in the international development of Suning. Thanks to this acquisition, they have the opportunity to grow and make their brand known not just in the Asian market but also in the European one. After all, football, and Inter in particular, are a window to the world or, using the words of Zhang Jindong, "the name card for the global market".[83] Thus, an event like this can be considered as a milestone for both the company itself and Chinese football's history.

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[82] Rita FATIGUSO, *Inter ai cinesi, è fatta: a Suning il 68,55% del club, Thohir presidente con il 30%,* "Il Sole 24 Ore", June 6, 2016 http://www.ilsole24ore.com/art/notizie/2016-06-06/suning-e-titolare-6855percento-inter-cura-dimagrante-erick-thoir-che-resta-presidente-giugno-074155.shtml?uuid=ADGydhW (accessed May 4, 2017)
Inter ufficiale: maggioranza a Suning, addio Moratti, "Il Sole 24 Ore", June 6, 2016 http://www.ilsole24ore.com/art/notizie/2016-06-06/inter-ufficiale-maggioranza-suning-addio-moratti-105502.shtml?uuid=ADJxUkW (accessed May 4, 2017)
Suning, *苏宁收购国际米兰七成股份 蓝黑军团希望摆脱财务困境，* June 7, 2016 http://www.suningholdings.com/cms/specialarticlejson/17249.htm (accessed May 4, 2017)
HAO Qian 郝倩, *苏宁收了国际米兰，意大利人怎么看？，* "新浪专栏 Finance Sina", June 8, 2016 http://finance.sina.com.cn/zl/international/2016-06-08/zl-ifxsvenx3623144.shtml (accessed May 4, 2017)

[83] Suning, *[路透社] 苏宁体育收购意大利国际米兰约七成股权 助理国际化开拓*, June 6, 2016 http://www.suningholdings.com/cms/suningsportmediajson/17290.htm (accessed May 4, 2017)
"[……] 足球，尤其是国际米兰，将助力苏宁在欧洲和全世界成为知名品牌，成为苏宁走向全世界的名片。"

According to both Zhang Jindong and Thohir, what Suning can bring to Inter is a higher level of internationality, a concept that has characterized the Italian soccer team since its foundation. In this respect, the new partnership is fully in line with the club's tradition and founding ethos: be "Brothers of the World". Apart from this, thanks to the injection of capital and other resources, Suning will sustain the growth and make Inter stronger, bringing it back to the glories of the past. Finally, by means of the e-commerce platform, it will be able to attract an increasing number of fans all over the world.
Overall, the official announcement made clear the parties' commitment and willingness to renew, giving to the football club a more global profile while keeping those elements that made it a top-class team. It also underlined the strict connection between Inter and China, whose origin can be traced back to 1978, when Inter visited China and played four friendly matches under the eyes of thousands of fans, in this way becoming the first Italian soccer team to go to the Chinese State. The recent growth of football in China and Chinese government push to strengthen this sport inside the country has definitely provided a great opportunity for Inter and Suning to collaborate.[84]

3.7 Act V: Inter-Suning: All you need to know

The consequences of the acquisition have not been slow in coming. The day after the announcement of the closing, Suning launched a media campaign in the overcrowded Beijing's subway. The billboard, promoting Suning's products, were all focused on football. Thus, it immediately became clear how the image of Inter could be exploited to increase sales and enhance the profile of the Chinese company.[85]
After the press conference made in Nanjing, the two parties met in Milan on June 28 for the Shareholders' Meeting, which approved the issuing of new ordinary shares assigned to Suning Holdings Group. The result of the transaction was the following: Erick Thohir (International Sports Capital) becomes a minority shareholder with 31.05 percent stake, Massimo Moratti sold off his entire stake while historic individual shareholders kept 0.4 percent stake. During the Shareholders' Meeting, the new Board of Directors was also appointed, now including Mr. Erick Thohir, Mr. Ren Jun, Mr. Mi Xin, Mr. Yang Yang, Mr.

[84] Inter, *Inter-Suning, la conferenza in diretta su Inter.it*, June 6, 2016 http://www.inter.it/it/news/73799/inter-suning-la-conferenza-in-diretta-su-inter-it (accessed May 4, 2017)
[85] Rita FATIGUSO, *Inter, Suning scatena una campagna promozionale a base di calcio*, "Il Sole 24 Ore", June 7, 2017 http://www.ilsole24ore.com/art/notizie/2016-06-07/inter-suning-scatena-campagna-promozionale-base-calcio-104513.shtml?uuid=ADNJBWX (accessed May 4, 2017)

Liu Jun, Mr. Steven Zhang, Mr. Handy Soetedjo, Mr. Michael Bolingbroke and Mr. Nicola Volpi. Thohir was confirmed as President and Executive Chairman while Michael Bolingbroke as Chief Executive Officer. On this occasion, Suning's Chairman Zhang Jindong expressed the adherence to three main principles: professional management, focus on Serie A and European Champions League and steady grassroots investment. He also clarified the sources of his confidence in the acquisition, namely Inter one hundred years' cultural sedimentation and world famous professional management system, the support of Nerazzurri fans worldwide, the presence of world-known football stars and successful coaches as well as of Moratti, a model from whom it is possible to take inspiration and, last but not least, Suning's hard-working corporate spirit, willingness to learn, capital and resources. On the other side, Thohir stated the necessity of investment in infrastructure, youth development and in the team on the field in order to improve the competitiveness off and on the pitch. In this last perspective, Suning can provide a fundamental help and contribute to bring the squad back to the highest level.[86] Overall what emerged from the statements made during the press conference was, another time, the strong commitment of both partner to cooperate and strengthen Inter Football Club, mainly through the creation of synergies. This is a key aspect since it highlights the overall strategy behind the transaction: help each other to achieve the respective aims. From one hand, use the commercial and financial resources of Suning as well as its strong reputation in China to restore Inter finances, enlarge its fans base in the Asian region and find new commercial deals with Chinese counterparts; on the other hand, benefit from Inter's knowhow and worldwide prestige to boost Chinese football development and facilitate Suning's access to the global market.[87]

3.8 Act VI: The new dawn

With the Shareholders' Meeting and the appointment of the new Board of Directors, the Chinese era for Inter has officially begun.

At first, from the financial point of view, Suning contributed with a capital increase equal to

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[86] Suning, *Suning Announced the Acquisition of Inter Milan: Inherit the Glory of the Past, Create the Glory of the Future*, June 28, 2016 http://www.suningholdings.com/cms/corporateNewsJson/17752.htm (accessed May 4, 2017)

Suning, *收购国际米兰68.5%的股权 苏宁投资集团释放更多能量*, June 28, 2016 http://www.suningholdings.com/cms/suninginvestmentnewsjson/17258.htm (accessed May 4, 2017)

Inter, *F.C Internazionale Shareholders' Meeting*, June 28, 2016 http://www.inter.it/en/news/53333 (accessed May 4, 2017)

[87] Inter, *#InterSuning, le parole in conferenza stampa*, June 28, 2017, http://www.inter.it/it/news/74089/intersuning-le-parole-in-conferenza-stampa (accessed May 5, 2017)

EUR 142 million, part of the EUR 270 million payout announced at Nanjing. The remaining amount was used to purchase the stake hold by Thohir and Moratti. To meet the operational needs of the football club, Suning also provided a loan of EUR 100 million, a great deal of money which relieved it from the debt burden and guaranteed room for maneuver.[88] The results of the new management has been positive, as it is evident from the fact that the football club has achieved the break-even target of a maximum deficit of EUR 30 million for the reporting period of 2016, established by the Settlement Agreement signed with UEFA in 2015. Thus, it has not been forced to pay the conditional amount of EUR 7 million and the break-even for the period 2017 has been set at EUR 0 million.[89]

Several changes have occurred also with respect to the team itself. Few weeks after the acquisition's formalization, Inter announced the club's new head coach who replaced Mancini: Frank de Boer, a Dutchman with a wealth of international experience, former coach of AFC Ajax. Even if he signed a three-year contract, his engagement in the club has been much shorter. In November, the coach was dismissed from its position after a series of defeats and unexpected difficulties while Stefano Vecchi, the Primavera boss, temporary took charge of the first team. For the final resolution, it was necessary to wait until November 8, when the club unveiled Stefano Pioli as the new head coach. His work with the team has been characterized by ups and downs. After an initial period of victories and quick recovery, the squad has then faced several difficulties, making the changeover of coach the most likely scenario. And this is what actually happened: Pioli has been relieved of his post in the early May, handing over the first team to Stefano Vecchi for the remaining three matches of the season.[90] It is always the same story, which is repeated after few months. Recently, the football club announced the name of new head coach, that is Luciano Spalletti, coming from a successful period at AS Roma.[91]

From the governance point of view, this transitional period was, first of all, marked by the resignation of Bolingbroke as CEO at the beginning of November 2016. Mr. Jun Liu, vice

[88] Marco BELLINAZZO, *Inter ai cinesi: ecco l'operazione per l'acquisto del club*, "Il Sole 24 Ore", June 28, 2017 http://www.ilsole24ore.com/art/notizie/2016-06-28/inter-cinesi-ecco-l-operazione-l-acquisto-club--180610.shtml?uuid=ADC4Umk (accessed May 5, 2017)

[89] Inter, *Inter achieves UEFA break-even target for 2016/17*, April 21, 2017 http://www.inter.it/en/news/58023 (accessed May 6, 2017)

[90] Inter, *F.C Internazionale parts ways with Head Coach Stefano Pioli*, May 9, 2017 http://www.inter.it/en/news/58237/f-c-internazionale-parts-ways-with-head-coach-stefano-pioli (accessed May 11, 2017)

[91] Inter, *Inter confirm Luciano Spalletti appointment,* June 9, 2017 http://www.inter.it/en/news/58583/inter-confirm-luciano-spalletti-appointment (accessed June 12, 2017)

president of Suning Sports Group, took his place, in this way allowing a quicker decision making thanks to the more direct connection with Suning.[92] Recently, Suning has announced another important change with the appointment of Walter Sabatini as the new technical chief of both Inter and Jiangsu. This is a crucial step for the management and, above all, the integration between the two football clubs. As underlined by Sabatini during the press conference held in Nanjing, Inter and Suning need to be one big family and therefore the two teams must work together, following the same project focused on generating synergies. As technical coordinator of both clubs, he will take charge of development work, including planning for players and coaches, medical system and international scouting. For Suning, this also represents a great opportunity to transfer advanced football management knowledge, in this way starting out on the road to making the Chinese company a leading sport corporate in the world.[93]

Some initiatives have directly involved the commercial side. As an example, at the end of November 2016, Suning opened a flagship store in Nanjing, part of which was aimed at Nerazzurri fans, with kits and merchandise dedicated to the Italian football club. Moreover, in December the club announced a sponsorship agreement for a package of naming rights to include the training center of Appiano Gentile. According to it, the denomination of the first team's training center changed into "The Suning Training Center in memory of Angelo Moratti", while that of the youth team's training center became "The Suning Training Center in memory of Giacinto Facchetti". The agreement also dealt with the rights as "Official Training Apparel Partner" for both teams, taken up by Suning.com. Among other rights included there was Suning's dominant brand visibility across all pitches (namely training centers, main partner displays and press room). The stated aim of such an agreement is to boost Suning's brand awareness and recognition both inside and outside China, as well as start to gain visibility in Europe. As for Inter, thanks to the online and offline reach of Suning and the strength of Inter brand itself, the football club seems to be poised to better monetize its value assets and grow in the far east market.[94]

[92] Inter, *F.C Internazionale statement*, November 7, 2016 http://www.inter.it/en/news/55613/f-c-internazionale-statement (accessed May 6, 2017)

[93] *Inter: Sabatini coordinatore tecnico delle squadre Suning*, "Il Sole 24 Ore", May 10, 2017 http://www.ilsole24ore.com/art/notizie/2017-05-10/inter-sabatini-coordinatore-tecnico-squadre-suning-115530.shtml?uuid=AE35HUJB (accessed May 17, 2017)

[94] Inter, *Inter announces official training grounds' naming partner and training apparel*, December 20, 2016 http://www.inter.it/en/news/56235 (accessed May 6, 2017)
"The commercial year in perspective", *Inter,* December 31, 2016 http://www.inter.it/en/news/56347 (accessed May 6, 2017)

Manage a football team is not just a factor of injecting fresh capital or hiring top-class players. Above all, it is a matter of understanding the culture permeating the world of football and the values that stay behind the success of a team. If the approach to the management of a football club only skims the surface without trying to acknowledge the real nature, it is quite impossible to succeed. This means that it is not sufficient to concentrate on the commercial or financial sides, but it is also necessary to look at traditions and cultivation of the squad spirit as well as of the relationships with the team's supporters. Therefore, referring to Suning, it is of the utmost important for it to take an intercultural approach and understand some key aspects of the Italian culture.[95] And this actually is the intention of the Chinese company, as stated by its Chairman Zhang Jindong, who declared Suning's strategy to be characterized by local integration, meaning to penetrate in the local area and to become a local business.[96]
When dealing with post-acquisition integration involving different nationalities, the imperative "cooperation and mutual understanding" are even stronger than usual and must be carefully implemented. To reach the goal, the two parties need to comprehend each other, and in such a perspective they can begin by acquiring a basic knowledge of their different cultures. Inter-Suning is doing so. The football club made a deal with Fondazione Italia-Cina for lecturing its managers about Chinese language and culture. The first class was on intercultural management, a fundamental theme, which encompasses several elements related to doing business in China.[97]

3.9 Behind the curtains

The analysis of this acquisition provides the opportunities to further highlight some fundamental points that have already been emphasized at the beginning of this chapter. Overall, the transaction is part of the government's initiative to promote the upgrade of football, an objective mainly achieved by means of outbound investment targeting historic football clubs like Inter.
The negotiations run smoothly and only after few months the deal was closed.[98] The

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[95] HAO Qian 郝倩, *苏宁收了国际米兰，意大利人怎么看？*
[96] Suning, *Suning Announced the Acquisition of Inter Milan*
[97] Laura CAVESTRI, *I manager Inter? Tutti a scuola di cultura cinese*, "Il Sole 24 Ore", September 30, 2016 http://www.ilsole24ore.com/art/notizie/2016-09-29/i-manager-inter-tutti-scuola-cultura-cinese-181425.shtml?uuid=ADGosRTB (accessed May 6, 2017)
[98] Paolo SALOM, *Nomi poco noti e incertezze Milan ai cinesi, ecco perché è difficile ottenere i permessi*, "Il Corriere della Sera", January 2, 2017 http://www.corriere.it/sport/17_gennaio_03/calcio-milan-cinesi-li-

acquisition project did not encounter any obstacle from the Chinese government as the takeover occurred in a period of strong encouragement of cross-border M&As, well before the restrictions imposed at the end of last years. It may be that, if it was delayed by some months, it would have faced greater challenges since, as already seen, sports (and football in particular) has been mentioned among the sectors under strict scrutiny of authorities. However, there is another factor that worked in favor of Suning, namely its strong reputation inside the country and its clear projects which were not in contradiction with the governmental policies. After all, Suning's expansion in the football industry started long before the purchase of Inter and was part of a wider strategy which fits with the State's goals. As stated several times by Suning's Chairman Zhang Jindong, this transaction is to be considered as a milestone from many points of view. First of all, it provides a good opportunity to invest in world-class sports assets and prestigious football clubs when many of them are undervalued and in desperate need of financial resources. Second, it opens a window on the European market, ensuring the possibility to expand overseas and making Suning's brand famous worldwide. Finally, it is a potential way of enhancing Chinese football through the exchange of techniques and know how.

From this perspective, Suning's acquisition fully meets Chinese government's wishes. Using the aforementioned words of SAFE head Pan Gongsheng, this is the type of transaction that can help to improve Chinese football and thus can be considered as a good thing. If it will be successful or not, only time will tell. For the moment, it is clear that Suning's huge financial resources can strongly benefit the football club and, if this monetary aid is accompanied by the right management, the success will be guaranteed. Considered the strong commitment shown and expressed many times by both sides as well as the integration that they are trying to implement, there is at least some chance that the one between Inter and Suning will be a happy marriage.

To be continued…

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yonghong-renzo-cavalieri-af658150-d12d-11e6-bd06-82890b12aab1.shtml (accessed May 23, 2017)

Conclusion

China's outbound M&A: When 购买力 turns into 国力

The Chinese economy is one of the biggest and fastest growing in the world: this is a given fact that in recent years has been documented by China's increased presence in the international scenario. Within a short period of time, the country has been able to make a name for itself as a key manufacturing hub and thus it has attracted huge amounts of foreign capital. This, together with high level of export, soon resulted in a considerable foreign exchange reserve. In such background, the Chinese government announced the "go global" strategy that, amongst other things, served to channel the foreign exchange resources to cross-border investments, directed to Asia, America, Africa and Europe.[1]

The first chapter of this thesis has given an outline of Chinese outbound OFDI, delineating the development path and the maturation process of the phenomenon. Since the issue in 2001, the "go global" strategy has changed face several times. Overall, during the sixteen years from its enhancement, there has been a gradual transformation in terms of destination, size, motivations and pattern of Chinese OFDI. In this sense, the remarkable evolution undergone by cross-border activities has encompassed every aspect. At the beginning, overseas investments were limited both in space and size but, over the years they have progressively expanded to such an extent that, nowadays, they involve hundreds of countries throughout the world and target major companies, worth a fortune. In particular, as already explained, many Chinese investors started to concentrate their efforts on the European market since China's economy shift toward one driven by high technology and consumption. Being full of firms equipped with advanced technologies and valuable expertise, Europe turned out to be a holy land for Chinese businessmen willing to broaden their portfolio and upgrade their production facilities. This situation also triggered a change with regard to the entry mode. Since the focus was put on getting access to already existing assets as valuable know-how, techniques and skills, M&A became (and still is) the favored route for OFDI. Through it, it was and is possible to benefit from well-established brand, distribution channels, customers' and suppliers' networks as well as take advantage of state-of-the-art technology; all elements that attract Chinese investors' deep pockets. Huge financial resources were exactly the key

[1] Ernst & Young, *China going global The experiences of Chinese enterprises in the Netherlands*, 2012， http://personal.vu.nl/p.j.peverelli/ErnstYoungReport.pdf (accessed May 23, 2017)

that opened foreign markets' doors. Therefore, many firms on the verge of collapse found out it was in their own interest to welcome Chinese capital, allowing them to continue operating.
This assumption takes to the first consideration of this final part, namely "purchasing power" (in Chinese *goumaili* 购买力). This is one of the two words that, in my opinion, sums up fairly well Chinese M&A. More than that, it is in some way the light side, or in other terms, the Yang. Thanks to great amounts of money injected by Chinese investors, lots of foreign companies avoided the bankruptcy or, at least, had the opportunity to ease the financial burden. Therefore, China's capital was strongly welcomed by enterprises facing many difficulties. Apart from money, there is another side of Chinese economy that has broad appeal in Western countries: the potentiality of its huge, fast growing market. In this respect, the acquisition becomes a tool to penetrate the Far East nation and take advantage of the business opportunities that may rise there. By the way, these two aspects, namely big financial resources and potential for development, can also be found in the case of Inter, analyzed in detail in the third chapter. As outlined, the key factors that pushed Inter to accept Suning's offer were actually the pressing need of funds, which the Chinese company could provide without problems and the excellent prospects of expanding the presence in China.
These are also the main reasons that explain the efforts made by some foreign governments to attract Chinese investments. In this respect, in the first chapter was given the example of Italy where several initiatives and changes have been implemented in order to enhance its attractiveness as destination of OFDI.

Nevertheless, Western government's implementation of much more extensive inspections over Chinese acquisition plans have recently shown the other side of the coin. The great increase of Chinese M&A in sensitive sectors has attracted the attention of several authorities, that saw it as a menace to national security. In particular, the case of Kuka, the German leading company in robotic field acquired by the Chinese firm Midea, has hit the headlines. Two factors raised major concerns: the first was the risk of a "Marco Polo" effect, according to which technology and knowhow are moved to the Far East State [2]; the second, and most delicate one, was the involvement of the Chinese government in this kind of project. An element which alarmed also English authorities when dealing with Hinckley Point C nuclear plant approval and delayed the final go-ahead. Even if they finally gave the green light,

[2] GOLDSTEIN, *Capitalismo rosso*

shortly after they announced new safeguards on projects regarding sensitive infrastructure and involving a foreign participation.

The result of the greater political and regulatory scrutiny is the increase in the number of cancelled deals in 2016. According to Baker McKenzie Report, in Europe twenty acquisition plans involving Chinese investors were not carried out, while in North America the figure was ten deals.[3] Thus, the main reason for this emerging backlash is the often opaque relationship between the Chinese government and firms, especially State owned and State influenced companies, as large private entities that are prospering both in domestic and international markets.[4] As highlighted in previous chapters, China's overseas M&A activity often has a hidden agenda, strictly linked to governmental objectives. Generally, Chinese firms go abroad not only for profits or expansion related matters but also to enhance national economic and geopolitical interests. In particular, many initiatives promoted by the government as "Made in China 2025" and OBOR strongly affect Chinese OFDI and contribute to decide on the direction in which to go. A fact which is proved by several acquisitions that target Western producers with superior technologies or strategic hubs, as ports and airports regarded as a gateway to key markets like the European one. Therefore, M&As are a means by which China can foster the production upgrade, increase the quality standards, move towards a truly advanced economy and, finally, strengthen strategic partnerships. To sum up the concept in few words, China uses its international business operations to boost its reputation in the world.[5]

After all, this argument has been supported by the case study on Inter- Suning acquisition. Through an analysis of the transaction's background, it was found that, apart from being strictly related to government's aims, this deal is also the proof of a wider strategy, namely the use of the economic power to promote national strength (in Chinese *guoli* 国力)[6]. And this is precisely the second word that, to my mind, it is worth noting. To use the aforementioned metaphor, it can be considered as the Yin of a dichotomy forming a whole. The acquisition of historic firms with high prestige is a source of national pride, and the one

[3] Baker McKenzie, *Chinese investment tripled in US in 2016, doubled in Europe*, February 6, 2017 http://www.bakermckenzie.com/en/newsroom/2017/02/chinafdi/ (accessed May 24, 2017)

[4] Geoffrey GERTZ , *Will the West welcome or shun Chinese FDI?,* "Brookings", August 12, 2016 https://www.brookings.edu/blog/up-front/2016/08/12/will-the-west-welcome-or-shun-chinese-fdi/ (accessed May 24, 2017)

[5] John HARRIS and Dr. Wade JACOBY, "Rethinking FDI: China's Geopolitical Move into Europe", *Journal of Undergraduate Research,* 2013

[6] *体育产业已成资本市场绝对"风口"*, "Xinhua net", September 7, 2016 http://news.xinhuanet.com/fortune/2016-06/07/c_129045538.htm (accessed May 24, 2017)

of the world-famous Inter football club is no exception. Actually, this last was not just perceived as a Chinese firm's success but, more than that, as a national success.[7] By "causing a sensation inside and outside the country, it made the world feel another time the power of China's capital".[8] Thus, overseas investments, in this specific case related to football but also in general terms, are seen as a way to show to foreign nations China's strength and the superiority it has recovered after a century of humiliation. With this in mind, it becomes evident that China is using its strong economic power, which is reflected in big cross-border M&As, to gain influence in the international scenario and build cooperative relations. In other terms, OFDI are nothing else than a soft power tool.

Nowadays, China's footprints are all over the world. As mentioned, over the years it has invested a lot in many countries, spending a fortune to penetrate Western markets. In particular, the megadeals recently concluded have aroused global concern and shifted the world's focus on them.[9] Hence China's choice to enhance its power by means of economic tools more than through the promotion of its own "cultural products" and values. It should not be forgotten that Chinese culture strongly differs from the Western countries' way of thinking and, therefore, it is rarely understood or, at worst, accepted. Moreover, it is, with all the issues this involves, a totalitarian regime whose actions are often criticized by foreign audience. For this reason, China has found an alternative solution to attract the world's eyes: push Chinese "deep pockets" to go abroad, in this way showing the power of a thousand-year-old nation recovered from the humiliation of the past. This is how the economic purchasing power turns into national strength and soft power translates into the "power of money".

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[7] Emma LUPANO, *Cosa ci dice l'Inter sulla strategia cinese per scalare il calcio italiano*, "Agi China", March 15, 2017 http://www.agi.it/blog-italia/agi-china/2017/03/15/news/inter_suning_modello_cinese_scalata_calcio-1588578/ (accessed May 24, 2017)

[8] *苏宁收购豪门俱乐部，和促进国足发展没半毛钱关系*, "Sohu", May 19, 2017 https://www.sohu.com/a/141668865_567687 (accessed May 24, 2017) "这次收购在国内外引发了轰动，世界再一次感受到了中国资本的力量"

[9] Marcos TROYJO, *何为中国的软实力？*, "Financial Times 中文网", June 18, 2015 http://www.ftchinese.com/story/001062587?full=y (accessed May 24, 2017)

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