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Internationalization Strategies of Italian Firms in China: a strategic and empirical analysis

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前言

在当今全球经济背景下，企业的国际化扩张已经不再是一种战略选择，而是生存与发展的必然要求。对于拥有深厚制造传统和高品质工艺的意大利企业来说，中华人民共和国是 21 世纪最重要也最复杂的市场前沿。 本论文旨在探讨意大利企业如何在这一转型过程中，从本土环境跨越到中国市场这一全球最具活力且极具有挑战的商业环境之一。在短短四十年里，中国经济经历了前所未有的变革，从一个贫困且中央集权的模式变成了一个全球超级大国。这一进化的转折点是 1978 年邓小平领导下的改革开放政策，使中国成为了世界工厂。现在，中国已经步入新阶段，其特点是增长虽然放缓了，但变得更加可持续；增长的驱动力也从单纯的固定资产投资和出口转向私人消费、创新及服务业。

中国经济模式的这种变化为意大利企业带来了独特的机遇。不断壮大的中国中产阶级变得越来越成熟，要求也越来越高，他们不再追求产品数量，而是追求质量。这正是“意大利制造”标签展现其核心竞争力和增长潜力的地方。意大利产品代表了设计、优雅和风格，深受中国消费者的喜爱，特别是“90 后”一代，他们将西方的生活方式产品视为威望与地位的象征。服装、家居、食品和自动化（即所谓的“4A”领域：Abbigliamento, Arredocasa, Alimentari, Automazione）是这场国际化浪潮的核心行业。然而，在中国取得国际化成功是一个充满挑战的过程。中国的商业环境常被描述为一个“双面世界”，现代科技与根深蒂固的千年传统的价值观并存。外国公司必须面对政治局势的不确定性、行政透明度不足以及知识产权被盗的持续威胁。此外，意中之间的文化差异仍是重大障碍。诸如“关系”和“面子”之类概念，不仅是文化上的特色，更是影响商业谈判和企业成功的隐形规则。

本研究的目的在于从实证和理论层面分析意大利企业在中国采取的各种国际化战略，识别成功的共同模式以及这一特殊路径下的结构性障碍。同时，本研究也会结合社会文化的视角，概述中国的经济政治状况以及中国市场的发展前景。

为全面分析这些动态，本论文分为三章。第一章提供了必要的战略和历史背景。这一章追溯了中国市场的发展：从早期的经济改革到二零零一年加入世贸组织（WTO），再到现在的“中国制造二零二五”等工业计划。同时，本章还评估了在中国做生意的具体挑战，比如沿海省份与内陆地区之间的区域差异，以及意中外交关系的变化，包括具有重要意义但也存在争议的二零一九年关于“一带一路”倡议（BRI）的谅解备忘录。

第二章侧重于国际化的理论框架。企业决定进入新市场的原因有很多，如利用竞争优势或接触新客群，本章探讨了企业选择扩张的原因及其面临的风险。重点讨论了标准化与本土化的抉择困境以及文化在国际化进程中的作用。此外，本章还对最常见的进入模式进行了分类分析：出口、合资企业（Joint Ventures）、外商独资企业（WFOE）以及并购（M&A）。

最后一章基于对意大利企业在华情况的实证分析。通过使用机构来源和数据库的数据，勾勒出意大利投资的地理和行业分布，并对进入模式进行了统计排名，旨在揭示意大利企业成功进入中国市场的共同战略模式。论文最后指出了研究的局限性，并为未来的研究提出了建议。

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Introduction

In the contemporary global economic landscape, the international expansion of firms has transitioned from a strategic choice to an absolute necessity for survival and growth. For Italian enterprises, characterized by a strong manufacturing heritage and high-quality craftsmanship, the People's Republic of China represents the most significant and also complex frontier of the twenty-first century. This thesis aims to explore the complex process through which Italian companies navigate this transition, moving from their domestic context into the Chinese context, that is one of the world's most dynamic and challenging business environments. In just four decades, the Chinese economic system has experienced a transformation without precedent, shifting from a poor and centrally controlled model to its status as a global superpower. The turning point of this evolution was the progressive liberalization initiated after the 1978 Open Door policy under the leadership of Deng Xiaoping, which transformed China into the factory of the world. China has now entered a new phase characterized by slower but more sustainable growth, not only driven by just fixed investment and exports but also by private consumption, innovation, and services.

This shift in the Chinese economic model presents for Italian enterprises a unique opportunity. The flourishing Chinese middle class is becoming more and more sophisticated and demanding and is no longer looking for quantity but for quality. This is where the Made in Italy label finds its greatest strength and opportunity to grow. Italian products, that are synonymous of design, elegance, and style, appeal deeply to a generation of Chinese consumers, particularly the post 90s generation, who view western lifestyle goods as symbols of prestige and status. Fashion, food, furniture, and high-tech manufacturing (the so-called 4As: *Abbigliamento, Arredocasa, Alimentari, and Automazione*) are sectors at the centre of this internationalization trend. However, the internationalization success in China is a process full of challenges. The business environment is often described as a double-sided world, where modern technology coexists with deeply rooted values that came from a millenarian tradition. Foreign firms must deal with uncertainty of political situation, bureaucratic opacity, and the persistent threat of intellectual property theft. Furthermore, the cultural distance between Italy and China remains a significant barrier. Concepts such as *Guanxi* (personal connections) and

Mianzi (face) are not merely cultural curiosities, but they are the invisible rules that govern business negotiations and organizational success.[1]

The objective of this research is to empirically and theoretically analyse the various internationalization strategies adopted by Italian companies in China, identifying common patterns of success and the structural barriers that characterize this specific corridor, and also, giving an overview of the economic and political situation in China and the possible development of the Chinese market, with socio-cultural insights.

To provide a comprehensive analysis of these dynamics, this paper is divided into three chapters. The first Chapter provides the necessary strategic and historical context. It traces the development of the Chinese market from the early economic reforms to its accession to the WTO in 2001 and the current industrial plans like "Made in China 2025". It also evaluates the specific challenges of doing business in China, such as regional disparities between coastal provinces and internal regions, and the shifting diplomatic landscape of Italy-China relations, including the significant but controversial 2019 Memorandum of Understanding regarding the Belt and Road Initiative (BRI).

Chapter 2 focuses on the theoretical framework for internationalization. There are many reasons why a company decides to enter a new market, such as exploiting competitive advantages or reaching a new segment of customers, and this chapter explores why companies choose to expand and the risks they face. A central focus is given to the standardization versus adaptation dilemma and the role of culture in the internalization process. Additionally, the chapter classify and analyse the various and most common entry modes: exporting, Joint Ventures, Wholly Foreign-Owned Enterprises and Mergers & Acquisitions.

The last chapter is based on an empirical analysis of Italian corporate presence in China. It uses data from institutional sources and database, to map the geographic and sectoral distribution of Italian investments, and it also provides a statistical ranking of entry modes, highlighting the common pattern that can be found in the internationalization strategies of Italian firms and that lead Italian companies to have a successful market penetration in

[1] Peter J. Buckley, Jeremy Clegg, Hui Tan, (2006), Cultural awareness in knowledge transfer to China— The role of guanxi and mianzi, Journal of World Business, Volume 41, Issue 3, p. 275-288

China. The thesis concludes by acknowledging the study's limitations and proposing directions for future research.

Chapter 1: The Chinese Market: Evolution and Strategic Context

1.1 The development of the Chinese market

The economic evolution of the People's Republic of China (PRC) represents one of the most significant transformations in modern economic history, characterized by very fast transition from an isolated system to a global superpower. This development is frequently described as one of the fastest sustained expansions of a major economy, removing over 800 million people out of poverty in just four decades.[2] To understand how this transformation occurred, it is essential to analyse the different historical phases that came along, beginning from the limitations of the pre-reform era to the "New Normal" phase of the present day.

1.1.1 Economic reforms and the transition to a socialist market economy since 1978

During the pre-reform period (1954-1977), the Chinese economic system under Chairman Mao Zedong was a strictly centrally planned economy, modelled after the Soviet Union economy[3]: the state exercised total control over economic output, prices, distribution, and production goals. Private enterprises and foreign-invested firms were generally blocked; meanwhile foreign trade was only used to obtain those goods that cannot be made or found in China. This was because one of the central goals of the government was to make China's economy self-sufficient. In this phase economy remained largely inefficient and it was isolated from the global market; growth was inconsistent, with industrial efforts focused heavily on heavy manufacturing at the expense of agricultural productivity and consumer goods. At this point, it was evident that the Soviet-style mode was not the right one to modernize and develop the nation.[4] The turning point of this situation was the open-door policy (*Gaige Kaifang*) in 1978, under the pragmatic leadership of Deng Xiaoping: in December 1978, during the Third Plenum of the 11th Central Committee, the Chinese Communist Party (CCP) introduced the "Four Modernizations". This reform

[2] Gregory C. Chow (2004). Economic Reform and Growth in China, Annals of Economics and Finance 5, 127-129
[3] The World Bank. (n.d.) The World Bank in China Overview. https://www.worldbank.org/en/country/china/overview
[4] Morrison W.M. (2019). China's economic rise: history, trends, challenges, and implications for the United States, Congressional Research Service, p.2

focused on four country's aspects: agriculture, industry, science and technology, and national defense. The main goal was to rise from the current class struggle situation and shift to a development and modernization in the economy. The open-door policy was also designed to favour international trade and attract foreign technology, in fact, Deng Xiaoping approach was not based on a rigid ideology but was more pragmatic, summarized by the famous "black cat, white cat" philosophy: it did not matter if a policy was socialist or capitalist, as long as it boosted the economy and improved living standards.[5] A critical fact of this reform phase was the establishment of Special Economic Zones (SEZs) in 1979-1980. This Special Economic Zones were established in four coastal areas such as Shenzhen, Zhuhai, Shantou, and Xiamen; these zones served as laboratories for experiments oriented to the market: through tax incentives and trade concessions, the SEZs attracted a massive inflow of foreign direct investment (FDI) and facilitated the transfer of high technology into the mainland.[6] In 1992, after Deng Xiaoping's Southern Tour, the intention of creating a socialistic market economy was formally taken into consideration. During the tour, Deng confirmed that the previous reforms were a fundamental base for the economic revolution of the country, and that should not be altered for a century. Consequently, the 14th Chinese Communist Party Congress, proclaimed this new economic system where the market would play a primary role in resource allocation while maintaining a socialist political framework. This four decades period saw significant liberalization: prices were decontrolled, many small and medium size State-Owned Enterprises (SOEs) were privatized or converted into shareholding companies, and the non-state sector was recognized as an equal partner to the state sector .Private firms and foreign direct investment became to fuel China's development and became the base for country's economic growth[7].

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[5] Morrison W.M. (2019). China's economic rise: history, trends, challenges, and implications for the United States, Congressional Research Service, p.4-5

[6] Jack W. Hou (2011), Economic reform of China: Cause and effects, The Social Science Journal, 48:3, p. 422

[7] Gregory C. Chow (2004). Economic Reform and Growth in China, Annals of Economics and Finance 5

1.1.2 The impact of WTO accession (2001) on global trade integration

Another strategic event we need to mention, that changed significantly the business environment for Chinese enterprises, is China's formal accession to the World Trade Organization (WTO), that occurred on December 11, 2001. By joining the WTO, China engaged in a gradual opening of its domestic market, transitioning from an inward-oriented and protected economy toward an outward-oriented one, with a progressively open market: domestic competition increased and some Chinese enterprises, the so called State-Owned Enterprises (SOEs), undertake overseas investment in search of new markets, leading the Chinese government to take action implementing foreign direct investments (FDI) [8]. After this event, followed fifteen years of negotiations with others countries that led the PRC to integrate into the global value chain. In fact, the People's Republic of China committed to a comprehensive remodel of its trade policies; firstly, China drastically reduced import duties: the average tariff level, that stood at 56% in 1982, fell to 15% at the time of accession to WTO and reached 8.8% by 2008. The PRC also agreed to eliminate numerous import quotas, licenses, and non-tariff barriers that had previously created a highly protected domestic environment. Secondly there was a sectoral liberalization were many strategic industries, like banking, telecommunications and insurance, that once were restricted to foreign direct investments (FDI), undertake an opening process to guarantee access to foreign participation[9]; this opening was different for every sector: regarding banking and finance, foreign currency services were allowed nationwide, and by 2008, foreign banks were permitted to conduct local currency (RMB) business with all individuals[10]; for the telecommunications sector, by 2007, China decide to stop the current geographic restrictions and allow up to 49% foreign ownership in fixed-line services and 50% in value-added services, meanwhile for the information and technology sector (IT), the PRC sign the Information Technology Agreement (ITA) in 2003, aiming to eliminate tariffs on semiconductors, computers, and telecommunications equipment, and also facilitating the export of PC parts and complete units.

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[8] Buckley, P., Cross, A., Tan, H. *et al.* (2008), Historic and Emergent Trends in Chinese Outward Direct Investment. *MANAGE. INT. REV.* 48, 715–748. -434

[9] Sun, Peng; Heshmati, Almas (2010), International trade and its effects on economic growth in China, IZA Discussion Papers, No. 5151, Institute for the Study of Labor (IZA), Bonn

[10] Jack W. Hou (2011) Economic reform of China: Cause and effects, The Social Science Journal, 48:3, 419

The approach to WTO pushed also an institutional reform with the Chinese government engaged in a massive effort to build a framework of laws compatible with WTO requirements including the improvement of intellectual property rights (IPR) and the restructuring of agencies responsible for trade issues[11]. Strategically, this period marked a fundamental change in how foreign firms approached the market: while the government had favoured Joint Ventures to maintain national control and force technology transfer, after the access to WTO there was a liberalization that made Wholly Foreign-Owned Enterprises (WFOEs) a more attractive option. For the first time in 1999, the value of WFOEs surpassed that of Joint Ventures, giving firms greater operational control to protect their brand image and proprietary technology[12].

In the decades following its accession, China, that has been seen as "the factory of the world" for its low-cost labour, transforms into "market of the world" emerging as a global trade powerhouse: in 2009, China overtook Germany to become the world's largest merchandise exporter, and in 2012, it surpassed the United States as the world's largest merchandise trading economy. This integration has not been without friction because, due to trade imbalances and concerns over unfair competition practices, such as subsidies to state-owned enterprises, the PRC had to deal with ongoing disputes and legal proceedings at the WTO, that culminates in the US-China trade war that began in 2018. Despite these tensions, the accession to WTO still remains a fundamental moment that guide China to integrate with other countries of the globe, redefining its own international business and forcing Western firms to recognize entry into China as a strategic necessity rather than an optional choice[13].

[11] Bing-sheng Teng, (2004), The WTO and entry modes in China, Thunderbird International Business Review, Volume 46, p.381-400

[12] Canfei He (2003) Entry Mode and Location of Foreign Manufacturing Enterprises in China, Eurasian Geography and Economics, 44:6, 443-461

[13] Brühl, V. (2025), The economic rise of China – an analysis of China's growth drivers. Int Econ Econ Policy 22, 16.

1.1.3 The "New Normal": transitioning toward a consumption-driven and innovation-led economy

Between 1979 and 2017, China's economy grew at an unprecedented average annual rate of nearly 10%, allowing it to double its GDP every eight years and lift 800 million people out of poverty. The Chinese leadership soon acknowledge that a slowdown in growth was inevitable as the economy matured, risking falling into the middle-income trap: a phenomenon that occurs when a growing economy reaches a certain income level, but stagnates because it can no longer compete with low-wage exporters or high-tech innovations. To avoid this incoming trap the Chinese leadership, decide to shift China's economy strategy into a new phase called "New Normal" (*xin changtai*). This period is characterized by a deliberate shift from a growth model fueled by fixed investment and low-cost exports toward a slower, more sustainable model centred on private consumption, services, and high-tech innovation[14]. The government decided that rather than pursuing growth at any cost, now is better to prioritizes qualitative development and long-term stability[15]. The first object, as mentioned before, was to avoid the middle-income trap, and to bypass this, China tried to shift from being the factory of the world to becoming the market of the word: instead of focusing on labour-intensive manufacturing the government concentrate its attention on higher value-added activities, so in few word, it tried to place technological innovation at the centre of national planning to move Chinese industries up the global value chain[16]. Additionally, another objective was to develop an economic model driven by domestic consumption. This objective was supported by the rapid expansion of a flourishing middle class, which reached nearly 707 million people by 2018, nearly more than half of the total population. Due to the increasing of disposable incomes, consumer behaviour has shifted from just meeting basic needs to a more sophisticated demand for quality, luxury, and lifestyle products, often inspired by Western models. This behaviour is also accelerated by an increasing urbanization rate, which rose to 65.2% in 2022, and by the world-leading digital ecosystem of China, where e-

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[14] Morrison W.M. (2019). China's economic rise: history, trends, challenges, and implications for the United States, Congressional Research Service, p.2

[15] Huang, Y. (2016). Understanding China's Belt & Road initiative: motivation, framework and assessment. China Economic Review, 40, 314-321.

[16] Niñerola A, Sánchez-Rebull M, Hernandez-Lara A (2017), "Entry modes and barriers to internationalisation in China: an overview of management consulting firms". *Measuring Business Excellence*, Vol. 21 No. 1 pp. 37–49

commerce and mobile payments have become part of daily life, covering over half of China's retail sales[17].

To reach the technological innovation at the top of the agenda and transition into a high-value-added economy, China designed specific industrial policies like "Made in China 2025", that focus on modernizing the manufacturing base (which will be discussed in detail in a subsequent chapter); additionally, the "New Normal" plan is guided by the Dual Circulation strategy, which main point is to balance "external circulation" (foreign trade) with a revitalized and dominant "internal circulation" (domestic demand): the internal circulation should become the centre of Chinese economy, leveraging the advantages of a massive domestic market and, at the same time, maintaining open channels for foreign trade and investment, but reducing China's dependence on external demand and foreign technology; this is basically a reduction in export intensity in favour of higher-value-added domestic growth. With the "New Normal" phase China also focus on green economy, announcing its intention to achieve carbon neutrality by 2060, moving away from high-polluting heavy industries and trying to find new clean energy[18].

[17] Kochar, R. (2015), A global middle class is more promise than reality: from 2001 to 2011, nearly 700 million step out of poverty, but most only barely. Pew Research Center, p. 8.
[18] Brühl, Volker (2024) : The economic rise of China: An integrated analysis of China's growth drivers, CFS Working Paper Series, No. 720, Goethe University Frankfurt, Center for Financial Studies (CFS), Frankfurt a. M.

1.2 Doing business in China: challenges and opportunities

The Chinese business environment is one of the world's most dynamic and challenging business environments, and entering this market is no longer considered an optional choice, but more like a strategic necessity for multinational enterprises seeking global competitiveness in the twenty-first century. This path, however, is very complex: firstly, deep-rooted traditional values coexist with hyper-modern settings[19]; secondly, China is a leading global destination for Foreign Direct Investment even if Western firms often find the landscape intimidating due to cultural opacity, rising nationalism, and the lack of predictability in the political and regulatory actions. Despite these complexities, establishing a presence in this market of over 1.3 billion people is seen as a opportunity for many enterprises, and to reach success Is necessary to navigate navigating a non-transparent path where institutional rules are frequently updated and application of rules can be discretionary[20].

To understand this strategic landscape, this section examines the main dimensions of the Chinese market, ranging from its geographic disparities and resource management to the influence of state industrial policies and legal frameworks.

1.2.1 Geographic position and regional disparities: coastal SEZs vs. internal regions

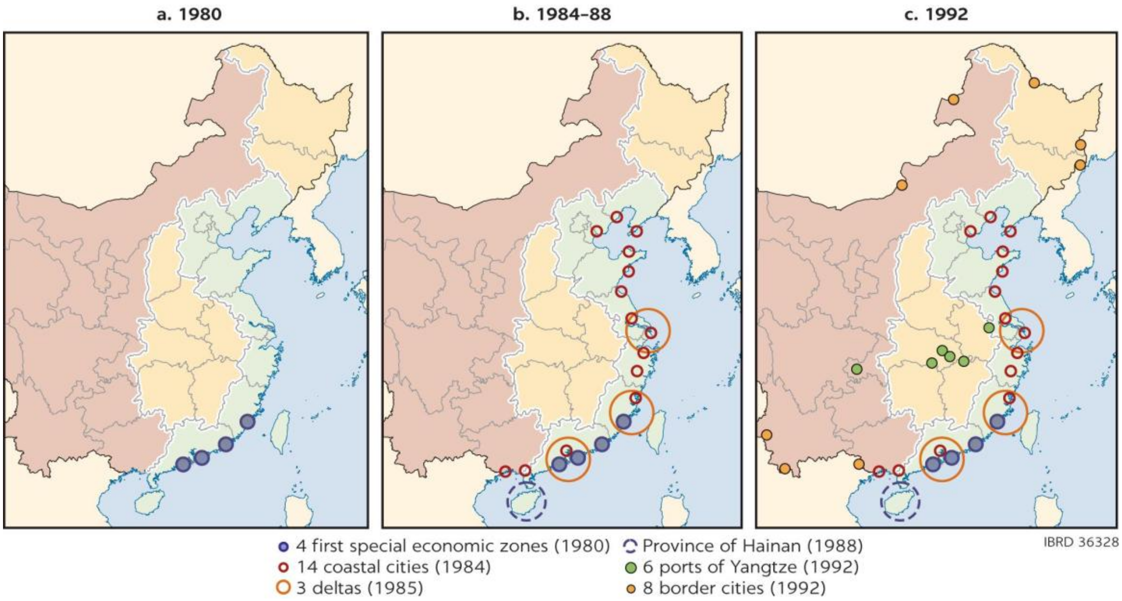
Contrary to popular belief, China does not correspond to a uniform market, but it's characterized by regional disparities that have been shaped by a gradual development strategy initiated during the 1978 reforms. The Chinese government historically divided the nation into three macro-regions based on their geographic position and their level of economic development: the Eastern (Coastal) region, the Central region, and the Western (Inland) region. Since the start of the Open Door policy, development has been deliberately concentrated along the eastern coast, because of its easy accessibility to global markets. A central point of this growth was the establishment in 1979 and 1980 of Special Economic Zones (SEZs): the government designated Shenzhen, Zhuhai, Shantou,

[19] Anglès V. (2019) Doing business in China: Challenges and opportunities. GBOE.;38:54–63. https://doi.org/10.1002/joe.21910
[20] Teng, B.-S. (2004), The WTO and entry modes in China. Thunderbird Int'l Bus Rev, 46: 381-400. https://doi.org/10.1002/tie.20015

and Xiamen as trial areas for market-oriented experiments, because of their proximity to Hong Kong, Macau, and Taiwan; the main goal was to serve as the initial bridge connecting China to the global economy, offering tax incentives, duty-free imports, and simplified administrative procedures to attract foreign capital and technology. The success of these zones, bring the government to open of 14 coastal port cities in 1984: these cities weren't actually new zones but more regional industrial centres that received concessions similar to SEZs, to develop their infrastructure and attract foreign capital. Between 1984 and 1988 the government established larger open economic zones in the coastal region; these zones include the Pearl River Delta, the Yangtze River Delta, and the Shandong Peninsula. Later in1988, the government designated Hainan Island as the largest Special Economic Zone in the country, to extend the commitment to large-scale market experimentation[21]. A turning point for China's economic transition was the year 1992, where, after Deng Xiaoping's Southern Tour, the government officially adopted the goal of creating a socialistic market; this decision brought a massive new journey of expanding openness even beyond the coast: the government launched an initiative to open all inland provincial capitals, including six major cities along the Yangtze River and 13 border cities in northern and southwestern China; This period also saw the establishment of the Pudong New Area in Shanghai, which was designed to become a global finance and high technology centre. The Open Door policy in the end bring to the creation of high-growth clusters that now contribute over 50% of the country's economic output and foreign investment[22][23].

[21] Tse, D. K., Pan, Y., & Au, K. Y. (1997). How MNCs Choose Entry Modes and Form Alliances: The China Experience. *Journal of International Business Studies*, *28*(4), 779–805.
[22] Jack W. Hou (2011) Economic reform of China: Cause and effects, The Social Science Journal, 48:3, 419-434
[23] Brühl, Volker (2024) : The economic rise of China: An integrated analysis of China's growth drivers, CFS Working Paper Series, No. 720, Goethe University Frankfurt, Center for Financial Studies (CFS), Frankfurt a. M.

Figure 1: The first generation of special economic zones in China, 1980-1992



Source: Aritua, H. Chiu, L. Cheng, S. Farrell, P. de Langen (2022), Developing China's Ports: how the Gateways to Economic Prosperity Were Revived, p 48.

In contrast with the development of the coastal regions, the internal regions, the Central and Western provinces, have always been lacking in terms of productivity, participation in international trade, and infrastructure. Inland provinces like Gansu and Qinghai face structural disadvantages like poor resource funding and limited human resources. In fact even if the Open Door policy was a success for the coastal regions, it also created profound regional disparities that has to be mitigated to prevent social instability. Therefore, in 2000, the Chinese government launched the "Grand Western Development Strategy" or "Go West" policy[24]. This strategy tried to bring state investment, expertise, and foreign direct investment into the internal area: many labour-intensive industries are now relocating from the expensive coastal areas to Central and Western China to take advantage of lower land and labour costs. How we will later analyse in this thesis, these regional disparities do not only influence citizens life but also the entry mode choices of foreign firms[25].

[24] Sun, Peng; Heshmati, Almas (2010) : International trade and its effects on economic growth in China, IZA Discussion Papers, No. 5151, Institute for the Study of Labor (IZA), Bonn

[25] Canfei He (2003) Entry Mode and Location of Foreign Manufacturing Enterprises in China, Eurasian Geography and Economics, 44:6, 443-461

1.2.2 Natural and technological resources: labour management and high-tech transfer

Originally, the structural foundation of China's economic competitiveness was the abundant supply of low-cost skilled labour and natural resources like minerals. This is why for many years China's focused of quantity-based export. However, the situation is now changing: the New Normal phase is changing the way the country manages and leverages its resources, both human and technological, by shifting to a model based on quality and high-value innovation. Is essential to mention that China has a strategic advantage due to its abundance of critical minerals, such as rare earths: the country is currently the world's leading supplier of these materials, which are essential for high-tech applications like semiconductors, electric vehicle batteries, and green energy technologies. The government is trying to protect its domestic supply and vertical value chains by restricting exports of key raw materials like germanium, gallium, and graphite, forcing international competitors to deal with potential supply chain problems[26]. However, the country is still dependent on imports for oil and natural gas to meet its massive domestic energy demand, even if, how we explain in the previous chapter, is trying to reduce the nation's reliance on foreign primary inputs and leverage this strong resource position to build high-tech manufacturing power. China aims to reduce its dependence on foreign components and achieve the 70% self-sufficiency objective that was plan in the "Made in China 2025" strategy, that we will analyse in the next chapter.

Beyond natural resources, another advantage for China was the low-cost labour: for decades, foreign investors and local producers benefited from a surplus rural labour, which lowered unit labour costs and supported labour-intensive sectors like textiles and assembly. This advantage is now decreasing due to the long-term impact of the one-child policy, which has resulted in a reduction of working-age population. This brought to increasing industrial wages, that have been rising at approximately 10% per year, and unit labor costs are gradually converging with international levels, even if is still lower than

[26] Sun, Peng; Heshmati, Almas (2010) : International trade and its effects on economic growth in China, IZA Discussion Papers, No. 5151, Institute for the Study of Labor (IZA), Bonn

in the U.S. or Germany[27]. Consequently, many company and firms are moving the production to other countries in Southeast Asia to seek cheaper alternatives. Another consequence that foreign enterprises have to deal with high staff turnover and a shortage of qualified technical supervisors, that is the consequence of a cultural trait for which employees tend to follow their managers to competing firms and dismiss organizational loyalty. The company is seen as a distant and abstract entity and personal relationship are seen as more stable than the employer-employee contract; this is why when an individual moves to a competing firm, their subordinates and even their customers frequently follow them[28]. To limit this risk, foreign firms must balance international standards with the local necessity of *Guanxi* and *Mianzi* to motivate staff and reduce friction These two concept that will be discuss later in the chapter 1.2.4[29].

The last topic to discuss is the transfer of technology, that has been the central objective of the modernization strategy; since the 1978 reforms, the Chinese government has utilized its market as an advantage, often requiring foreign firms to enter through joint ventures as a prerequisite. This strategy was designed to facilitate the transfer of advanced knowledge, management systems, and proprietary technology to domestic company. As followed, Chinese firms have developed from simple imitation to adaptation, and finally to innovation. Industries, such as telecommunications and automotive, success in leverage joint ventures to acquire foreign knowledge and eventually producing domestic firms, like Huawei and Geely, that now compete globally[30]. From a passive recipient of technology, China transitioned to a strategic asset seeker, utilizing state-supported funds to acquire established foreign brands and establish research centres in industrialized nations. The aggressive search for technology has generated international friction and Western investors are concerned about intellectual property rights violations and forced

[27] Brühl, Volker (2024) : The economic rise of China: An integrated analysis of China's growth drivers, CFS Working Paper Series, No. 720, Goethe University Frankfurt, Center for Financial Studies (CFS), Frankfurt a. M.

[28] Niñerola A, Sánchez-Rebull M, Hernandez-Lara A (2017), "Entry modes and barriers to internationalisation in China: an overview of management consulting firms". *Measuring Business Excellence*, Vol. 21 No. 1 pp. 37–49

[29] Anglès V. (2019) Doing business in China: Challenges and opportunities. GBOE.;38:54–63. https://doi.org/10.1002/joe.21910

[30] Teng, B.-S. (2004), The WTO and entry modes in China. Thunderbird Int'l Bus Rev, 46: 381-400. https://doi.org/10.1002/tie.20015

technology transfers. This is why, many firms prefer Wholly Foreign-Owned Enterprises that can maintain better operational control and decrease the risk of technology spillover[31].

[31] Canfei He (2003) Entry Mode and Location of Foreign Manufacturing Enterprises in China, Eurasian Geography and Economics, 44:6, 443-461

1.2.3 Government policies and industrial plans: "Made in China 2025" and investment regulations

Made in China 2025, also known as MiC 2025, is a ten years industrial policy that was launched in May 2015; the main object is to transform China from a manufacturer of quantity into a global manufacturing power by the centenary of the People's Republic in 2049. The plan represents a change from producing large quantities of low-cost goods to mastering the production of high-value, innovation-driven technologies. The strategy focuses on ten core sectors, including aerospace and aviation equipment, biopharmaceuticals and medical devices, robotics and numerical control machinery. A central goal of MiC 25 is to reduce dependence on foreign technology by increasing the percentage of components produced in the country and basic materials to 40% by 2020 and to 70% by 2025[32]; to achieve these goals, as mentioned before, the state utilizes massive government subsidies, state-guaranteed investment funds, and pressure on foreign firms to engage in technology transfers in exchange for market access.

Regarding China's regulatory environment for foreign direct investment, this environment has undergone a series of liberalizations, starting from accession of China to the World Trade Organization in 2001[33]. In this period the government gradually eliminates many non-tariff barriers, reduces tariffs, and opens to foreign investment some sectors such as finance, insurance, and telecommunications. Foreign investment is traditionally regulated by the "Catalogue for the Guidance of Foreign Investment Industries," which divided the different projects into three levels: encouraged, restricted, or prohibited. Strategic sectors like energy, minerals, and sensitive technologies still remain on the list where foreign presence is either barred or restricted by mandatory local partnership requirements[34]. Another major event focusing on regulation for foreign investment was the approval of the Foreign Investment Law (FIL) in 2019, which became effective on January 1, 2020. The law aims, firstly, to revoke specific laws for equity joint

[32] Morrison W.M. (2019). China's economic rise: history, trends, challenges, and implications for the United States, Congressional Research Service, p.40-41
[33] Teng, B.-S. (2004), The WTO and entry modes in China. Thunderbird Int'l Bus Rev, 46: 381-400. https://doi.org/10.1002/tie.20015
[34] Niñerola A, Sánchez-Rebull M, Hernandez-Lara A (2017), "Entry modes and barriers to internationalisation in China: an overview of management consulting firms". *Measuring Business Excellence*, Vol. 21 No. 1 pp. 37–49

ventures, contractual joint ventures, and wholly foreign-owned enterprises to match corporate governance with country's standards; secondly, it aims to impose a system of pre-establishment national treatment and a nationwide negative list: the pre-establishment national treatment is a system that ensures that foreign investors are treated no less favourably than domestic Chinese investors during the entry phase, before the business is officially established, while for the negative list, the government is reducing the number of restricted items on this list, to open the market even more[35]. Additionally, government officials are prohibited to use administrative means to force the transfer of technology: this decision was taken after many Western firms complained about being forced into sharing their proprietary technology in exchange of licenses or permits. The last objective of the FIL regards strengthening of Intellectual Property Rights (IPR) protection and the legitimate interests of foreign firms; the government is trying to cancel bad-faith registrations by penalizing entities that register trademarks with no intention of using them but just to exploit foreign brands, and also is trying to increase statutory damages for the ones that violate firm's rights, making it more expensive for local firms to violate foreign patents[36]. All these laws and strategies represent the government effort to create a more transparent and stable environment for western investors, offering incentives for some categories of firms, and, at the same time, protect the country's economy by reducing dependence on foreign technology and limiting the foreign direct investments in sectors that are strategic for national security, as plan in the dual circulation strategy[37].

[35] Morrison W.M. (2019). China's economic rise: history, trends, challenges, and implications for the United States, Congressional Research Service, p.38
[36] Rapporto Italia-Cina (2025) www.infomercatiesteri.com
[37] Brühl, Volker (2024) : The economic rise of China: An integrated analysis of China's growth drivers, CFS Working Paper Series, No. 720, Goethe University Frankfurt, Center for Financial Studies (CFS), Frankfurt a. M.

1.2.4 Administrative and legal barrier: bureaucracy and intellectual property rights (IPR)

The Chinese administrative and legal environment is seen as a mix of traditional state control rules and modern market aspirations. For foreign firms try to enter the Chinese market, this landscape is not only a background for business but an element that will determine operational success, timing, and cost. The Chinese government has worked significantly to modernize its legal environment and align with the others counties' standards, but bureaucratic opacity and inconsistent enforcement remain a significant problem. The Chinese bureaucracy is characterized by a decentralized and multi-layered structure where different government units and ministries have the possibility to claim jurisdiction over a single investment project. This is why Chinese bureaucracy is often defined by researchers as an administrative maze, where for navigate into various regulatory bodies is necessary to obtain various licenses and permits[38]. A central challenge for foreign firms is that Chinese laws are often formulated in a vague way, leaving them open to wide interpretation by local authorities: this can lead to situations where national laws are ignored or not applied if they are in conflict with regional economic interests[39]. Another big problem is that foreign project holders often need to face a more intense inspection than domestic competitors. This is defined as "liability of foreignness" and it means that Western firms many times will be penalized for administrative errors or minor regulatory deviations that local firms are able to avoid. Many firms decide to rely on local intermediaries to reduce these risks, often consultants from Hong Kong, who specialize in managing administrative registrations and intervening in legal disputes. These specialists are also essential for intervening in legal disputes, since they possess the specific knowledge to navigate the Chinese traditional bureaucratic system and at the same time understanding Western perspectives. Beyond intermediaries, firms also adopt a "linchpin" strategy by employing local Chinese managers who are already deeply involved in local connection networks: these managers not only act as bridges between the foreign enterprise, government officials, and other stakeholder, but also, thanks to their personal networks, can provide clients and be a

[38] Gregory C. Chow (2004). Economic Reform and Growth in China, Annals of Economics and Finance 5
[39] Morrison W.M. (2019). China's economic rise: history, trends, challenges, and implications for the United States, Congressional Research Service, p.36

mediator of language and traditional culture for the foreign parent company[40]. Due to the absence of a fully developed and independent rule of law, two important and largely widespread cultural concept are influencing business and administrative operations in China; the first one is *Guanxi* which translation is personal connections: this concept refers to a web of personal relationships outside the family, based on mutual benefit and a reciprocal giving. Building these personal connections with government officials and organizational leaders is, for foreign investors, often more essential for obtaining permits and licenses than just following the standardized legal processes. These personal connection act as a substitute for formal institutional support, helping firms to reduce transaction costs, environmental uncertainty, and the risk of opportunistic behaviour. Linked to *Guanxi* is the concept of *Mianzi* that translated means face: it reflects an individual's reputation and public image. In negotiations with the bureaucracy, is essential to protect an official's face and, public disagreement or even little criticism can be perceived as an offense of their ability. Saving reputation is a both sides obligation, and failing to respect this cultural rule can lead to resignations of staff or the cessation of a project's progress[41].

Beyond cultural norms that will be deeply analyse in chapter 2, the technical part of the Chinese Intellectual Property (IP) system present risks for foreign firms: China operates on a first-to-file principle, meaning that legal rights are given to the first entity to register a trademark, not counting if they have used the brand previously or if it is well-known internationally. This system brings to trademark squatting or bad-faith registrations, where local firms register foreign brands with no intent to use them but just to collecting royalties or money from the original owners. Additionally, even if central laws have been modernized, judicial application of law remains inconsistent and often up to different provinces discretion: this creates a medium-high risk for foreign firms that will notice that some national laws are ignored at the local level if they conflict with regional

[40] Anglès V. (2019) Doing business in China: Challenges and opportunities. GBOE.;38:54–63. https://doi.org/10.1002/joe.21910
[41] Peter J. Buckley, Jeremy Clegg, Hui Tan, (2006), Cultural awareness in knowledge transfer to China:The role of guanxi and mianzi, Journal of World Business, Volume 41, Issue 3, p. 275-288, https://doi.org/10.1016/j.jwb.2006.01.008

economic interests[42]. To safeguard intellectual property there is a wide legal framework of intellectual property rights (IPR) and specific regulations like the 2019 E-commerce Law for the digital environment. As it was mentioned before, the intellectual property rights the legal authority the Chinese government use to protect the interests of foreign firms, especially those in high-tech sectors where new technology is the what can give competitive market advantage; making use of IPR the government tries to avoid bad-faith registrations, increased statutory damages and prohibit government officials to use administrative pressure to force foreign companies to transfer their technology with the foreign investment law. Meanwhile, for the e-commerce sector, there is the 2019 e-commerce regulation where e-commerce platforms are co-responsible for IP violations if they do not act immediately to remove or block infringing products after being notified[43]. For foreign firms have to deal with a interchange between control and local knowledge; the administrative and legal barriers in China necessitate a long-term vision and the cultivation of relationships based on thrust with local stakeholders to overcome an institutional environment that remains non completely clear and frequently unstable.

[42] Ministero degli Affari Esteri e della Cooperazione Internazionale (MAECI), (2019), ITALIA – CINA, collaborazione scientifica e tecnologica: Piano d'Azione verso il 2025¸ p.8 https://www.esteri.it/mae/resource/doc/2020/03/piano_dazione_st_verso2025r.pdf
[43] Rapporto Italia-Cina (2025) www.infomercatiesteri.com

1.3 Why Italian enterprises choose the Chinese market

China's in just four decades manage to become the world's second-largest economy and this rapid transformation has fundamentally altered global trade environment. For Italian enterprises, particularly the small and medium-sized enterprises (SMEs), this rapid development has changed the position of China, from its previous status of low-cost factory of the world into one of the most attractive consumer markets globally. The attraction toward Chinese market is given by the development of an increasingly sophisticated middle class that actively search for international products to upgrade their quality of life[44]. By entering this environment, Italian firms seek to leverage their national competitive advantages, the famous made in Italy, synonymous of quality, design, and prestige, to reach new customer segments and build a lasting global brand presence in the China's economy.

1.3.1 Italy-China Relations

The relationship between Italy and China is one of the most ancient and bilateral relationship: the first contacts between the two civilizations date back to the Han Dinasty and Roman Empires, even if their connection was initially limited by geographical distance; the ancient Silk Road, eventually, served as trade corridor, linking the East with the city of Rome. Later, the two counties established direct connectivity during the "pax mongolica" of the 13th century, a period of stability that allowed the Venetian merchant Marco Polo to travel. In the modern era, the most significant turning point occurred in November 1970, when Italy officially recognized the People's Republic of China and started to establish formal diplomatic relations, ending the previous connection with Taiwan. The relationship situation changed after China's 1978 "Open Door" reforms under Deng Xiaoping; this topic was already discussed in the chapter 1.1.1. These reforms transformed China's economy in socialist market economy, opening the country to international trade foreign direct investment[45]. In 2004, the situation changed again, and the relationship between the two countries shifted to a global strategic partnership which aims to develop cooperation, not only on simple trade, but also to include environmental

[44] Morrison W.M. (2019). China's economic rise: history, trends, challenges, and implications for the United States, Congressional Research Service, p. 5
[45] Ignazio Musu (2011). La Cina contemporanea. Bologna, Il Mulino

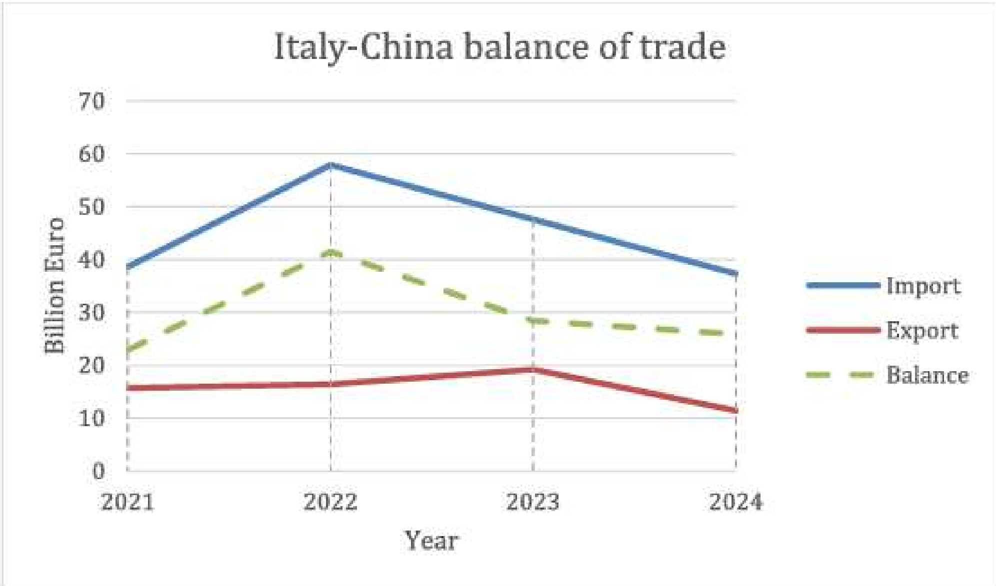
sustainability, scientific research, and cultural exchange. This partnership was deepened later in 2015 with the adoption of a joint Action Plan to improve economic and technological collaboration. By 2018, China had already become Italy's primary market in Asia and its second-largest extra-European trading partner, after the United States; the two countries bilateral trade reached a volume of 43.9 billion euro. However, there was an imbalance for Italy in trade: in 2018 the number of Italian imports from China was of 30.7 billion euro, while exports were only 13.2 billion euro[46]. This economic imbalance and the geopolitical risks are still a central theme in the recent diplomatic developments, such as the Belt and Road Initiative and the 2024–2027 Action Plan.

In March 2019, Italy signed a Memorandum of Understanding (MoU) to officially join the Belt and Road Initiative (BRI). This initiative was a modern renewal of the ancient Silk Road that tries to establish connection between China and Asia, Europe, and Africa through two ways: the Silk Road Economic Belt, which focuses on land corridors across Eurasia, and the 21st Century Maritime Silk Road, which connect China's coastal regions to European and African ports via the Indian Ocean and the Suez Canal. The BRI is a "win-win" project intended to provide mutual benefits to both China and its more than 150 participating countries: it focused on developing infrastructure and connectivity, bring economic growth, increase trade between China and European countries, share technology and management experience, and also try to export China's domestic overcapacity and positioning China as a new central country[47]. Italy was the only G7 country and the only founding member of the EU to take part of the BRI. The Italian government specifically viewed the BRI as an opportunity to transform the country into a strategic centre for Eurasian connectivity, rebalancing the already existing trade deficit and attracting investment into strategic domestic infrastructure, like the Mediterranean ports of Trieste and Genoa to handle goods arriving from the Suez Canal[48]. However, the agreement generated significant friction with traditional Atlantic allies, who were concerns about certain predatory investment and the potential of increasing Chinese geopolitical influence in Europe. Practically, the expected economic growth that should

[46] Ministero dell'Economia e delle Finanze (2019), i rapporti tra Italia e Cina, https://www.mef.gov.it/focus/I-rapporti-tra-Italia-e-Cina/
[47] Rolland N., (2015), China's New Silk Road, Commentary from Political and Strategic Implications of China's Belt and Road Initiatives, The national bureau of Asian research
[48] Ghiretti F., (2021), *The belt and road initiative in the eastern and southern EU*, EUI RSC PP, Global Governance Programme, EU-Asia Project, [Europe in the World] - https://hdl.handle.net/1814/71780

have followed the 2019 agreement failed to materialize: Italian imports from China tripled between 2019 and 2022, but exports grew only slightly, increasing the previous trade deficit; additionally, Chinese foreign direct investment in Italy decrease during this period. This is why in 2023, the Meloni government formally withdrew from the BRI, opting for a low-profile exit to avoid worsening relationship with Beijing, while rebuilding Italy's relationship with Washington[49].

Figure 2: Graph of Italy-China balance of trade 2021-2024



Source: Gallelli, B., Zappa, M. (2025), Back to the Cold War era *in-betweenness*: Italy's China strategy in the context of the Indo-Pacific framework. *Asia Eur J* 23, p.500.

[49] Istituto Affari Internazionali (IAI), (2024), Il governo Meloni alla prova. Rapporto sulla politica estera italiana. Edizione 2023, Roma, IAI, p.32-37

Figure 3: Map of China's Belt and Road Initiative

Source: https://www.policymakermag.it/italia/nuova-via-della-seta-roma-timori-usa/

After Italy formal exit from the BRI, the two counties relationship saw a restart with the 20th anniversary of the 2004 Strategic Partnership. In July 2024 Prime Minister Meloni visited Beijing, and, in this period, the two nations issued a new three-year Action Plan (2024-2027) that aim to strengthen mutual trust and maintain high-level diplomatic dialogue. This new plan focused on six key sectors: trade and investment, finance, science and technology, green development, healthcare, and cultural exchanges[50]. Different from the BRI, the 2024-2027 action plan tries to develop fair competition and guarantee market access, reducing the liability of foreignness, decreasing transaction costs through institutional dialogue and trying to protect Intellectual Property Rights (IPR). The plan also includes both countries annual meetings between their Prime Ministers, indicating the desire to maintain a stable environment for Italian enterprises operating in China despite the changing geopolitical climate. This plan is for Italy a compromise solution that attract foreign capital and maintain dialogue with the world's second-largest economy without the restrictive obligations of the previous Silk Road agreements[51].

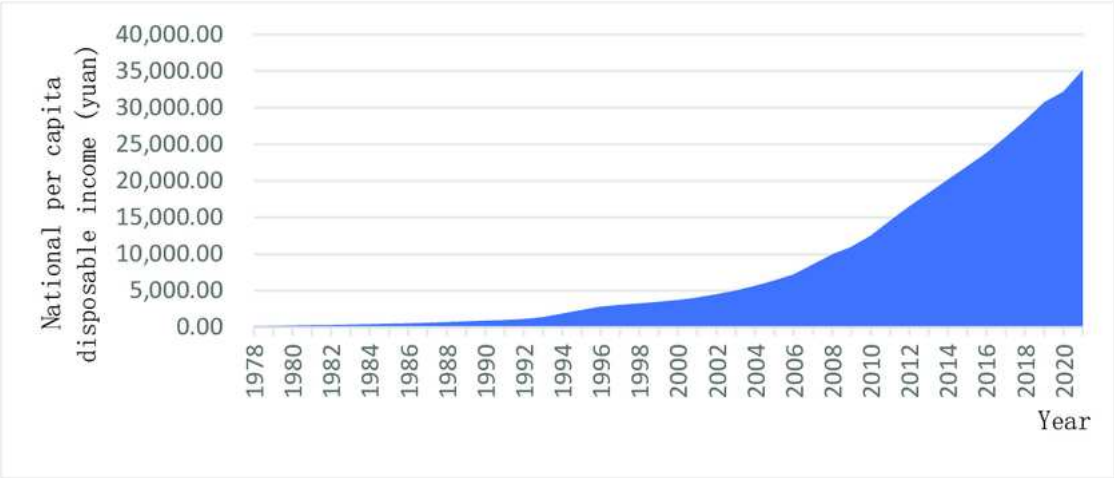
[50] Ministero degli Affari Esteri e della Cooperazione Internazionale (MAECI), (2019), ITALIA – CINA, collaborazione scientifica e tecnologica: Piano d'Azione verso il 2025, p.5
[51] Gallelli, B., Zappa, M. Back to the Cold War era *in-betweenness*: Italy's China strategy in the context of the Indo-Pacific framework. *Asia Eur J* 23, 497–507 (2025). https://doi.org/10.1007/s10308-025-00749-w

1.3.2 Exploiting the purchasing power of the flourishing middle class.

The previous chapters analysed China's economic evolution, and this evolution could not happen without one fundamental element: the rise of the middle class, that has become the foundation of the domestic economy and a primary target for international enterprises[52]. For Italian firms, the desire to enter the Chinese market is no longer found in low-cost manufacturing, but in the purchasing power of the Chinese middle class, that is focusing more on quality, status, and international standards. The rise of the Chinese middle class happened very fast: since the start of the Open Door reforms in 1978, approximately 800 million people have been lifted out of poverty, and, in 2000, only 3% of Chinese population represented the middle class and it grew over 50% by 2018, totalling approximately 707 million people[53]. This expansion has been accentuated by the rise in per capita income, which blow up to 225% between 2000 and 2010. In urban centres, the average annual disposable income reached approximately 3,000 dollars per capita by 2010 and in that date, China had already become the second-largest economy in the world, attracting potential customers for foreign goods from all over the world[54].

[52] Brühl, Volker (2024): The economic rise of China: An integrated analysis of China's growth drivers, CFS Working Paper Series, No. 720, Goethe University Frankfurt, Center for Financial Studies (CFS), Frankfurt a. M.
[53] Kent, S.A. (2022). The Power of the Middle Class in the United States and China
[54] Morrison W.M. (2019). China's economic rise: history, trends, challenges, and implications for the United States, Congressional Research Service, p.9-13

Figure 4: National per capita disposable income since 1978



Source: Compiled from relevant data published by the National Bureau of Statistics of China in previous years, https://www.researchgate.net/figure/National-per-capita-disposable-income-since-1978-Source-Compiled-from-relevant-data_fig1_362314921

According to China Power (CSIS), the emerging group of the Chinese middle class is generally defined by those with a daily per capita income between 10 dollars and 50 dollars, expressed in 2011 purchasing power parity dollars. The citizens in this category have enough income to satisfy necessary primary needs, like food, clothing and shelter, and they will use the remaining disposable income for additional consumption and savings. Additionally, the research divides the middle class group into two distinct stratum: the lower middle class and the upper middle class; the group of the lower middle class represent the majority (around 68%) of the Chinese middle class and earns between 3,650 dollars and 7,300 dollars annually; meanwhile the upper middle class earns between 7,300 dollars and 18,250 dollars annually, this group is smaller than the previous one but is the one who drives the middle-class spending growth because of their higher levels of disposable income[55].

Figure 5: Breakdown of class income bands

[55] China Power. (2017, Apr.). How well-off is China's Middle Class? China Power. https://chinapower.csis.org/china-middle-class/

Figure 5: Breakdown of class income bands

Income Band	Daily Income	Annual Income
Poor	<$2	<$730
Low	$2 – $10	$730 – $3,650
Lower-middle	$10 – $20	$3,650 – $7,300
Upper-middle	$20 – $50	$7,300 – $18,250
High	>$50	>$18,250

Source: Pew Research Center

The massive expansion of the Chinese middle-class is due to several internal factors: firstly, there is the transition to a socialist market economy that brought to decades of GDP growth, increasing about 10% annually for forty years. This growth was influenced by massive investment and rapid productivity profit that derive form workers that moved from agriculture to high-value manufacturing and service sectors[56]. Secondly, the Chinese government tried to accelerate the urbanization, and, in 2011, the urban population surpassed the rural population, reaching 51.3%. This situation allowed workers to access to higher paying jobs and better education, driving them in the middle-class band[57]. This development of the Chinese middle class brought also an alteration of consumption behaviours: according to Engel's Law, as households income raises, their expenditure food will decrease[58]; this is what happened in China where the money spent on food passed from 57% in 1991 to just above 30% in 2011; the disposable income is then reallocated to healthcare, education, recreation, and expensive goods, such as electronics and cars. This shift is a sign of transition from a survival-oriented lifestyle to one that is more permissive.

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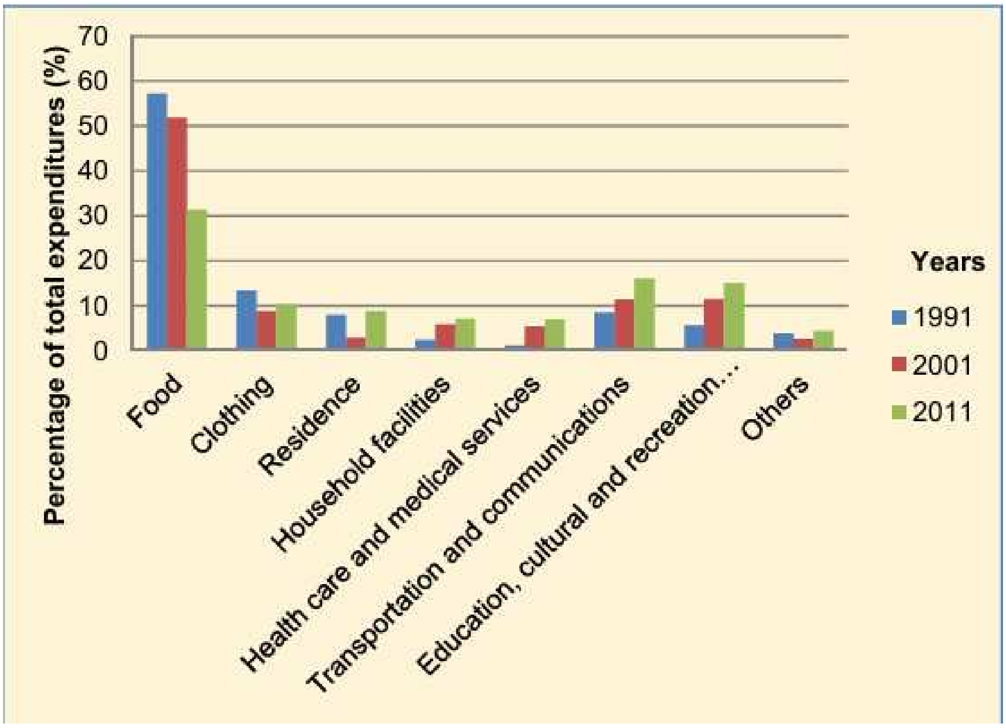
[56] Jack W. Hou (2011) Economic reform of China: Cause and effects, The Social Science Journal, 48:3, 420

[57] The Economist online (2018). Going to town. http://www.economist.com/blogs/graphicdetail/2012/01/daily-chart-6

[58] Carle C. Zimmerman, (1932), Ernst Engel's Law of Expenditures for Food, *The Quarterly Journal of Economics*, Volume 47, Issue 1, November 1932, Pages 78–101, https://doi.org/10.2307/1885186

Figure 6: Average Per Capita Annual Expenditure of Urban Households in China (Comparison of the year 1991, 2001 and 2011)



Source: from China Statistical Yearbook 2011, China Statistics Press 2012.

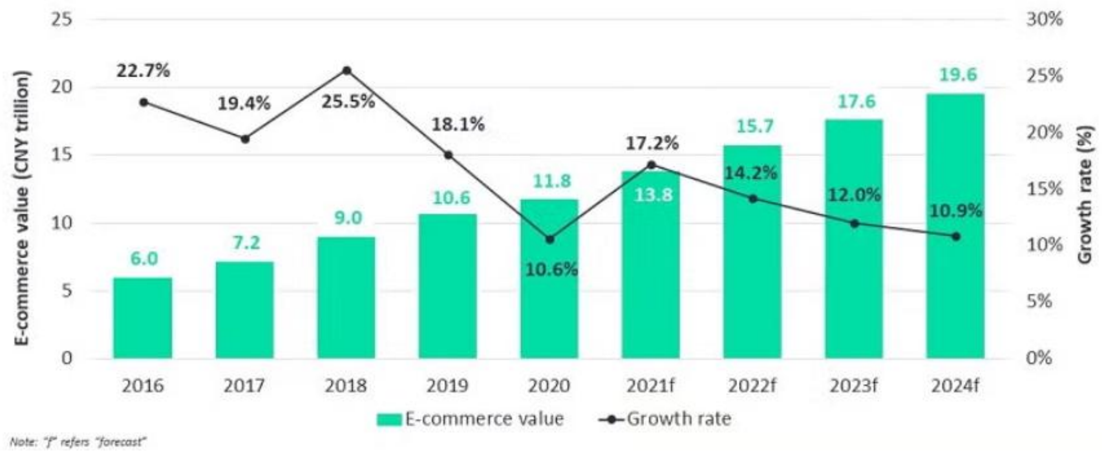
Regarding the consumption behaviours, Chinese people are increasingly adopting behaviour similar to the others global countries: there is a rise in aspirational spending, particularly among the upper middle class group, who started to buy goods and services as a signal of social status, personal success, and a modern lifestyle[59]. In fact, Chinese consumers are willing to pay a premium price for brands that represent quality and social status, and younger generations are more and more brand-conscious, self-expressive, and influenced by Western lifestyles than their parents[60]. Another important factor regarding Chinese consumer behaviour and habits is the evolution of digital market and social media: China has become the world's largest e-commerce market, with e-commerce value that went from 6 trillion yuan in 2018 up to 19.6 trillion yuan in 2024. The number of online shoppers continues to grow, with Chinese online user daily spending many hours on

[59] China Power. (2017, Apr.). How well-off is China's Middle Class? China Power. https://chinapower.csis.org/china-middle-class/

[60] Lannes B., Hatherall R., Ding J., Han W., Booker M. (2018) Consumption in China: ten trends for the next 10 years. How companies can succeed in a richer, older, more innovative China. Bain & Company.

different platforms and increasingly relying on social networks and Key Opinion Leaders to make purchase decisions[61].

Figure 7: E-commerce Value (CNY trillion), 2016-2024



Source: GlobalData Banking and Payments Intelligence Centre.

This growth, however, brought different problems regarding demographic: firstly, there is a rising debt in Chinese household that covered around 56% of GDP by 2019, with two-thirds of that debt connected to property markets. Home prices in central cities like Shanghai and Beijing, is around 15 to 20 times the average household income. Secondly, China's population is aging rapidly and the dependency ratio, so children and elderly that are supported by working population, is rising very fast and is expected to go from 37.7% in 2015 to 66.6% by 2050, creating a big problem for middle-class households that must take care of elderly relatives. There is also an increasingly inequality between Chinese population: on one side poverty has been reduced, but on the other side the benefit of this economic growth has not been shared equally among the population. China's Gini index, that measure inequality, was about 38.5 in 2016, lower than Brazil or South Africa but, at the same time, higher than Russia or India. The last central problem of this increased consumption is the elevated CO2 emissions and air pollution, caused also by higher vehicle purchases and gasoline consumption; this problem has brought the government to focus on the objective of carbon neutrality by 2060[62]. Despite these incoming problems,

[61] Global Data, (2021). E-commerce market in China will reach US$3 trillion in 2024, forecasts GlobalData. https://www.globaldata.com/e-commerce-market-china-will-reach-us3-trillion-2024-forecasts-globaldata/
[62] China Power. (2017, Apr.). How well-off is China's Middle Class? China Power. https://chinapower.csis.org/china-middle-class/

the rapid rise of the middle class has positioned China as a strategic environment for foreign and multinational enterprises: the size of the market, that count 1.3 billion potential customers, is appealing for firms because capturing even a small part of it, can lead to a global growth. Furthermore, China is now a leader in high-tech industries and digital business, reason that brings more and more foreign enterprises to approach the market.

1.3.3 Leveraging the "Made in Italy" effect in luxury, fashion, and food.

For Italian enterprises, the Made in Italy label represents a powerful intangible asset and is often used as a driver for success in the Chinese market. For Chinese consumers, Italian products are seen not just like physical goods, but, how we analyse in the previous chapter, are synonymous of elegance, style and exquisite taste that reflects a sophisticated way of life, typical of the Italian lifestyle. This phenomenon is expressed to what experts describe as the Made in Italy effect, where the country of origin, in this case Italy, acts as a guarantee of quality and a signal of high social standing. This is also what happen with Germany in the automotive industry: the country has a reputation for the high-level quality of its vehicles, driven form an intense domestic competition and the orientation toward technical perfection typical of German society[63]. The success of Italian brands, instead, is based on their ability to transfer a sense of product quality along with values of beauty, country tradition, and luxury. Italian style is seen globally as the "Italian art of living" or the "Italian Dream": living in an attractive and desirable lifestyle, made of unique aesthetic sense taste and characterized by search for beauty and individual satisfaction at every level of daily experience. These concepts allow Italian firms to maintain a highly competitive advantage and justify premium pricing. This is also known as value creation: it occurs when a firm managed to differentiate itself from its rivals by delivering greater value to customers or providing comparable value at a lower cost. For Italian enterprises, this process is driven by differentiation rather than cost leadership and value is created when brands succeed in transferring a sense of physical product quality and elegance united with Italian beauty and taste, that make the consumer perception exceeds the cost of producing. However, Italian brands to remain successful must evolve and not only depend on their origin but become a country concept brand that represents a consistent lifestyle choice for the consumer[64].

Regarding the influence on Chinese society, the Made in Italy effect has a profound impact, particularly on the middle class who, as previously analysed, utilize these products as status symbols to signal personal success and modernity. There is a strong

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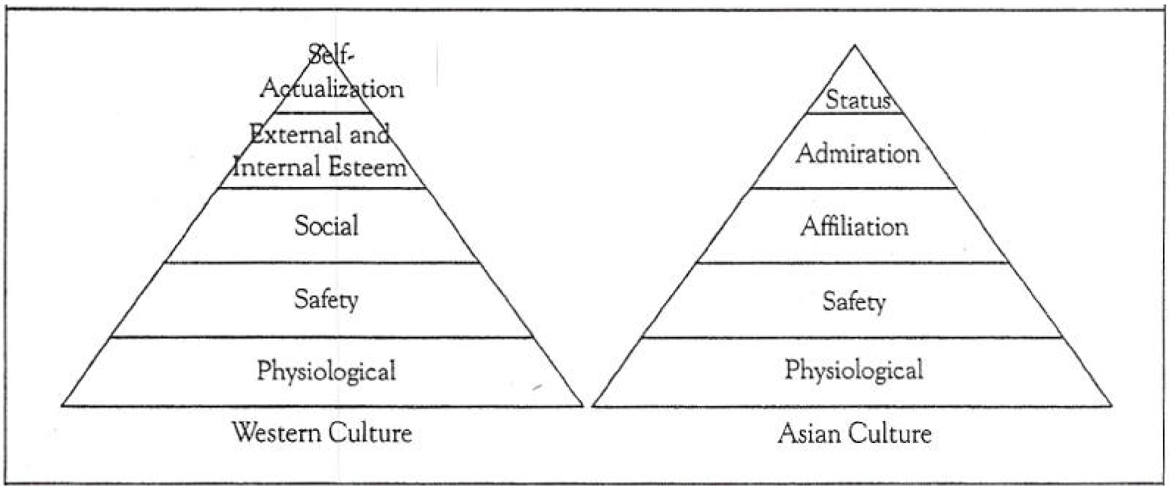
[63] Cannavale, C. (2019). Internationalizing Firms. Internationalizing Firms. Internaltional Strategy, Trends and Challenges.
[64] Michael E. Porter (1996), What Is Strategy?, Harward business Review

relationship between the general reputation of Italy and the Chinese consumer's willingness to buy Italian products: this influence is not direct but mediated by the perception that Italy is excellent with its manufacturing ability. Additionally, there is a fit between the Italian identity and specific product categories like shoes, wine, and furniture[65]. The attraction of Chinese society to Italian luxury is also explained by an adaptation of Maslow's hierarchy of needs to the Asian context, in accordance with the research of Schutte and Ciarlante (1988): in the model, for Asian societies the highest level is represented by status and admiration, instead of self-actualization and internal esteem as Maslow sustained. Italian luxury brands match with these concepts by transferring ideas of richness and sophistication. This match is sustained by the empirical data collected in Snaiderbaur's research where, in a survey of 1,000 Chinese participants, 28% identified as the primary characteristic of Italian products is the status symbol, alongside design and quality as a main attribute for purchase. This is in accordance with the group of young, educated Chinese consumers who are highly brand conscious and use Italian fashion to express their self-identity and the "me generation", raised under the one-child policy, who is more and more attracted to Western lifestyles and less connected with tradition, that demands products that represent a modern, international status[66].

Figure 8: Maslow pyramid in western and Asian culture



[65]Balboni B., Grappi S., Martinelli E., Vignola M., (2011), L'impatto del Made in Italy sul comportamento d'acquisto dei consumatori cinesi, in "Micro & Macro Marketing, Rivista quadrimestrale", pp. 445-462, doi: 10.1431/36060
[66] Snaiderbaur S., (2010), 'Made in Italy' in China: From Country of Origin to Country Concept Branding.

Source: Snaiderbaur S., (2010), 'Made in Italy' in China: From Country of Origin to Country Concept Branding.

Another important element that is essential to analyse is the so called 4As: *Abbigliamento* (Fashion), *Agroalimentare* (Food), *Arredo* (Furniture), and *Automazione* (Automation). These 4As are basically the macro sectors that lead Italian exports and that constitute the pillars of the Made in Italy in the global market. Firstly, Italy is considered the country of fashion by Chinese consumers, who are particularly attracted to Italian leather goods, footwear, and clothing because of their details and classic style. Brands like Giorgio Armani and Ferragamo have built a dominant presence in the Chinese market, organizing physical stores that create participation and interest and an image of high-end quality. Secondly, another important sector for Italy is the food one: Italian products represent the good living of the Mediterranean diet and Italian wine has seen an increase in exports, for both the good quality and taste, and because it is perceived not just as a drink, but as a luxury item, that evokes deep emotions and celebrates social prestige. Italy is also appreciated for the taste in interior design, which prioritize domestic beauty: this is why the furniture sector is also very popular, receiving global appreciation, and it is also an important pillar for exports. The last one of the 4As is Automation: this sector is less associated with Italian lifestyle but is the most important sector in terms of economic volume and trade surplus[67][68]. In conclusion, leveraging the Made in Italy provide a competitive advantage for Italian firms that is difficult for local competitors to replicate. For Small and Medium Enterprises that probably do not have the marketing budget of global competitors, the country of origin effect acts as a powerful marketing tool, reducing the perceived risk for consumers, in this case chinse consumers, providing reliability and craftsmanship and also allows companies to leave behind price-based competition, focusing on differentiation, try to conquer a niche in the world's most dynamic consumer economy.

[67] Biondi, A. (2015, July). Quattro A che spingono il made in Italy. Il Sole 24 ore. https://st.ilsole24ore.com/art/impresa-e-territori/2015-07-15/quattro-che-spingono-made-italy063627.shtml?uuid=ACG5poR

[68] Balboni B., Grappi S., Martinelli E., Vignola M., (2011), L'impatto del Made in Italy sul comportamento d'acquisto dei consumatori cinesi, in "Micro & Macro Marketing, Rivista quadrimestrale", pp. 445-462, doi: 10.1431/36060

Chapter 2: Internationalization strategy and market entry modes

2.1 Defining strategy and the business model

In the contemporary landscape of global competition, it is essential to understand the concepts of strategy and business model, that are at the base of an organization's success. The two terms are frequently used interchangeably, but they represent distinct intellectual areas that must be harmonized for organizations to achieve the competitive advantage they are looking for, and, even if the two concepts are interrelated, failing to distinguish between them can lead to poor decision-making[69].

According to the professor Michael Porter, strategy is the creation of a unique and valuable position, involving a different set of activities; the essence of strategy is to choose to be different from rivals rather than simply trying to perform the same activities more efficiently; in fact, professor M. Porter, make a clear distinction between strategy and operational effectiveness: operational effectiveness means performing the same activity but better than rivals, in terms of efficiency and practices, while strategy is choosing to perform activity differently from your rivals or choosing a different set of activities to perform. Porter additionally stated that strategy cannot exist without trade-offs: a company must decide what not to do because some activities are incompatible and in a competitive landscape, a company cannot be everything to everyone without risking running into inefficiencies. Companies should have priorities to focus on, to ensure that a firm's position is not easily imitated by competitors who attempt to copy a successful model without abandoning their own. Furthermore, strategy is also seen as a contingent plan of action: the plan determines how a company will compete in the long run and it's designed to achieve specific goals. Essentially, strategy is just a guide that prepares a firm for various possible scenarios. To implement a strategy, managers must not only focus on supervising individual tasks but focus on how the entire organization works as a single

[69] Seddon, Peter and Lewis, Geoffrey, (2003), "Strategy and Business Models: What's the Difference?". PACIS 2003 Proceedings. 17. http://aisel.aisnet.org/pacis2003/17

unit and try to synchronize the different business process to create a unique competitive position difficult for competitors to copy and that deliver value to customer[70].

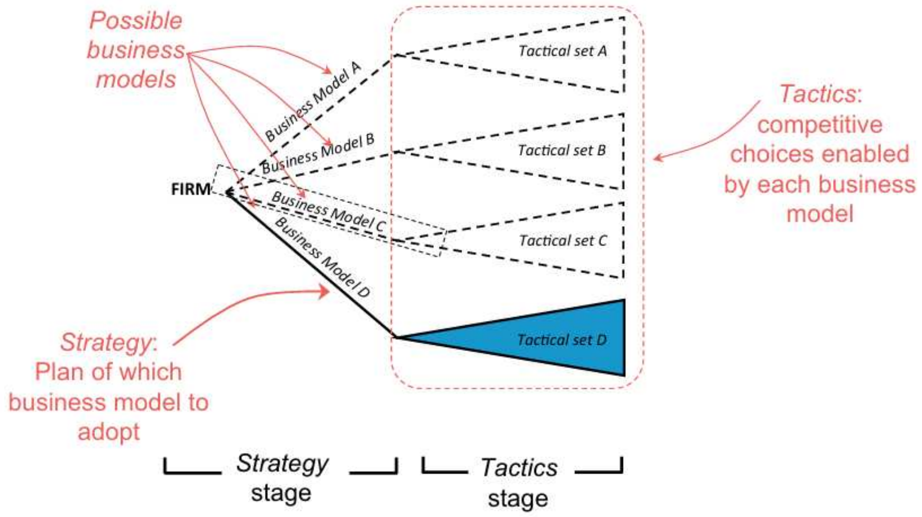
While strategy is the plan of the company, on the other side we have the business model that is the logic of the firm: it describes how the firm operates and creates value for its stakeholders in a competitive marketplace. The business model simply consists in a set of managerial choices, regarding policies, assets, and governance, and the consequences that those choices bring to the company. Essentially, the business model defines how the enterprise delivers value to customers, persuade them to pay for that value, and transform the payments into profit[71].

The relationship between strategy and the business model is that the business model is the practical manifestation of a firm's strategy: it comprehends all the choices and consequences that results from a strategic plan, and it is the bridge that connect the big-picture strategy and daily operations of the company. From this perspective, strategy is the decision of which model to build to compete in the market, while the business model focus on the day-to-day choices and tactical moves, that are actually possible for the firm. Every organization has a business model, because they have to makes choices that inevitably lead to consequences, but is not sure that every organization possesses a strategy, so they just focus on the current business model without a pre-planned read-map for future contingencies[72]. To clarify the relationship between the two concepts, Ramon Casadesus-Masanell and Joan Enric Ricart (2011) utilize the automobile analogy: they think of the firm as a machine where strategy is the design of the machine, so its shape, engine power, and features, and the business model is the car itself, so the actual machine resulting from those choices; the researchers also define tactics, that are how the car is driven, the day-to-day decisions. The Figure 9 show how these concepts are related with each other. Based on this analogy the business model reflects the firm's realized strategy[73].

[70] Porter, M. E., (November–December 1996), "What Is Strategy?" Harvard Business Review 74, no. 6, 61-78.
[71] Ramon Casadesus-Masanell, Joan Enric Ricart, (2010), From Strategy to Business Models and onto Tactics, Long Range Planning, Volume 43, Issues 2–3, Pages 195-215, https://doi.org/10.1016/j.lrp.2010.01.004.

[72] Seddon, Peter and Lewis, Geoffrey, (2003), "Strategy and Business Models: What's the Difference?". PACIS 2003 Proceedings. 17. http://aisel.aisnet.org/pacis2003/17
[73] Casadesus-Masanell, Ramon, and Joan E. Ricart. (January–February 2011), "How to Design a Winning Business Model." Harvard Business Review 89, nos. 1-2: 100–107.

Figure 9: relation between strategy, business model and tactics



Source: Ramon Casadesus-Masanell, Joan Enric Ricart, (2010), From Strategy to Business Models and onto Tactics, Long Range Planning, Volume 43, Issues 2–3, P.204

2.1.1 Strategy as the creation of a unique and valuable position and different levels of strategy

In the contemporary landscape, reaching a sustainable competitive advantage begins with understanding what is strategy and how it functions as the "art of creating value"[74]. As it was mentioned in the previous chapter, the most accurate definition of competitive strategy was given by Michael Porter that describes it as "the creation of a unique and valuable position, involving a different set of activities"[75]. This definition explained that firm's success is not only a result of performing activities better than rivals but also choosing to be different from others.

Essential for any strategic analysis is the distinction between the concepts of operational effectiveness and strategic positioning: operational effectiveness means performing similar activities better than rivals or improving efficiency, while strategic positioning means performing different activities from rivals or performing similar activities in different ways. Operational effectiveness focus on profitability and allows a firm to approach the productivity frontier, so the maximum possible efficiency an industry can achieve at a given time using current technology. However, the operational effectiveness is not enough for a sustainable advantage: when one company finds a better way to operate tasks, other companies tent to copy it almost immediately, and because of that, the competitors start to look and act the same, this is called competitive convergence. Since the companies act the same and their products are identical, the only way to gain customers is to lower prices, leading to a zero-sum competition, where one company's gain in customers is equal to another company's loss. In this case is necessary to apply strategic positioning. According to Porter's research, strategic positions come up from three distinct bases: the first one is the variety-based positioning, where to distinct itself form others, a company decide to specialize in a specific subset of products or services within an industry, rather than trying to provide everything to everyone. The second one is the needs-based positioning, where a company focus on serving most or all of the needs of a particular group of customers. The last base is the access-based positioning, where

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[74] O'Cass, A. and Ngo, L.V. (2011), Examining the Firm's Value Creation Process: A Managerial Perspective of the Firm's Value Offering Strategy and Performance. British Journal of Management, 22: 646-671. https://doi.org/10.1111/j.1467-8551.2010.00694.x

[75] Porter, M. E., (November–December 1996), "What Is Strategy?" Harvard Business Review 74, no. 6, 61-78

the company segments customers who are accessible in different ways, such as by geography or scale, requiring a unique configuration of activities to reach them[76]. Choosing any of these positions, depends only on the firm's ability to make sure that the position is not only unique, but also valuable; in fact, since strategy is define as the "art of creating value"[77], a strategic position is successful if it creates a favourable gap between the value a customer receives and the cost the firm sustains, and in this case, it is essential to mention the value based theory of strategy. The goal of a business is to maximize the total value created (TVC), that is the difference between the customer's willingness to pay (WTP), so the maximum amount a customer is willing to give up to get the company's product, and the firm's input costs (C), so the total cost the company pays to make the product:

$$TVC=WTP-C$$ [78]

Following this theory, a valuable position for a firm is one where the firm manages to increase the size of the value pie: the difference between what the customer thinks the product is worthed and what it cost to make the product itself[79].

To maintain a unique position and create value, an organization must execute its strategy across different hierarchical levels: initially divided into corporate and business levels[80]. Each of these levels have different role in the value creation system. Starting from the corporate level strategy, **t**his level is the one that focus on managing a portfolio of businesses and deciding which business models to employ between various markets. The primary task of this level is corporatising**:** making structural decisions about whether value-creating activities should be tightly coupled, so having interdependent components, or loosely coupled, so having independent components with minimal dependencies. The

76 ibidem

77 O'Cass, A. and Ngo, L.V. (2011), Examining the Firm's Value Creation Process: A Managerial Perspective of the Firm's Value Offering Strategy and Performance. British Journal of Management, 22: 646-671. https://doi.org/10.1111/j.1467-8551.2010.00694.x

78 Brandenburger, A.M. and Stuart, H.W., Jr. (1996), Value-based Business Strategy. Journal of Economics & Management Strategy, 5: 5-24. https://doi.org/10.1111/j.1430-9134.1996.00005.x

79 Biloshapka, Vladyslav & Osiyevskyy, Oleksiy. (2018). Value creation mechanisms of business models: Proposition, targeting, appropriation, and delivery. The International Journal of Entrepreneurship and Innovation., V. 19.

80 Ghobadian A, O'Regan N, Thomas H, Gallear D, Bowman C, Ambrosini V (2007), "Firm value creation and levels of strategy". *Management Decision*, Vol. 45 No. 3, p. 362-363
doi: https://doi.org/10.1108/00251740710745007

goal of corporate strategy is to increase value through taking decisions about the integration or separation of activities to achieve economies of scale or scope[81]. Following with the business level strategy, this level is traditionally associated with the strategic business unit and focuses on how to compete within a specific market or industry. Essentially, while corporate strategy decides which businesses to be in, business strategy level is responsible of translating the general objective of the firm in specific architectural and financial arrangements, the so-called business model, to be used against rivals and to achieve competitive advantage[82]. Many contemporary researchers have introduced a third layer regarding tactics and operational execution to complete the strategic framework: Casadesus-Masanell and Ricart (2010, 2011) propose this distinction, defining tactics as the residual choices that a firm can make but are limited within the bounds of its chosen business model, such as adjusting advertising intensity or specific price points to respond to local market conditions; this level focuses on the day-to-day management of independent functions, like marketing or production[83]. For a company to be successful is essential to coordinate these three levels: the tactics, so the day-to-day work, must support the business model that consequently should fit into the company's overall corporate strategy. In fact, the sustainability of a unique and valuable position depends on the fit between activities and how them reinforce one another, creating a system that is nearly impossible for rivals to copy[84].

[81] Ivi p.364-365
[82] Ivi p.363
[83] Ramon Casadesus-Masanell, Joan Enric Ricart,(2010),From Strategy to Business Models and onto Tactics, Long Range Planning, Volume 43, Issues 2–3, Pages 195-215, https://doi.org/10.1016/j.lrp.2010.01.004.
[84] Porter, M. E., (November–December 1996), "What Is Strategy?" Harvard Business Review 74, no. 6, pp. 70-74

2.1.2 Business model innovation: Value creation, delivery, and capture.

One of the main characteristics of the contemporary business environment is the speed to which situation change, driven by forces such as technological advancement, globalization, and shifting social norms[85]. In this scenario the concept of business model innovation has emerged not just as an option, but as a necessity to firm for survival. In general, traditional innovation focuses on products or processes, but business model innovation aims to modify the logic of the firm, redefining the way an organization creates, delivers, and captures value[86]. Before talking about innovation, it is essential to understand what a business model is: as mentioned before, business model is seen as the organizational and financial architecture of a business, and it explains how the pieces of a business fit together in the whole.

The most widespread framework for visualizing the business model is the business model canvas, pioneered by Osterwalder and Pigneur, that describe it as it follows:

This tool resembles a painter's canvas - preformat ted with the nine blocks- which allows you to paint pictures of new or existing business models. The Business Model Canvas works best when printed out on a large surface so groups of people can jointly start sketching and discussing business model elements with Post-it® notes or board markers. It is a hands-on tool that fosters understanding, discussion, creativity, and analysis.[87]

Essentially, the business model canvas is a visual representation of the business model, and it is useful to understand a business model in a clear and structured way. Additionally, the nine building blocks that compose the canvas, cover the four main areas of any business: customers, the offer, infrastructure, and financial viability. These blocks are divided in this way:

1. Customer segments: it includes the groups of people or organizations a firm aims to serve.

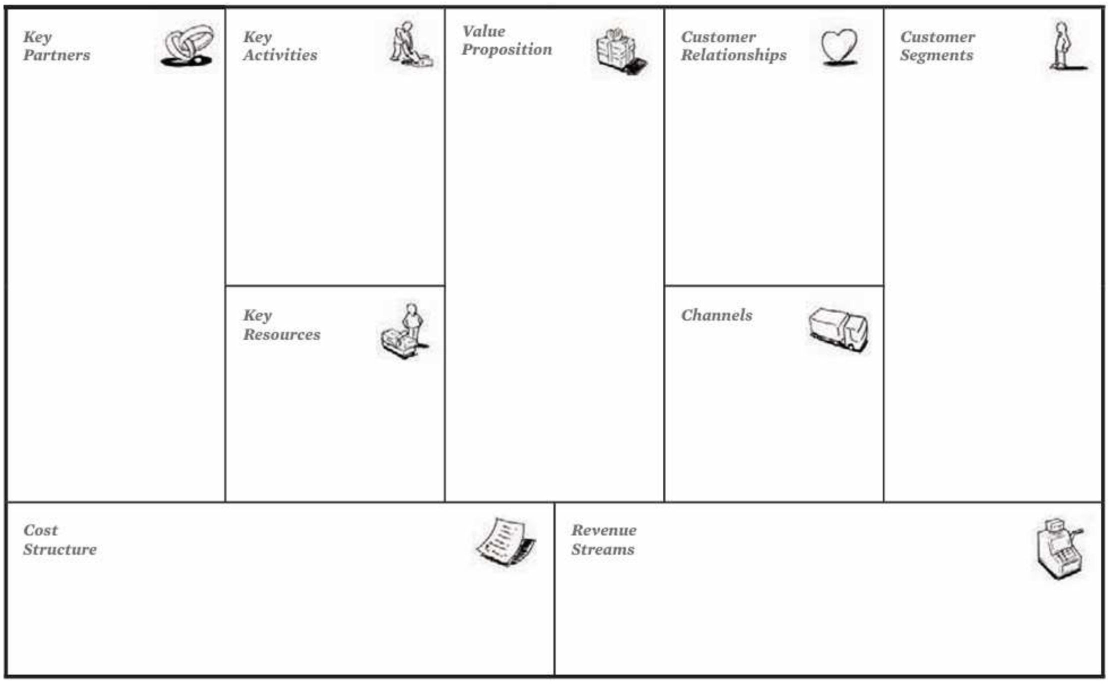
[85] Casadesus-Masanell, R., & Ricart, J. E. (2011). How to design a winning business model. *Harvard Business Review*, *89*(1/2), 100-107.
[86] Osterwalder, A. and Pigneur, Y. (2010) Business Model Generation: A Handbook for Visionaries, Game Changers, and Challengers. Wiley, New Jersey, p. 5
[87] Ivi, p. 42

2. Value propositions: the products and and services that create value for a specific segment and that solve a specific segment needs.
3. Channels: the way a company communicates with the customer and reaches them to deliver the value proposition.
4. Customer relationships: the relationships a firm establishes and try to maintain with a specific segment.
5. Revenue streams: the cash a company generates from each segment.
6. Key resources: the central assets required to make the model work.
7. Key activities: the central actions a company must take to operate in a successful way.
8. Key partnerships: the network of suppliers and partners that allow the model to function and that are outside the enterprise.
9. Cost structure: all costs incurred to operate the business model[88].

The Canvas is typically divided into left and right side, with the right side focusing on customer and value, and the left side focusing on efficiency and cost.[89] Bringing innovation in one of the nine block often influences also the others, that have to make immediate adjustments.

[88] Osterwalder, A. and Pigneur, Y. (2010) Business Model Generation: A Handbook for Visionaries, Game Changers, and Challengers. Wiley, New Jersey, pp. 16-17
[89] Ivi p.49

Figure 10: the business model canvas



Source: Osterwalder, A. and Pigneur, Y. (2010) Business Model Generation: A Handbook for Visionaries, Game Changers, and Challengers. Wiley, New Jersey, pp. 44.

Nowadays firms are increasingly prioritizing business model innovation over traditional product innovation: in fact, a study conducted by IBM, where 750 leaders worldwide were interviewed, discovered that outperforming companies, so the ones that have faster-growing operating margins than their peers, were twice as likely to prioritize business model innovation, opposed to product or process innovation [90]. This never-ending business model innovation is also driven by several factors that influence the market and firms: firstly, there is an environmental pressure where many traditional models became obsolete due to deregulation, sustainability requirements, and technological change; in this case innovation in the business model in essential for survival of the business[91]. Secondly, business model innovation is helpful during periods of resource scarcity: in fact, it is often more attractive than R&D intensive product innovation because it relies on the recombination of already existing resources and capabilities, without investing massive

[90] Pohle, George & Chapman, Marc. (2006). IBM's global CEO report 2006: Business model innovation matters. Strategy & Leadership. 34.10.1108/10878570610701531.
[91] Casadesus-Masanell, R., & Ricart, J. E. (2011). How to design a winning business model. *Harvard Business Review*, *89*(1/2), p.100-107.

new capital. Lastly, innovation on the business model allow firm to protect themselves from disruption, by serving new customer segments that were previously ignored, or creating entirely new industries, this is what is called "Blue Ocean strategy". This strategy is simply explained by Osterwalder and Pigneur (2010), referring to the concept coined by Kim and Mauborgne (2005):

In a nutshell, Blue Ocean Strategy is about creating completely new industries through fundamental differentiation as opposed to competing in existing industries by tweaking established models. Rather than outdoing competitors in terms of traditional performance metrics, Kim and Mauborgne advocate creating new, uncontested market space through what the authors call value innovation. This means increasing value for customers by creating new benefits and services, while simultaneously reducing costs by eliminating less valuable features or service[92].

As mentioned before, innovation is not only limited to the creation of new products, but it usually involves different types of business activities across the entire business ecosystem. Because of that the researchers Keeley, Pikkel, Quinn and Walters (2011) gathered together and analysed almost 2.000 cases of successful innovations to understand what these innovations had in common[93]. They discovered what part of a business model a firm can innovate and then developed the Ten Types of Innovation framework: this framework is useful for companies that want to evaluate innovation possibilities in the organization and that want to analyse the external environment to find new potential opportunities. The framework is organized into three categories that move from the internal parts of the business to the external part[94]:

1. Configuration: this category focused on the inner activities of the enterprise and includes profit model, how the company make money, network, the external partnerships of the company, structure, the organizing assets of the company and process, so the proprietary methods used by the company.
2. Offering: the second category focused on the innovation of the product or service itself and is divided into product performance and product system.

[92] Osterwalder, A. and Pigneur, Y. (2010) Business Model Generation: A Handbook for Visionaries, Game Changers, and Challengers. Wiley, New Jersey, p. 226.
[93] Keeley, L., Pikkel, R., Quinn, B. Walters, H. (2013) Ten types of innovation: the discipline of building breakthroughs, Wiley, p. 35-36
[94] Ivi p.33-34

3. Experience: the last category of innovation focused on customer-facing elements, and it includes service, channel, brand and customer engagement[95].

The researchers point out that product performance is often the easiest innovation to copy and it rarely delivers long-term advantage. In contrast, successful innovators usually integrate an average of 3.6 types of innovation to create a more robust and defensible market positions[96]. In fact, to survive in the modern market, firms should analyse the ten types of innovation framework to understand where it is possible to innovate and then focus on combining multiple type of innovation to create a unique activity system that is difficult to be copied by competitors and that can help the firm reach competitive advantage.

Figure 11: ten types of innovation framework

Source: Keeley, L., Pikkel, R., Quinn, B. Walters, H. (2013) Ten types of innovation: the discipline of building breakthroughs, Wiley, p. 33

[95] Ibidem
[96] Keeley, L., Pikkel, R., Quinn, B. Walters, H. (2013) Ten types of innovation: the discipline of building breakthroughs, Wiley, p. 101-103

2.1.3 Internationalization strategies

Internationalization represents a key strategic step for firms that expand their product and market activities beyond national borders, often by replicating partial or total of their operational process abroad[97]. Nowadays, internationalization for firms is not only a process that regards geographic diversification, but it is more a way to increase profitability and profit growth that would not be reached by only operating in the domestic market. There are form main economics objectives that push firms to pursue internationalization: firstly, firms try to expand the market by offering domestic products to international territories to reach greater sales volumes and market share. The second objective focus on realizing local economies, so improving a firm's value chain configuration by dispersing activities to locations where they can be performed in a most effectively way and more efficiently, taking advantage of differences between countries, such as lower labour costs or specialized expertise. Thirdly, firms try to realize greater cost economies: they try to serve a global market from a centralized location, and this allows firms to reduce unit costs through cumulative production volume and realize scale economies. Lastly, firms can earn higher returns by developing valuable skills in foreign operations and then transferring this knowledge across different units within their global network. Despite these advantages, internationalization bring also firms to face important constraint: the need to adapt their products, marketing approaches and business strategies to fit different national context and conditions, like cultural preferences, regulatory requirements, and local distribution systems[98].

The main goal of international strategy is to find an way to manage the global-local dilemma, that consist in balancing the two opposite competitive pressures: the pressure for cost reduction, that brings firms toward global integration and standardization to achieve economies of scale and scope, and the pressure for local responsiveness, that requires firms to adapt their offerings to the specific needs of local markets, that bring to increase costs and reduce efficiency[99]. Several theoretical models have been developed

[97] Roque, Ana & Alves, Maria do Céu & Raposo, Mario. (2019). Internationalization Strategies Revisited: Main Models and Approaches. IBIMA Business Review. 1-10. 10.5171/2019.681383.
[98] Wong, N. EXPLORING CORPORATE STRATEGY.
[99] Hussain, A., Shahbaz, K., (2013), International Marketing Strategy: Standardization versus Adaptation, Management and Administrative Sciences Review, Volume: 2, Issue: 4, Pages: 353-359

to analyse and understand how firms manage these tensions: the Uppsala model views internationalization as a gradual and dynamic process; in fact, it suggests that firms accumulate experiential knowledge over time to overcome the so-called liability of foreignness, so the additional costs and risks that multinational enterprises face when approaching foreign markets in comparison to local competitors [100][101] . Typically, companies start from entering markets that are psychologically or culturally closer to their market and then expand to more distant ones. The second model is called "the Eclectic Paradigm" and it was proposed by John H. Dunning (1988): this framework explain that internationalization is driven by three type of advantages that are: ownership, the proprietary assets, location, so the benefits that exist in a particular country, and internalization, the advantages of keeping activities in the firm rather than licensing or outsourcing them[102]. Regarding the network approach, cording with this perspective, internationalization is seen as the result of establishing and maintaining relationships within a network of actors, that allow firms to access resources, knowledge and opportunities through collaboration[103]. Lastly there is the "Born Global Firms": this model contrasts with gradual models, because focus on firms that target international markets from the very beginning, relying on technological capabilities or digital platforms to quickly reach and serve global niche market[104]. The link between these theoretical frameworks and the generic international strategies comes from the firm's need to resolve the global-local dilemma that was previously discussed and which basically mean deciding how much to standardize products and services across countries versus how much to adapt them to local need.

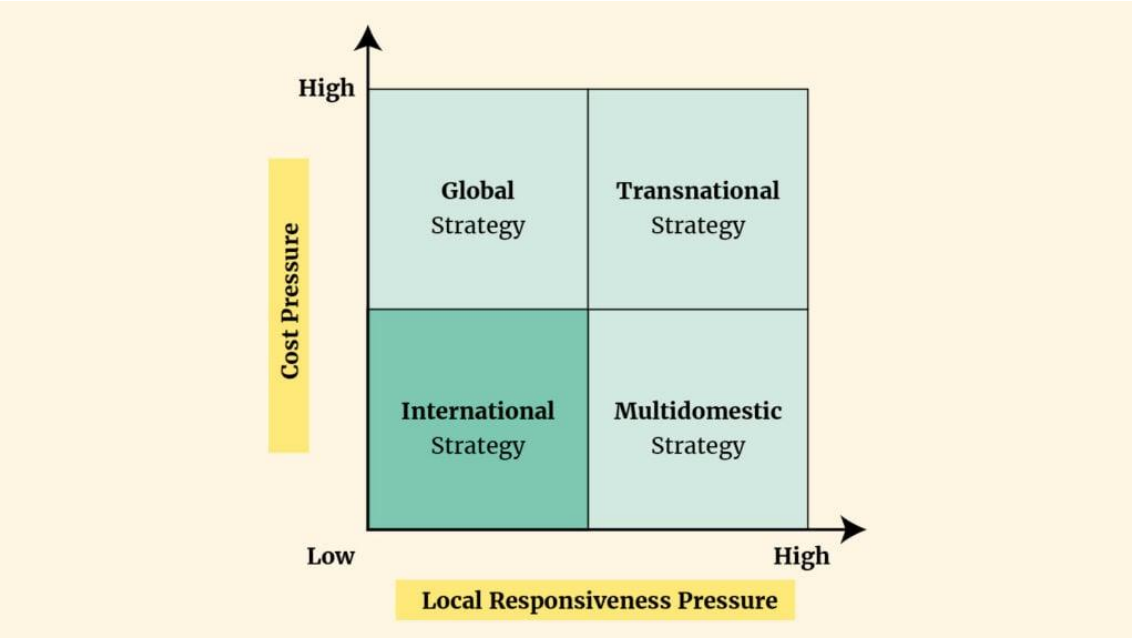
The theories mentioned earlier, like Dunning's Ownership advantages or the Uppsala model idea of experiential knowledge, help explain how firms position themselves in the integration-responsiveness grid: for example, if a firm has strong, standardized

[100] Roque, Ana & Alves, Maria do Céu & Raposo, Mario. (2019). Internationalization Strategies Revisited: Main Models and Approaches, p.4, IBIMA Business Review. 1-10. 10.5171/2019.681383.
[101] Heaton, Sohvi and Teece, David J., Market Entry Strategies (October 12, 2014). Leih, S. Teece, D. (2014), Market entry strategies, In D. Teece and M. Augier (eds). Palgrave Encyclopedia of Strategic Management, London. UK: Palgrave Macmillan.
[102] Agarwal, S., Ramaswami, S., (1992), Choice of Foreign Market Entry Mode: Impact of Ownership, Location and Internalization Factors. *J Int Bus Stud* 23, pp. 1–27.
[103] Roque, Ana & Alves, Maria do Céu & Raposo, Mario. (2019). Internationalization Strategies Revisited: Main Models and Approaches, p.3, IBIMA Business Review. 1-10. 10.5171/2019.681383.
[104] Wong, N. EXPLORING CORPORATE STRATEGY. pp.311-313

ownership advantages but limited understanding of local markets may be pushed toward a centralized global strategy to have better control and protect its assets[105]. On the other hand, if a firm is based on networks to operate in other countries, then is more likely to adopt a multi-domestic or transnational strategy, to be flexible and responsive towards local partners[106]. In the end, all these theories explain how a firms can develop the capabilities needed to compete internationally, while the four generic strategies we are about to address, describe how those capabilities are actually applied in the global market. In fact, based on how firms balance the pressures for cost efficiency and the pressure for local responsiveness, they will adopt one of four main strategies: international strategy, multi-domestic strategy, global strategy or transnational strategy. International strategy is usually adopted when there are low pressures for both local responsiveness and cost reduction. In this case, firms leverage their core competencies in the foreign markets with minimal adaptation; this strategy is usually adopted in sector like luxury goods or highly specialized technologies[107]. The multi-domestic strategy is used when the pressures for local responsiveness are high and cost reduction pressures are low: firms consider every national market independent and adapt products and strategies to local preferences, giving autonomy to local subsidiaries[108]. Instead, when pressures for cost reduction are high and local responsiveness is low it is appropriate to apply the global strategy: firms focus on standardization, economies of scale and centralized decision making considering the world as a single market[109]. Lastly, when pressures for both global integration and local responsiveness are high there is the transnational strategy: this strategy is the most complex one, and the most expensive, because it try to achieve efficiency, local adaptation, and global learning simultaneously by coordinating a network of specialized subsidiaries[110].

[105] Cannavale, C., Calvelli, A., (2019). Internationalizing Firms. Internationalizing Firms. Internaltional Strategy, Trends and Challenges. https://doi.org/10.1007/978-3-319-91551-7
[106] Roque, Ana & Alves, Maria do Céu & Raposo, Mario. (2019). Internationalization Strategies Revisited: Main Models and Approaches, p.3, IBIMA Business Review. 1-10. 10.5171/2019.681383.
[107] Wong, N. EXPLORING CORPORATE STRATEGY, p.305.
[108] Ibidem
[109] Ivi, p.306
[110] Ibidem

Figure 12: International Strategies



Source: https://peoplemanagingpeople.com/global-hr/international-strategy/

The strategy a firm chooses is vital for survival especially when rivals emerge. In fact, firms with weak coordination across markets are particularly vulnerable to global competitors that can use profits from one country to support competitive actions in another country. Without a well-integrated strategy, a company risks being forced into a gradual withdrawal from key markets[111]. These internationalization strategies represent the overall logic for global competition, while the entry modes are the specific ways a firm operates in a particular foreign market. Choosing an entry mode is more a tactical decision for a company, reflecting a trade-off between control, risk, and resource commitment[112]. Entry modes are categorized based on the degree of equity involvement and operational control the firm maintain in the foreign market. Common entry modes include:

- Exporting: this is the simplest and least risky way to enter a new market. Exporting can be direct or indirect: indirect export utilizes domestic intermediaries, which are

[111] Wong, N. EXPLORING CORPORATE STRATEGY, p.298
[112] Heaton, Sohvi and Teece, David J., Market Entry Strategies (October 12, 2014). Leih, S. Teece, D. (2014), Market entry strategies, In D. Teece and M. Augier (eds). Palgrave Encyclopedia of Strategic Management, London. UK: Palgrave Macmillan. , Available at SSRN: https://ssrn.com/abstract=2673042

often used by small and medium enterprises, but this approach limits the firm's opportunity to gain direct knowledge of the foreign market; direct export instead, involves the firm's own sales force or distribution channels, allowing the firm to have better control on customer relationship and to develop a better understanding of market conditions abroad[113][114].

- Contractual modes (licensing and franchising): These are low-investment entry that allow firms to expand internationally without committing significant capital. However, these options provide minimal control on operations since activities are carried out by external partners[115].
- Joint ventures: These are equity-based partnership where firms collaborate with local partners, and they share costs, risks, and managerial responsibilities. In China, there were specific forms of joint ventures such as equity joint ventures and contractual joint ventures that were historically required by the government to facilitate technology transfer and provide foreign firms with essential Guanxi, a concept that was already discuss on chapter 1.2.4[116][117].
- Wholly foreign-owned enterprises: also known as WFOEs, this entry mode involves establish a limited liability company in a host country with 100% foreign capital. It offers the highest control and strong protection of intellectual property but it also brings highest operational and financial risk[118][119].
- Acquisitions: This mode allows firms to enter a foreign market quickly by purchasing an existing local company and it provides immediate access to established assets, customers, and distribution networks. However this entry mode

[113] Bing-sheng Teng, (2004), The WTO and entry modes in China, Thunderbird International Business Review, Volume 46, p.384-385
[114] Cannavale, C., Calvelli, A., (2019). Internationalizing Firms. Internationalizing Firms. Internaltional Strategy, Trends and Challenges, pp.73-74
[115] Wong, N. EXPLORING CORPORATE STRATEGY, p.363
[116] Bing-sheng Teng, (2004), The WTO and entry modes in China, Thunderbird International Business Review, Volume 46, p.385-386
[117] Wong, N. EXPLORING CORPORATE STRATEGY, p.362
[118] Bing-sheng Teng, (2004), The WTO and entry modes in China, Thunderbird International Business Review, Volume 46, p.388
[119] Cannavale, C., Calvelli, A., (2019). Internationalizing Firms. Internationalizing Firms. Internaltional Strategy, Trends and Challenges, pp.89-90

can be risky in terms of cultural differences and the integration of organizational systems[120].

All these entry modes will be explored in greater detail in the subsequent chapters of this thesis.

[120] Bing-sheng Teng, (2004), The WTO and entry modes in China, Thunderbird International Business Review, Volume 46, p.389-390

2.2 Reasons and risks of internationalization

For Firms that take part in today's business landscape, the distinction between domestic and international operations has become more and more unclear and the process of global integration modified the environment in which all these firms operate[121]. The previous section explained the main economic objectives and the main strategies used by companies to internationalize; this chapter will instead focus on the risk and challenge companies would encounter during the process of internationalization, such as culture differences, geopolitical risk, operational risk and so on. In fact, for companies, the decision to internationalize is not a linear path but is more a dynamic process where firms must continuously balance their resource commitments against limited market knowledge[122]. As previously explained, expanding into foreign market does not mean only replicate an operational chain but companies should modify how they perceive the new environment and adapt to it. Companies can reach global efficiency through market-seeking or resource-seeking activities, but in any case, they will be exposed to many uncertainties, that can include systemic risks, like geopolitical tensions and financial fluctuations, or even minor challenges linked to cultural differences and the liability of foreignness. Is essential for managers to find a balance between standardizing the value proposition of the firm for global scale and adapting it to fit local market, to achieve and secure a sustainable competitive advantage[123]. This kind of challenge is particularly evident in complex business ecosystems of emerging economies like China and for that, in this section will be explored the strategic logic behind international expansion and the systemic risks that define the global competitive landscape.

[121] Majocchi, A., Zucchella, A., 2001. "**Internationalization and Performance: findings from a set of Italian SMEs**," Economics and Quantitative Methods, Department of Economics, University of Insubria.
[122] Figueira de Lemos, Francisco & Johanson, Jan & Vahlne, Jan-Erik. (2013). Risk Management in the Internationalization Process of the Firm: A Note on the Uppsala Model. Journal of World Business. 46., pp.143-144, 10.1016/j.jwb.2010.05.008.

[123] Cannavale, C., Calvelli, A., (2019). Internationalizing Firms. Internationalizing Firms. Internaltional Strategy, Trends and Challenges, pp.129-131

2.2.1 Why companies seek global expansion: market-seeking, resource-seeking, and knowledge-exploration.

Internationalization is a process that shape both the scope and direction of a company expansion, in fact, the decision to expand globally is generally motivated by the goal to increase profitability and profit growth in ways that are often unavailable in a purely domestic market[124]. According to the theoretical foundations of Dunning's OLI paradigm, paradigm that was analysed in chapter 2.1.3, researchers generally categorize the strategic motivations for global expansion in three orientations: market-seeking, resource-seeking, and knowledge-exploration[125].

The most traditional orientation for internationalization is market-seeking, that consist in firms entering foreign territories to find new demand and exploit it. This is often a response to a problem in the domestic market due to saturation or a anticipatory move that bring the firm to act as a first mover in emerging regions that have significant demand gaps. Companies, by expanding the market for domestic products, can increase the sales volumes and improve their competitive position by building stable and loyal customer bases in new regions[126]. The attractiveness of a foreign market is usually determined by different factors: on is the market size (often measured through GDP), market growth, and population demographics, which together indicate the potential demand and purchasing power for the firm's products or services[127]. On this point, as discussed in chapter 1.3.2, China represent a good example of an attractive target market: the country has a population of approximately 1.4 billion people, it offers an unrivalled demographic scale that represents almost one-fifth of the world's total**.** Additionally, beside population, the country has experienced rapid economic growth since the reforms of 1979, achieving

[124] Katarzyna Twarowska & Magdalena Kakol, (2013), "International Business Strategy: Reasons and Forms of Expansion Into ForeignMarkets," Active Citizenship by Knowledge Management & Innovation: Proceedings of the Management, Knowledge and Learning International Conference 2013,, ToKnowPress., pp.1006-1007

[125] Kavita, Wadhwa & Syamala, Sudhakara. (2011). Foreign Direct Investment into Developing Asian Countries: The Role of Market Seeking, Resource Seeking and Efficiency Seeking Factors. International Journal of Business and Management. 6. Pp.220-222

[126] Cannavale, C., Calvelli, A., (2019). Internationalizing Firms. Internationalizing Firms. Internaltional Strategy, Trends and Challenges, pp.129-131

[127] Maibetly, F., & Idris, I. (2022). Analysis of Factors Affecting Foreign Direct Investment (FDI) in ASEAN (Lower Middle Income) Plus Three: Market Seeking, Resource Seeking or Efficiency Seeking? *Proceedings of the Eighth Padang International Conference On Economics Education, Economics, Business and Management, Accounting and Entrepreneurship (PICEEBA-8 2021)*, pp.443

what is often described as the fastest sustained expansion in modern economic history. This growth and the population size, combined with the significant rise of the middle class, provides all the key elements that define China as a highly attractive market (see chapter 1.3.2). Market-seeking strategies can be categorized in two forms: offensive market-seeking and defensive market-seeking; the first form refers to firms that enter in new markets to gain the first-mover advantages, increase global market share, and raise brand awareness. The second form refers to firms that respond to competitive pressures or trade barriers by establishing a local presence to bypass tariffs and protect existing export activities[128]. Additionally, market-seeking allows also firms to diversify their risk: in fact, by operating in multiple national economies, firms can compensate a downturn in its domestic market with growth in an international market[129].

The second orientation is defined as resource-seeking and efficiency-seeking and consist in firms that expand globally to access essential inputs that are unavailable or more costly in their home country[130]. The resource-seeking strategies' focus is to acquire raw materials, specialized labour or other production factors at more favourable prices and is closely linked to efficiency-seeking strategies, where companies improve their value chain by locating different activities in counties that offer specific advantages, the so-called location economies[131][132]. For example, a company might delocalize its manufacturing to developing countries that have lower labour costs but maintain design and R&D activities in more advanced or expertized economies. In the end all these strategies aim to reduce production costs for the company with cumulative production volume and realize scale economies to improve efficiency.

Lastly, there is a more contemporary and dynamic driver of internationalization that is knowledge-exploration, which focuses on the search for new information and

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[128] Buckley, P., Cross, A., Tan, H. *et al.* (2008), Historic and Emergent Trends in Chinese Outward Direct Investment. *MANAGE. INT. REV.* 48, pp. 737–738.
[129] Maibetly, F., & Idris, I. (2022). Analysis of Factors Affecting Foreign Direct Investment (FDI) in ASEAN (Lower Middle Income) Plus Three: Market Seeking, Resource Seeking or Efficiency Seeking? *Proceedings of the Eighth Padang International Conference On Economics Education, Economics, Business and Management, Accounting and Entrepreneurship (PICEEBA-8 2021)*, pp.442
[130] Cannavale, C., Calvelli, A., (2019). Internationalizing Firms. Internationalizing Firms. Internaltional Strategy, Trends and Challenges, pp.19-20
[131] Buckley, P., Cross, A., Tan, H. *et al.* (2008), Historic and Emergent Trends in Chinese Outward Direct Investment. *MANAGE. INT. REV.* 48, pp.736.
[132] Cannavale, C., Calvelli, A., (2019). Internationalizing Firms. Internationalizing Firms. Internaltional Strategy, Trends and Challenges, pp.10-12

opportunities to improve future results and performances. This orientation is different from the traditional models that focused on exploiting what a firm already knows, because it sees internationalization as a way to access new ideas and innovation: in fact, firms enter advanced markets not only to generate immediate sales, but to learn from competitors, acquire best practices, and access to unique technological or scientific capabilities. This approach is common among firms from emerging economies that use acquisitions and global alliances to quickly fill gaps that they have in capabilities and catch up with already existing global leaders[133]. As a matter of fact, for firms being present in places where innovation and expertise are strongest, is a way to anticipate their competitors and to build a continuous process of learning that led to a sustainable competitive advantage[134].

[133] Ping Deng, (2009), Why do Chinese firms tend to acquire strategic assets in international expansion?, Journal of World Business, Volume 44, Issue 1, Pages 77

[134] Cannavale, C., Calvelli, A., (2019). Internationalizing Firms. Internationalizing Firms. Internaltional Strategy, Trends and Challenges, pp. 13-16

2.2.2 Liability of Foreignness and systemic operational risks.

Previously we discussed the main economic motivations for global expansion, but the execution of internationalization is full of obstacles: one of that is the so-called Liability of Foreignness. This is a central concept to the Uppsala model, which explains the disadvantage foreign firms have to face when they operate in new markets compared to local competitors. Basically, the Liability of Foreignness represents the cost of doing business abroad in fact it includes all the additional costs and risks a firm encounter due to its lack of familiarity with the host country's environment[135]. On of the factors that lead to Liability of foreignness is the lack of market knowledge: this is the most critical limitation in the internationalization process because firms that enter a new market often have little to no understanding of local consumer behaviour, distribution networks, or informal business norms[136]. The second factor is the distance between the home and host county, that can be both cultural, legal, or social: the higher this distance is perceived the more intense will be also the liability of foreignness[137]. Lastly, foreign companies often have unfamiliarity with the formal institutions, like the legal and regulatory framework, and the informal institutions, so how to manage relationships with suppliers or navigate government hierarchies[138]. All these factors should be address by managers of the company that approach a new market to prevent as much as possible liability of foreignness and to ensure a successful market entry.

Outside the general disadvantage of being foreign, firms can also encounter specific systemic operational risks that can affect these performances in foreign markets and jeopardize their survival in unfamiliar territories. Additionally, in the context of emerging markets, like China, these risks are even more evident. Firstly, one of the common challenges firms can encounter is the high level of regulatory uncertainty: this can be seen in the arbitrary enforcement of local laws and regulations where frequently happen that foreign project holders are subject to intense scrutiny and are sometimes penalized

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[135] Figueira de Lemos, Francisco & Johanson, Jan & Vahlne, Jan-Erik. (2013). Risk Management in the Internationalization Process of the Firm: A Note on the Uppsala Model. Journal of World Business. 46. 143-153.

[136] Niñerola A, Sánchez-Rebull M, Hernandez-Lara A (2017), "Entry modes and barriers to internationalisation in China: an overview of management consulting firms". *Measuring Business Excellence*, Vol. 21 No. 1 pp. 40-41.

[137] Johanson, J., Vahlne, JE. (2009), The Uppsala internationalization process model revisited: From liability of foreignness to liability of outsidership. *J Int Bus Stud* 40, 1412–1413.

[138] Ibidem

for minor administrative infractions that would be ignored if committed by a domestic competitor[139]. Foreign investors, in fact, often face a lack of predictability in the business and political environment that is also combined with risks to intellectual property and imitation: this risk is very common in China where IP protection is weak even if it has been safeguard with many regulations (see chapter 1.2.4) , and foreign firms risk of seeing their products or processes copied by local rivals or even find themselves paying royalties to their own former employees who register designs under their own names[140]. In addition, to navigate the host country's administrative landscape is essential to manage extreme bureaucratic complexity that often led to delay in essential procedures such as obtaining operational licenses or clearing customs. Ia essential for companies in this scenario to hire local intermediaries or to build personal with local authorities, so basically what is define in China as *Guanxi*[141]. Language differences and a high turnover rate of qualified staff can also represent a significant operational obstacle since is very difficult to find and retain committed local managers who can cover the gap between Western managerial styles and the local culture, language and values[142]. Beyond systemic risk, modern research also emphasizes that geopolitical risk arising from bilateral tensions or political instability, aggravate the Liability of Foreignness. In fact, increasing of geopolitical risks create a barrier that reduces a firm's legitimacy in the host country and foreign firms are increasingly viewed as outsiders or even threats in a certain country, leading to a reduction in contracts, licenses, and preferential treatment. Legitimacy can be defined as the general perception that a firm's actions are appropriate and acceptable with the norms, values, and beliefs of a determined social context and firms in a foreign country must meet the expectation of their organizational field, so the network of organizations they interact with that share similar rules, understandings, and ways of operating[143]. This loss of legitimacy

[139] Anglès, Valérie. (2019). Doing business in China: Challenges and opportunities. Global Business and Organizational Excellence. 38. Pp. 61-62.
[140] Ivi. pp. 60
[141] Niñerola A, Sánchez-Rebull M, Hernandez-Lara A (2017), "Entry modes and barriers to internationalisation in China: an overview of management consulting firms". *Measuring Business Excellence*, Vol. 21 No. 1 pp. 44-45
[142] Ibidem
[143] Wong, N. EXPLORING CORPORATE STRATEGY, pp.192-194

increases the disadvantage of being foreign and is directly associated with a decline in internationalization activities[144].

[144] Jiachen Guo, (2024), How geopolitical risk affect firms' internationalization performance: Evidence from China, Heliyon, Volume 10, Issue 9. Pp.3-4

2.2.3 Geopolitical and financial risks: exchange rate fluctuations and counterparty risk.

Firms that approach new markets, other than the structural disadvantages limited to the Liability of Foreignness must deal with many of macro-environmental risks, categorized into geopolitical risks and financial risks, both of which can negatively affect a firm's overall performance. The expression geopolitical risk refers to potential disorders in normal international relations that can arise from wars, terrorist acts, or bilateral tensions between two or multiples states and that frequently have repercussion on economy, leading to increased trade restrictions and a significant reduction in market openness. As a matter of fact, geopolitical risk acts as fundamental drivers of global economic uncertainty, and at the microeconomic level, is associated with a decline in company performance since it directly affects the legitimacy of foreign firms in host countries: when geopolitical tensions arise in a certain country, foreign firms are often viewed as outsiders or potential threats, as we mention in the previous chapter, and this situation bring repercussion on acquiring licenses and on the business side. Additionally, geopolitical risk bring manager to adopt a so-called wait-and-see model, where managers decide to reduce capital investments to avoid irreversible investment losses in a volatile environment[145].

In this analysis China is critical focal point since the country has historically experienced relatively low geopolitical risk but in recent years, due also to its fast development, has seen a sharp increase in uncertainty. In fact, China now is the world's largest trading nation and a major destination for foreign investment, and changes in China's geopolitical environment have profound consequences for global supply chains and international trade flows: recent empirical evidence identifies specific variations in the Chinese Geopolitical risk (GPR) index determined by events like the China-USA trade war, tensions in the Taiwan Strait, and disputes in the South China Sea. For example, Pelosi[146]'s visit to Taiwan in 2022 brought China's GPR index to one of the largest recorded peaks, as it is shown in figure 12, impacting investment freedom and bilateral diplomatic relations[147].

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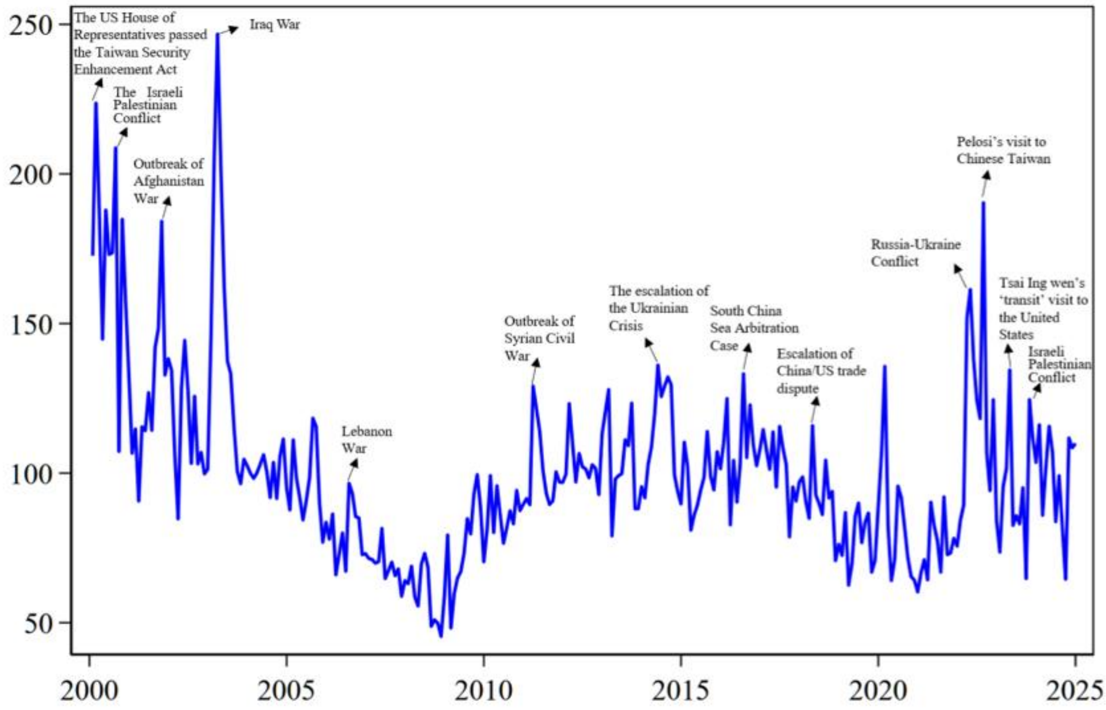
[145] Guo, Jiachen. (2024). How Geopolitical Risk Affect Firms' Internationalization Performance:Evidence from China. Heliyon. 10. Pp. 1-2
[146] Speaker of the U.S. House of Representatives
[147] Xinyan Shen, Daoping Wang, Chen Wu, (2026), Measuring geopolitical risk in China, Pacific-Basin Finance Journal, Volume 98.

Figure 13: The Evolution Trend of the recent China-Total Geopolitical Risk Index



Source: Xinyan Shen, Daoping Wang, Chen Wu, (2026), Measuring geopolitical risk in China, Pacific-Basin Finance Journal, Volume 98, pp. 4.

In addition to political obstacles these are also financial risks, in fact, the greater financialization of business activities has significantly increased the intensity and volume of economic risks that firms must manage[148]. The two main categories of financial risks are currency risks and counterparty risks: currency risk refers to the possibility of financial losses caused by the volatility of exchange rates; in general, these fluctuations can have indirect effects on firm's operations, that can modify the prices of production factors, the level of market demand, and the overall economic equilibrium of the company[149]. This risk is usually divided into three main categories: the first category is the transaction risk that happen when a firm grants or receives delay payments in a currency that is not its home country currency: for an exporter, an unfavourable increase in the exchange rate results in receiving a lower amount in their domestic currency than initially expected; meanwhile, for an importer, if there is a reduction in the exchange rate this situation would increase the cost of their foreign currency debts when converted into

[148] Cannavale, C., Calvelli, A., (2019). Internationalizing Firms. Internationalizing Firms. Internaltional Strategy, Trends and Challenges, pp. 131-133
[149] Ivi pp. 140-145

its domestic currency. The second category refers to the translation risk that involves the accounting impact of rate fluctuations on financial statements. It occurs when the value of statement items held abroad, like assets or liabilities, change due to the exchange rate variations between the time of entry and the closure of the statements. The last category includes the economic risk, which is the most strategic form of currency risk because it affects a firm's long-term competitive position. Economic risk happens when persistent unfavourable exchange rate movement reduce the profitability of a firm's foreign investments or make its products less attractive to local consumers compared to domestic rivals[150]. To manage these risks, firms often adopt hedging policies to transform uncertainty into a calculated risk. These hedging policies include traditional instruments like invoicing in the home currency, purchasing expensive insurance, or including defensive contractual clauses, like currency baskets[151], and more innovative approaches that rely on financial derivates like currency futures, that are standardized bilateral agreements to buy or sell currency at a fixed price on a date in the future, currency options, that refers to contracts that give the firm the right, but not the obligation, to buy or sell currency at a pre-established strike price, and the currency swaps, that is an agreements to exchange periodic payments in different currencies. These hedging policies can help firm that approach foreign market to prevent losses linked to financial risk and keep them under control[152].

Regarding the counterparty risk, it refers to the situation in which a partner or a client in a financial transaction fail to meet their contractual obligations before the established deadline. Counterparty risk is one-way risk because it is focus entirely on the potential for loss while market risks are considered two-way risk because they offer potential for both gain and loss[153]. Additionally, the intensity of this risk is amplified in host countries where there is not a robust regulatory and financial institutions capable of protecting foreign creditors[154] and in these environments because a solo individual default can cause a domino effect where a single counterparty failure spread to other operators, creating a systemic risk that affects the entire market. This is closely associated with country risk,

[150] Ivi pp. 146-147
[151] Ivi pp. 141-145
[152] Ivi pp. 151-152
[153] Ivi pp. 134-137
[154] Ivi pp. 65

where a debtor fails to pay due to institutional or political causes, that are not in their control; the country risk includes obstacles like nationalization, sudden changes in government policy, or the prohibition of capital expatriation[155]. In the current context of the Chinese market the risk of not receiving a payment by corporate counterparts is classified as medium-high, with significant default risks concentrated in sectors such as real estate, which accounted for over one-third of bond market defaults recently, and services, which has struggled with slowing consumption growth. Furthermore, the risk is also associated with the ability to convert or repatriate profits and invested capital from China[156].

[155] Ivi pp. 146-151
[156] Info Mercati Esteri (2024). Report *Cina - Scheda paese*. Ministero degli Affari Esteri e della Cooperazione Internazionale. https://www.infomercatiesteri.it/public/ime/schede-sintesi/r_122_cina.pdf

2.2.4 The Standardization versus Adaptation dilemma

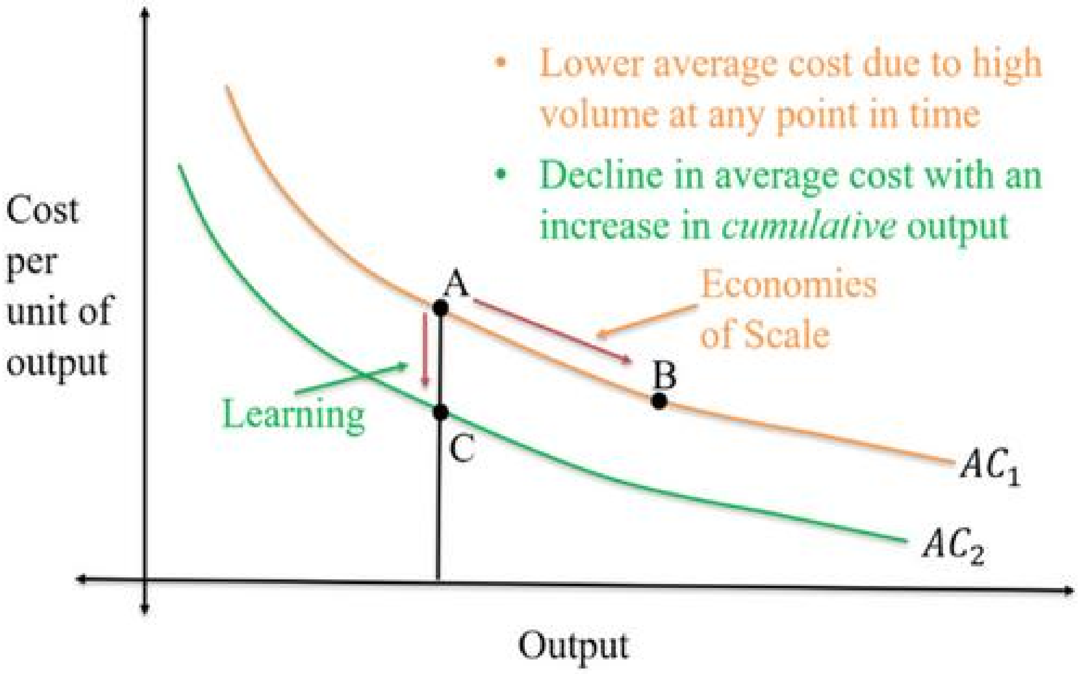
Another central challenge in the management of internationalizing firms is connected to the global-local dilemma because it requires managers to find a balance between the pressure for global integration in a host country and the necessity of local responsiveness. As previously analysed, this tension is defined by opposite pressures: standardization, that aim to achieve global economies of scale, and adaptation, that focused on adapting a firm value proposition to the specific requirements of a market in a specific country. In the chapter 2.1.3, we analysed the theoretical models that have been studied to manage these pressures and the internationalization strategies that follows, while this chapter will focus directly on the nucleus of the dilemma and the consequences for the companies that are approaching new markets.

The pursuit of a standardization strategy, also called aggregation strategy, is based on the idea of making the firm's value chain homogeneous across markets: the managers focus on using the same product standards and the same marketing approaches globally, to reduce unit costs through two main mechanisms, economies of scale and the learning effect[157][158]. Economies of scale refers to the reduction in average unit costs as a firm increase the level of output and this phenomenon happens because high fixed costs, like large production facilities or initial investment in research and development, can be spread over a greater volume of units[159][160]. On the other hand, the learning effect, often define also as learning by doing, focus on the human and organizational element of efficiency because it refers to the gain in competence and productivity that are achieved through performing the same activity over time. As a matter of fact, employees and managers become better at reducing inefficiencies and optimizing production activities when they move down the learning curve[161][162]. There is however an important difference between these two concepts regarding how they affect a firm's cost structure because economies of scale involve a movement along the average cost curve, with a decreasing

157 Pontiggia, A., (2025). *Human resource management and organization design: Management to China*. McGraw-Hill Education.
158 Wong, N. EXPLORING CORPORATE STRATEGY, pp.99-101
159 Ibidem
160 Mancin, Moreno, et al., (2016), Operazioni straordinarie e aggregazioni aziendali: Risvolti contabili, civilistici e fiscali, Giappichelli, 2016. ProQuest Ebook Central, pp. 9
161 Wong, N. EXPLORING CORPORATE STRATEGY, pp.99-101
162 Sun, Peng; Heshmati, Almas (2010) : International trade and its effects on economic growth in China, IZA Discussion Papers, No. 5151, Institute for the Study of Labor (IZA), pp.4.

in unit costs as the level of output increases; meanwhile, the learning effect involves a leads to a downward shift of the entire average cost curve[163], that mean that at the same level of production volume, the firm becomes more efficient over time because of accumulated experience and improved expertise[164]. This difference between the two concepts can be seen in figure 13.

Figure 14: Difference between the effect of learning curves and economies of scale on cost per unit



Source: *https://onlinelibrary.wiley.com/doi/10.1111/1911-3846.12818*

A firm that standardizes its processes can accumulate production volume more quickly, allowing it to move down the experience curve faster than competitors that need to continuously adapt their operations to local market specificities [165] . Additionally, standardization allows also firms to exploit economies of scope: while economies of scale focus on the volume of a single activity, economies of scope focus on exploiting common resources, such as a single global brand or a shared distribution channel, to support multiple product lines, and reduce overall organizational costs reach cost by expanding

[163] Krishnan, R. and Ramasubramanian, H. (2023), Factors that Influence the Learning Curve: Evidence from Cost Behavior in Clinical Labs*. Contemp Account Res, 40, pp. 266.
[164] Hussain, A., (20139 International Marketing Strategy: Standardization versus Adaptation. Management and Administrative Sciences Review, Volume: 2, Issue: 4, Pages: 353-359
[165] Ibidem

the range of its operations and fostering industrial and commercial synergies [166]. Standardization can also bring economic advantages in R&D, because companies, instead of consuming research to modifying a product for every local requirement, can focus on innovate and develop a high-quality universal product for the entire global marketplace[167]. Standardization brings improvement in efficiency and cost reduction and assumes that global markets are becoming progressively more homogeneous and similar, and that consumer needs and tastes converge; this is however a fully standardized approach somewhat unrealistic because it often relies on a utopian view of the world where differences in regulations, culture, and economic conditions are ignored, even if these are the elements that make the market non-uniform[168][169]. In reality, ignoring local folkways or unique national legal requirements can lead to a significant lack of customer acceptance and costly operational friction[170].

In contrast to standardization and to solve the just mentioned problem, there is local responsiveness that led companies to an adaptation strategy, which involves modifying product features, communication styles, and even business models to fit the foreign market[171]. As emphasized by professor Pontiggia in his book (2025), business, to success internationally, requires a high degree of the so-called cross-cultural literacy, that consist in understanding the cultural differences that affect the way business is practiced, and failing to adapt to local norms can lead to lack of rapport with customer and stakeholders, and costly mistakes[172]. The benefits that adaptation bring to internationalising firms are multiple: firstly, by better satisfying the specific needs and wants of local customers, firms can capture a larger market share increasing their sales volume; secondly, adaptation allows firms to differentiate its offerings from global rivals, who focus on standardization and that might be using a one-size-fits-all approach, and firm can take advantage of their

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166 Wong, N. EXPLORING CORPORATE STRATEGY, pp.262-263
167 Hussain, A., (20139 International Marketing Strategy: Standardization versus Adaptation. Management and Administrative Sciences Review, Volume: 2, Issue: 4, Pages: 353-359
168 Ibidem
169 Cannavale, C., Calvelli, A., (2019). Internationalizing Firms. Internationalizing Firms. Internaltional Strategy, Trends and Challenges, pp. 45-50
170 Pontiggia, A., (2025). *Human resource management and organization design: Management to China*. McGraw-Hill Education. Pp. 41-64
171 Hussain, A., (20139 International Marketing Strategy: Standardization versus Adaptation. Management and Administrative Sciences Review, Volume: 2, Issue: 4, Pages: 353-359
172 Pontiggia, A., (2025). *Human resource management and organization design: Management to China*. McGraw-Hill Education, pp.41-64

competitive differentiation; thirdly, adaptation helps firms overcoming barrier connected to local legislation regarding packaging, technical standards, and patents[173]. The major problems that arise with adaptation is related to the costs and the duplication of activities within the firm, like the need for extra R&D resources, and the additional costs required for diverse promotional activities, that often results in higher operational complexity and lower efficiency compared to standardized models[174][175].

Regarding the Chinese context, adaptation is even more necessary because in China there is a digital ecosystem that has evolved into a "mobile-first, fiber-intensive, and inclusive" market that differs fundamentally from Western digital landscapes: China has surpassed many advanced economies in areas like retail e-commerce and digital payments, creating a scenario where cashless transactions through platforms like Alipay and WeChat Pay are now the norm for consumers[176]. In this environment, successful internationalization requires more than simply copying Western business models, but it requires personalized and contextualized innovations, and, for foreign firms, this means using digital technologies to improve market access and develop data-driven offerings that align with local consumer behaviour [177] . As mentioned before, cross-cultural literacy and communication adaptation should also be taken into account, because Chinese consumers are used to a visual and straightforward language with vivid images. In fact, advertisements in China also utilize a higher level of symbolism, regarding objects and numbers, than westerns advertisement that are more aesthetic and emotional focus[178]. Another critical component of adaptation to the Chinese context is the translation of brand names, since Chinese name give brands a vital local identity while the original foreign name maintains symbol of international quality. Mistakes in this area are very common, even for large companies, and can be incredibly costly: for example, Mercedes Benz

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173 Hussain, A., (20139 International Marketing Strategy: Standardization versus Adaptation. Management and Administrative Sciences Review, Volume: 2, Issue: 4, Pages: 353-359
174 Ibidem
175 Cannavale, C., Calvelli, A., (2019). Internationalizing Firms. Internationalizing Firms. Internaltional Strategy, Trends and Challenges, pp. 45-50
176 Jiang, Hong & Murmann, Johann. (2022). The Rise of China's Digital Economy: An Overview. Management and Organization Review. 18, pp. 790-802.
177 Bain & Company. (2018, June 13). *Consumption in China: Ten trends for the next 10 years*. https://www.bain.com/insights/consumption-in-china-ten-trends-for-the-next-ten-years/
178 Snaiderbaur S., (2010), 'Made in Italy' in China: From Country of Origin to Country Concept Branding, pp. 68-72

company initially used a transliteration of the name that could be interpreted as "rushing to die"[179]. Instead, many brand to success in the Chinese context have tried to make tradition and hyper-modernity coexist: for example, brands like Benetton or Laura Biagiotti have adapted to Chinese market by launching collections or scents inspired by Chinese traditions or national symbols to create participation and interest among local consumers. This become a trend called Guochao trend, that means “National Tide" or "China Chic": it represents a cultural shift where modern consumer goods are infused with Chinese cultural and traditional elements as a key selling point. This trend emerges as a major force since 2018 and is a symbol of cultural confidence (*Zixin*), especially among young generations like Millennials and Gen Z, who no longer perceive domestic products as inferior to foreign products[180]. Foreign brands have immediately responded to this trend to gain local legitimacy and some of them gained popularity and appreciation for this adaption: for example, Adidas in the last few years, become very popular in China and around the word for its Chinese New Year collections (see figure 14), which integrate Tang dynasty aesthetics, such as knot buttons and jade-inspired accents, to recall the traditional Chinese clothes but in a modern way. Similarly, luxury houses like Dior and Louis Vuitton have launched collections and exhibitions influenced by Chinese craftsmanship to intensify connections with Chinese market, since is the leading market for purchasing luxury products[181][182].

[179] Anglès V. (2019) Doing business in China: Challenges and opportunities. GBOE.; v. 38, pp.54–63.
[180] Ahn, S.. (2020;), “Guochao”: The rise of homegrown Chinese labels., *Mirae Asset*, https://www.am.miraeasset.com.hk/insight/guochao-rise-homegrown-chinese-labels/.
[181] Vasipenok, V. (2025, December 21). *Adidas embraces guochao: Foreign brands chase China's cultural pride wave*. Quasa.io. https://quasa.io/media/adidas-embraces-guochao-foreign-brands-chase-china-s-cultural-pride-wave
[182] Atwal, G., & Heine, K. (2023). The 'brand origin' dilemma. In E. Cattaneo (Ed.), *Managing luxury brands: A complete guide to contemporary luxury brand strategies*, pp. 209–229.

Figure 15: Adidas Chinese New Year collection (2024)

Source:https://www.marketing-interactive.com/dynasty-drip-how-adidas-tang-cny-jacket-rewrites-the-fashion-playbook

Lastly, as already analysed in chapter 2.1.2, companies are increasingly engaging in business model innovation to maintain a competitive advantage and, in countries like China, to establish local legitimacy to be accepted by customers and authorities[183]. Companies must balance exploitation, so improving existing processes for efficiency, with exploration, so innovation and experimentation and, in this context[184], a current challenge for the modern manager is to avoid abstract universalism that renders activities ineffective, while also avoiding excessive detailed adaptation that creates organizational inefficiency, seeking instead a dynamic equilibrium tailored to the host market[185].

[183] Ibidem
[184] Pontiggia, A., (2025). *Human resource management and organization design: Management to China*. McGraw-Hill Education
[185] Cannavale, C., Calvelli, A., (2019). Internationalizing Firms. Internationalizing Firms. Internaltional Strategy, Trends and Challenges, pp. 45-50

2.2.5 The role of culture in internationalization

The last essential element to analyse is the cultural context of both the home and host countries because the success of firms internationally is linked to their ability to navigate the cultural landscape of its host environment. As explained by Charles W. L. Hill in his book titled "International Business: Competing in the global marketplace ", countries differ not only for their political and economic systems but also for their societal culture, that acts, together with the others element, as a primary determinant of the benefits, costs, and risks associated with global expansion[186]. Culture is described by the anthropologist Edward Tylor as a complex whole that includes knowledge, belief, art, morals, law, and custom acquired by individuals as members of a society[187] and at its core, culture represent a kind of collective programming of the mind which distinguishes one human group from another. Culture is built on fundamental components such as values, so ideas about what is right, good, and desirable, and norms, so the social rules that guide and shape appropriate behaviour[188]. Regarding the process of internationalization, culture is essential since it determines consumer behaviour and organizational success, because it creates complex web of values, norms, and folkways that managers must analyse and acknowledge to achieve the cultural literacy of a foreign country[189]. Culture influences every segment of a company's value chain, and as motioned before, it makes cross-cultural literacy a necessity for the international manager: cross cultural literacy is basically the in-depth understanding of how cultural differences affect business practices and lack of this literacy is one of the primary reasons for failure in foreign markets because it leads to ethnocentric behaviour, where a firm wrongly assumes its own cultural norms are superior or universally applicable[190]. Additionally, culture is a critical determinant of the cost of doing business: for example, societies, like the Japanese society, that has high levels of cooperation between management and labour, experienced lower operational costs in comparison to societies that have class-based conflict, like the society

[186] Hill, C. W. L. (2021). *International business: Competing in the global marketplace* (13th ed.). McGraw-Hill Education, pp.40-41
[187] Ivi pp. 94-100
[188] Ibidem
[189] Pontiggia, A., (2025). *Human resource management and organization design: Management to China*. McGraw-Hill Education. Pp. 41-64
[190] Hill, C. W. L. (2021). *International business: Competing in the global marketplace* (13th ed.). McGraw-Hill Education, pp.122-125

of united kingdom, where disputes at industrial level are very common[191]. Ultimately, to reach organizational success it is essential the concept of adaptation explained in the previous chapter, because a firm should focus on its ability to adapt its management processes, incentive systems, and marketing strategies to conform to the value systems of the host culture[192].

The most influential framework used in international business to compare different cultures is the one of the Dutch social psychologists of Geert Hofstede that provides a model that identifies five key dimensions that capture the essence of a society's value system; the 5 dimension are: power distance, uncertainty avoidance, individualism versus collectivism, masculinity versus femininity and long-term versus short-term orientation. Hofstede analysed and collected data on employee attitudes and values, and these data helped him to compare dimensions of culture between around 50 countries. The fifth dimension, the one regarding long-term versus short-term orientation, was added later as a function of the data obtained via the Chinese Value Survey, that is an instrument created by Michael Harris Bond based on discussions with Hofstede and inspired by Confucianism[193][194]. The 5 dimensions can be described as follow:

- Power Distance Index (PDI): this dimension measures how a society deals with inequalities, both regarding power and authority. In high power distance cultures, rigid hierarchies are accepted and power is distributed unequally, meanwhile, low power distance cultures try to reduce these inequalities because they value more equality[195].
- Individualism versus Collectivism (IDV): This dimension looks at the relationship between individuals and the group: there are individualistic societies that value personal achievement and freedom and collectivist societies that prioritize group harmony and loyalty to the group[196].

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[191] Pontiggia, A., (2025). *Human resource management and organization design: Management to China*. McGraw-Hill Education. Pp. 47-50
[192] Hill, C. W. L. (2021). *International business: Competing in the global marketplace* (13th ed.). McGraw-Hill Education, pp.122-125
[193] Ivi, pp. 95-100
[194] Pontiggia, A., (2025). *Human resource management and organization design: Management to China*. McGraw-Hill Education , pp.78-103
[195] Ivi, pp. 117-121
[196] Ibidem

- Uncertainty Avoidance Index (UAI): This dimension indicates how comfortable a society is with uncertainty and ambiguity: high uncertainty avoidance index societies are more comfortable with strict rules and job security, while low uncertainty avoidance index cultures are more open top risks and chances[197].
- Masculinity versus Femininity (MAS): This dimension looks at the relationship between gender and work roles: masculine societies emphasize competition, achievement, and power, while feminine societies emphasize quality of life, less differentiated gender roles and cooperation[198].
- Long-Term Orientation (LTO): this dimension measures a societies reflects a society's focus on long-term goals rather than short-term achievement, prioritizing values like persistence, thrift, and the importance of maintaining relationships over time, rather than prioritizing short-term results or traditions[199].

In 2010 there was another and more recent addition to the Hofstede framework, the Indulgence versus Restraint (IND) dimension, based on Michael Minkov's analysis of the World Values Survey: this dimension measures the degree to which a society allows the relatively free gratification of basic and natural human desires related to enjoying life and having fun; Societies that encourage the immediate fulfilment of these needs are described as indulgent, while those that suppress such gratification through strict social norms are considered restrained[200][201].

When applying Greet Hofstede's framework to compare China and Italy, several clear differences emerge that have important implications for business strategy; Figure 15 illustrate the comparison between the two countries. Starting from power distance, it is possible to see a stark contrast: China's high score (80) indicates a society that accepts rigid, top-down hierarchies where power is distributed unequally, and subordinates are expected to follow orders from managers without question[202]. In fact, in the Chinese workplace, this is shown with a more paternalistic management style with decision

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[197] Ibidem
[198] Ibidem
[199] Ibidem
[200] Ibidem
[201] Pontiggia, A., (2025). *Human resource management and organization design: Management to China*. McGraw-Hill Education , pp.78-103
[202] Vescovi, T., (2019), International marketing to China, McGraw-Hill Education, Pp. 68-101

centralized and where information flows strictly from the top[203]. Italy's, instead, has a medium-high score (50) that suggests a more balance approach where hierarchy and status still matter but there is also greater room for individual autonomy and participative decision-making compared to the Chinese context[204]. The difference becomes more evident when talking about individualism versus collectivism dimension: China has a low individualism score (20) and this reflects a strongly collectivist culture built around a "we" mentality, where is emphasized loyalty to the group, in general the family, the firm or the clan, and individual interests are often sacrificed for collective harmony. In contrast, Italy has a high individualism score (76), and this represent a more individualistic society centred on the "I" mentality where personal achievement, uniqueness, and self-driven career development are the focus for success[205][206]. Regarding masculinity, for this dimension both countries have a high score, meaning that are both cultures that value success, competition, and achievement but the implications for business are slightly different: in fact Italy tends to place more importance on elements such as aesthetics, personal image, and the prestige associated with the country of origin when evaluating quality[207]. The two countries also differ on the dimension of uncertainty avoidance: Italy's high score (75) reflects a society that is intolerant towards ambiguity and that prefers clear rules, job security, and formal contractual agreements to reduce risk, while China's low score (30) suggests a society that is more comfortable with ambiguity and risk[208][209]. As a matter of facts, Chinese entrepreneurs often rely on flexible interpersonal relationships, the already explained concept of *Guanxi*, rather than rigid and formalized legal structures; this situation shows a higher propensity to adapt to changing environments without formal rules, typical of counties with a low score in uncertainty avoidance dimension[210][211]. Focusing on indulgence, in this dimension China and Italy scores are both on the lower

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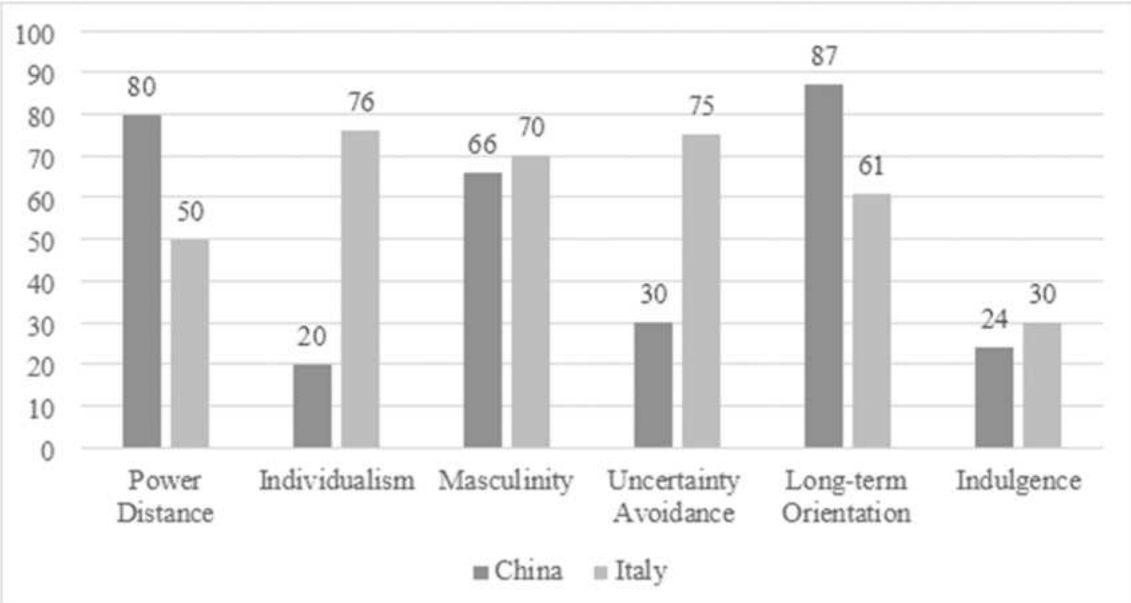
203 Cannavale, C., Calvelli, A., (2019). Internationalizing Firms. Internationalizing Firms. Internaltional Strategy, Trends and Challenges, pp. 200-203
204 Vescovi, T., (2019), International marketing to China, McGraw-Hill Education, Pp. 68-101
205 Zhu, W., & Li, Y. (2019). On the Differences Between Chinese and Western Cultures From the Perspective of Cultural Dimension Theory. *Studies in Literature and Language, 18*, pp. 22-26.
206 Snaiderbaur S., (2010), 'Made in Italy' in China: From Country of Origin to Country Concept Branding
207 Ibidem
208 Vescovi, T., (2019), International marketing to China, McGraw-Hill Education, Pp. 68-101
209 Hofstede, G., Bond, M., H., (1988),The Confucius connection: From cultural roots to economic growth, Organizational Dynamics, Volume 16, Issue 4, pp. 5-21
210 Snaiderbaur S., (2010), 'Made in Italy' in China: From Country of Origin to Country Concept Branding
211 Cannavale, C., Calvelli, A., (2019). Internationalizing Firms. Internationalizing Firms. Internaltional Strategy, Trends and Challenges, pp. 200-203

end of the scale, respectively 24 and 30, showing a shared cultural tendency toward restraint: both societies prioritize social obligations and work over the pursuit of pleasure and are less likely to see personal gratification as primary life goal. Additionally low scores in this dimension are often associated with a sense of helplessness regarding one's own destiny because individuals feel that what happens in their lives is not entirely their own their control but is dictated by external factors or social expectations[212][213]. Finally, the most significant difference can be found in long-term orientation where the high score of China show a society focused on future rewards, perseverance, and thrift while Italy's medium-low score indicates a society more focused on tradition and the pursuit of more immediate results, prioritizing the past and present over distant future rewards[214][215].

Figure 16: Cultural dimensions comparison between China and Italy



Source: [*https://www.researchgate.net/figure/Cultural-dimensions-comparison-between-China-and-Italy-Source-Hofstede-2001_fig2_358038977*](https://www.researchgate.net/figure/Cultural-dimensions-comparison-between-China-and-Italy-Source-Hofstede-2001_fig2_358038977)

Based on these cultural dimensions it is possible to see that both countries are characterized by a landscape where traditional values interact with modern commercial

[212] Pontiggia, A., (2025). *Human resource management and organization design: Management to China*. McGraw-Hill Education , pp.78-103
[213] Snaiderbaur S., (2010), 'Made in Italy' in China: From Country of Origin to Country Concept Branding
[214] Ibidem
[215] Zhu, W., & Li, Y. (2019). On the Differences Between Chinese and Western Cultures From the Perspective of Cultural Dimension Theory. *Studies in Literature and Language, 18*, pp. 22-26.

practices: both parts give importance to family and hierarchy, but, at the same time, they differ fundamentally in the professional environment. Confucian principles are at the base of hierarchy in the Chinese business context, that is characterized by a management style where power is concentrated at the top level, subordinates are expected to show unconditional obedience and decisions are often made by the head of the firm without participative input[216]. Similar is the Italian business culture, particularly among the small and medium-sized enterprises that define its economy, where owners or entrepreneurs often retain tight control over decision-making and may be reluctant to delegate authority. Italian model, however, is more individualistic and everyone focus only on themselves, while the Chinese model is built on group harmony and collective loyalty to the leader[217][218]. Another important point to analyse is the relationships dynamic in the business: this dynamic in China focus on personal connections as vital substitute for a formal legal system since private law is still maturing, and business is conducted between people, not organizations, and entering the market often requires an intermediary to bridge the gap for foreign firms[219][220]. In Italy, personal relationships and trust are also important but the focus is different: Italian business culture, in fact, places importance on status and personal image to signal success but still rely more on formal rules and contractual agreements than the Chinese counterpart[221]. An important difference to note, can be found in negotiation practices that clearly reflect the different time orientations of the two countries: Chinese negotiators are known for their patience and long-term focus, and they often prefer to let the counterpart make the first move and then engage in multiple rounds of to improve the terms; negotiations can also be reopened even after a problem is apparently solved[222]. Italian businesspeople, instead, may perceive the Chinese approach as slow and sometimes frustrating, even if it results from a rigorous respect for seniority and an obsessive fear of making a mistake[223].

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[216] Seguino, C., (no date), Business culture: a comparison between China and Italy.
[217] Ibidem
[218] Cannavale, C., Calvelli, A., (2019). Internationalizing Firms. Internationalizing Firms. Internaltional Strategy, Trends and Challenges, pp. 172-175
[219] Ivi pp.200-203
[220] Seguino, C., (no date), Business culture: a comparison between China and Italy.
[221] Ibidem
[222] Cannavale, C., Calvelli, A., (2019). Internationalizing Firms. Internationalizing Firms. Internaltional Strategy, Trends and Challenges, pp. 200-203
[223] Ibidem

Culture influences not only the way people work and the business environment, but also how people purchase and why they make purchasing decisions: an example is the luxury sector, where consumers in Italy are often motivated by individuality, self-expression, and personal enhancement, reflecting the country's more individualistic culture, but, in contrast, consumers in China tend to associate luxury goods with social status and group recognition. As a matter of facts, in the Chinese context, luxury products become status symbols that are essential for maintaining social position within a collectivist and high power-distance society[224]. This cultural difference is reflected also in modern retail habits and marketing adaptation is an essential element to note when approaching a new market. Italy remains one of the European countries where cash is still widely used with relatively low digital payment adoption, while China has developed an important mobile-first digital ecosystem where cashless transactions via platforms like Alipay and WeChat Pay are the standard for customers. As a result, Chinese consumers prefer to purchase items online, with China accounting more than half of the global total e-commerce retail sales[225][226]; this situation has also transformed the role of physical stores that now are used more for experience and brand participation than real purchasing: an examples is the "third place" concept promoted by coffee shops like Starbucks, which focuses on creating a comfortable and premium in-store experience to attract middle-class consumers[227][228]. Additionally, culture influences also the purchasing behaviour regarding food and consumer goods, that is generally shaped by local habits and living conditions. For examples when western retailers like Walmart entered in China, they expected that Chinese consumers will buy large multi-packs products like Americans, but they discovered that Chinese customers prefer making more frequent purchases in smaller quantities, and sometimes they even open multi-packs to take only the item they immediately needed. This behaviour leads western companies to adapt to the preference

[224] Snaiderbaur S., (2010), 'Made in Italy' in China: From Country of Origin to Country Concept Branding.

[225] Jiang, Hong & Murmann, Johann. (2022). The Rise of China's Digital Economy: An Overview. Management and Organization Review. 18. 790-802. 10.1017/mor.2022.32.

[226] Migliore, Giacomo & Wagner, Ralf & Cechella, Felipe & Liébana-Cabanillas, Francisco. (2022). Antecedents to the Adoption of Mobile Payment in China and Italy: an Integration of UTAUT2 and Innovation Resistance Theory. Information Systems Frontiers. 24. 10.1007/s10796-021-10237-2.

[227] Lannes B., Hatherall R., Ding J., Han W., Booker M. (2018) Consumption in China: ten trends for the next 10 years. How companies can succeed in a richer, older, more innovative China. Bain & Company

[228] Hill, C. W. L. (2021). *International business: Competing in the global marketplace* (13th ed.). McGraw-Hill Education, pp.231

of Chinese consumer for singular or smaller packaging; as a matter of fact, in certain regions, small shampoo sachets are more popular and sell better than large bottles because they better matched local household habits and living standards[229]. Regarding food tastes, it also shows cultural difference: Italians value the traditional "Made in Italy" products and mediterranean lifestyle, meanwhile Chinese consumption patterns are becoming increasingly divided between a Western lifestyle and a Chinese one, with the latter showing a strong preference for healthy and organic foods[230]. In the end companies to succeed globally must adopt a strategy of localization, customizing their products and marketing messages to fit with local consumer tastes and preferences[231]. This requires managers to balance global efficiency with the need to adjust and value local diversity, and at the same time, they need to remember that culture is not constant but it evolves with economic and social progress, and, for that, modern international firms must continuously monitor these cultural change in order to maintain local legitimacy and shape their business to ensure a long-term success in foreign markets[232].

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[229] Wong, N. EXPLORING CORPORATE STRATEGY , pp.296

[230] Lannes B., Hatherall R., Ding J., Han W., Booker M. (2018) Consumption in China: ten trends for the next 10 years. How companies can succeed in a richer, older, more innovative China. Bain & Company

[231] Hill, C. W. L. (2021). *International business: Competing in the global marketplace* (13th ed.). McGraw-Hill Education, pp.397-398

[232] Hill, C. W. L. (2021). *International business: Competing in the global marketplace* (13th ed.). McGraw-Hill Education, pp.121-125

2.3 Classification of market entry mode

A firm that enters a foreign market, after having analysed all the elements of a determined market, must make a crucial strategic decision regarding on which entry mode to use, since this choice influences the success and performance of its international operations. A market entry mode is generally an institutional arrangement that a company use to organize and manage international business activity in foreign markets, which effectively establishes the ownership structure of a foreign subsidiary[233]. Each entry mode involves different levels of resource commitment, operational control, and exposure to risk, so the initial decision a firm must make is particularly important, also because changing the chosen mode can be costly and time-consuming, often requiring significant financial and organizational adjustments[234]. The selection process of the entry mode is essentially a strategic trade-off between a firm's need for control and its willingness to commit resources in an uncertain foreign environment: for examples, high-control modes like wholly owned subsidiaries, allow the firm to manage the decisions, operations and business directly in the host country, but at the same time require important financial and managerial resources; on the other hand, low-control modes, like exporting or licensing, require minimal investment and involve lower risk but also limit the firm’s influence on local marketing and operations[235]. Firms should base their choice focusing on the balance between risk and return looking for the mode that offers the highest risk-adjusted return on investment, but, at the same time these choices are also dictated by resource availability, so the firm's financial and managerial capacity, and the need for control over systems, methods, and decisions to maximize returns on proprietary assets and skills[236][237].

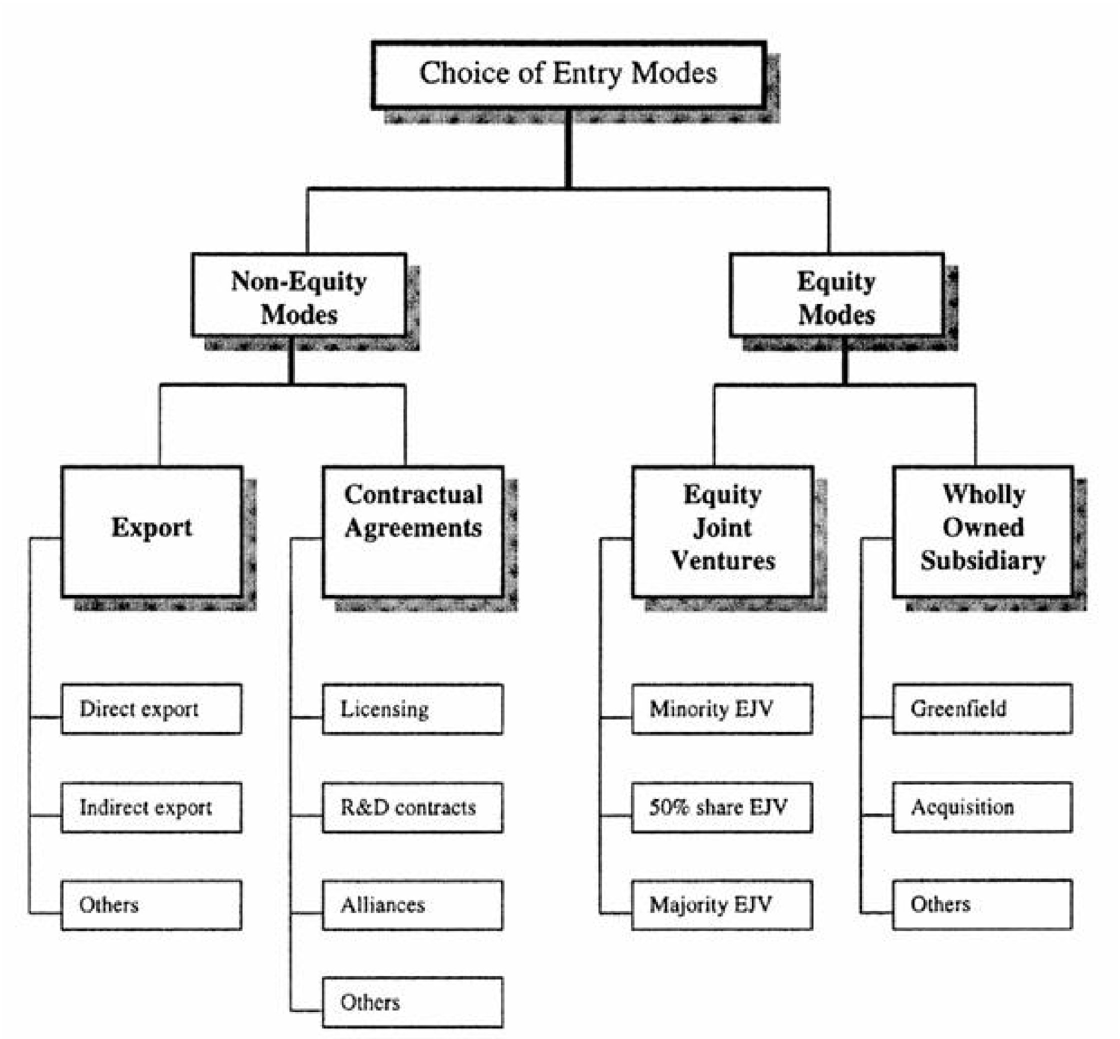
To analyse the market entry modes in a systematic way, this thesis will follow the the hierarchical model of market entry modes proposed by Pan Y. and Tse K. D. (2000) that is illustrated in figure 17: the model divide the entry modes in a multi-level hierarchical perspective, so in this way the decision-making process is divided into a series of

[233] Agarwal, S., & Ramaswami, S. N. (1992). Choice of foreign market entry mode: impact of ownership, location and internalization factors. *Journal of International Business Studies*, *23*(1), pp. 3-4
[234] Ivi pp.2
[235] Ivi pp.3-6
[236] Ibidem
[237] Wei, Y., Liu, B., & Liu, X. (2004). Entry modes of foreign direct investment in China: a multinomial logit approach. *Journal of Business Research*, *58*(11), 1495–1505.

sequential stages and is more adapt to managers that have limited analytical capacity[238]. The first level of the hierarchical model distinguish the entry modes between non-equity and equity-based modes: non-equity modes, including exporting and different contractual agreements, like licensing and franchising, represent a lower level of commitment and risk because they do not require the establishment of an independent organization in the host country and for that are often the first steps a firm takes in its internationalization process[239][240]. Contrary, equity-based modes, which include joint ventures, wholly foreign-owned enterprises, and mergers & acquisitions, involve direct investment and capital participation of the firm in the foreign market; these modes give the firm a higher degree of control over its international transactions but they also expose it to greater contextual and transactional risks in the host market[241][242]. The second level of the hierarchical model focus on the specific mode selection: other than the categories of equity and non-equity entry modes, firms must face other strategic choices that focus on the selection of the specific operational form. For equity-based modes, the decision lies between equity joint ventures and Wholly Foreign-Owned Enterprises, while for non-equity entry modes, the firm must decide between exporting and contractual agreements[243]. The following chapters will analyse all of these entry modes in detail, giving an overview of their respective advantages and disadvantages in the global marketplace.

[238] Pan, Y., & Tse, D. K. (2000). The hierarchical model of market entry modes. *Journal of International Business Studies*, *31*(4), pp. 537–539.
[239] Ibidem
[240] Leih, S. Teece, D. (2014), Market entry strategies, In D. Teece and M. Augier (eds). Palgrave Encyclopedia of Strategic Management, London. UK: Palgrave Macmillan.
[241] Ibidem
[242] Pan, Y., & Tse, D. K. (2000). The hierarchical model of market entry modes. *Journal of International Business Studies*, *31*(4), pp. 537–539.
[243] Ibidem

Figure 17: a hierarchical model of choice of entry mode



Source: Pan, Y., & Tse, D. K. (2000). The hierarchical model of market entry modes. Journal of International Business Studies, 31(4), pp. 535-554. https://doi.org/10.1057/palgrave.jibs.8490921

2.3.1 Exporting

Exporting refers to the sale of products or services produced in one country to customer of another country and is the most traditional and frequently used strategy for a firm to enter in the global marketplace[244][245]. Exporting is the entry mode that require the lowest level of international involvement and resource commitment, as also described in the theoretical framework of the Uppsala model, and this mode is useful for companies approaching a new market because it allows to test the potential and opportunities of that markets, while, at the same time, minimize the exposure to risks and maintaining a high degree of strategic flexibility. As a matter of facts, for small and medium-sized enterprises that have limited financial resource, exporting is the primary way for internationalization, and for that, this entry mode is the most adopted by the majority of companies active in global trade, around 90%[246].

In international trade strategy there is an important distinction between what is define as indirect and direct exporting that depend on the level of involvement that the firm has in the foreign market activities: indirect exporting happens when a firm sells its products to independent intermediaries located in its home country, which then manage the actual sale to foreign customers[247]; these intermediaries can be export management companies, also define as EMCs, international trading houses, or export agents[248]. For the exporter, so the producing firm, the operation is essentially like a domestic sale, because is the intermediary that take responsibilities for the logistics, documentation, and regulations, bearing also the risks. Indirect exporting reduced cost and operational complexity for the firm but at the same time reduces also access to information about local consumer and market trends, that can be useful to the company to modify their products or services and

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[244] Katarzyna Twarowska & Magdalena Kakol, (2013), "International Business Strategy: Reasons and Forms of Expansion Into ForeignMarkets," Active Citizenship by Knowledge Management & Innovation: Proceedings of the Management, Knowledge and Learning International Conference 2013,, ToKnowPress
[245] Hill, C. W. L. (2021). *International business: Competing in the global marketplace* (13th ed.). McGraw-Hill Education Pp.448-450
[246] Ivi pp. 472-482
[247] Katarzyna Twarowska & Magdalena Kakol, (2013), "International Business Strategy: Reasons and Forms of Expansion Into ForeignMarkets," Active Citizenship by Knowledge Management & Innovation: Proceedings of the Management, Knowledge and Learning International Conference 2013,, ToKnowPress
[248] Hill, C. W. L. (2021). *International business: Competing in the global marketplace* (13th ed.). McGraw-Hill Education, pp. 479-480

adapt them to that specific market[249]. On the other hand, there is direct exporting that involves the company to take direct responsibility to sell the product in a foreign market, managing by itself marketing of its products and the distribution channels in the host country; all this process happens through the company's own sales force, with the establishment of foreign sales subsidiaries, or the use of local agents that operate in the target market. This mode, compared to indirect exporting, requires greater financial and managerial resources and more international experience since it is done directly by the company, but it also provides higher control over pricing, branding, distribution, and after-sales services[250][251]. Beyond the distinction between direct and indirect exporting, it is also possible to differentiate between occasional exporters, so companies that sporadically ship goods just to exploit short-term opportunities, like currency devaluations or temporary domestic surpluses, and customary exporters or non-occasional exporters, so companies that integrate exporting in their long-term corporate strategy and operate consistently in foreign markets[252]. Additionally, another alternative is piggyback marketing that consist in a firm that uses the already established distribution network of another firm to sell its products abroad; this alternative is used especially when the two firms offer complementary product that targeted the same consumer segment[253].

The reason why firms engage in exporting are both proactive and reactive: proactive firms are in continuous search for international opportunities in the global environment to exploit their core competencies, like superior technology or unique brand image, to meet the demand in larger foreign markets, while reactive firms engage in exporting just for necessity, for example when their domestic market become saturated or when excess production capacity at home pushes the firms to find new customer abroad. Both reasons overall lead to the main objectives of exporting that are achieving organizational growth,

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[249] Cannavale, C., Calvelli, A., (2019). Internationalizing Firms. Internationalizing Firms. Internaltional Strategy, Trends and Challenges, pp. 73-78
[250] Ibidem
[251] Katarzyna Twarowska & Magdalena Kakol, (2013), "International Business Strategy: Reasons and Forms of Expansion Into ForeignMarkets," Active Citizenship by Knowledge Management & Innovation: Proceedings of the Management, Knowledge and Learning International Conference 2013,, ToKnowPress
[252] Majocchi, A., Zucchella, A., 2001. "Internationalization and Performance: findings from a set of Italian SMEs," Economics and Quantitative Methods, Department of Economics, University of Insubria.
[253] Hill, C. W. L. (2021). *International business: Competing in the global marketplace* (13th ed.). McGraw-Hill Education, pp. 479-480

increase profitability through access to larger markets and potentially higher prices, and benefit from location advantages and experience curve economies[254].

It is important to analyse the advantages and disadvantages that this market entry mode can bring to a firm, since exporting offers firms a balance on cost, control, and risk that makes it particularly attractive, especially during the early stages of internationalization. One of the main advantages is the low level of resources commitment and risk: in fact, firm can enter a foreign market without investing high capital in that market and without facing legal complexities associated with establishing physical facilities abroad, and this reduces the overall risk that the firm can encounter in an environment that is unfamiliar[255]. Another advantages is that exporting enables firms to benefit from experience curve effects and location economies: a firm can concentrate the production in location where is more efficient and then serving the global market through exports, doing that companies can increase production volumes and lower unit costs through economies of scale and learning by doing effects[256]; this concepts were explained in detail in chapters 2.2.1 and 2.2.4. Additionally, exporting give an important advantage in terms of speed: compared to equity-based modes, like greenfield investments, where is essential to study and acquire knowledge of the new market before invest in it, exporting is a rapid method of entry because it allows firms to capitalize quickly on emerging market opportunities and, in some cases, establish a first-mover advantage[257]. Talking about disadvantages, one of the main limitations of exporting is the exposure to trade barriers and protectionist policies: many host countries impose import tariffs, quotas, and strict product regulations on exporters and this situation can increase costs and make foreign products less competitive on the market compared to product of local firms[258][259]. Another important disadvantage involves significant logistics and supply chain costs, especially for bulky or heavy goods with a low value-to-weight ratio, because in these cases, there is a high cost for international transportation, complex customs procedures and administrative

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254 Ivi pp. 473-475
255 Ivi pp.448-450
256 Ivi pp. 384-386
257 Bing-sheng Teng, (2004), The WTO and entry modes in China, Thunderbird International Business Review, Volume 46, pp.384-385
258 Ibidem
259 Hill, C. W. L. (2021). *International business: Competing in the global marketplace* (13th ed.). McGraw-Hill Education, pp.448-450

paperwork that reduce profit margins[260]. Lastly, exporting brings an important limitation because of the low local responsiveness and control**:** in facts, exporters may find it difficult to adapt their products and marketing to specific local cultural needs since there is low contact with the foreign market, and is even worse if distribution is delegated to third-party agents, so the indirect export situation, because the firm may face principal-agent problems, where distributors have conflicting obligations and fail to prioritize their exporter firm interests or fail to promote the product with sufficient commitment[261]. Despite these disadvantages, exporting still remain an important entry-level strategy, and it is particularly used by Italian small and medium enterprises to enter into the complex Chinese market, but the long-term effectiveness of this entry mode often depends on the firm's ability to manage trade barriers and then move towards more integrated entry modes as the firm acquire more market knowledge and experience[262].

[260] Bing-sheng Teng, (2004), The WTO and entry modes in China, Thunderbird International Business Review, Volume 46, pp.384-385
[261] Cannavale, C., Calvelli, A., (2019). Internationalizing Firms. Internationalizing Firms. Internaltional Strategy, Trends and Challenges, pp. 73-78
[262] Colapinto, C., Gavinelli, L., Zenga, M., & Di Gregorio, A. (2015). Different approaches to the pursuit of internationalization by Italian SMEs. *Journal of Research in Marketing and Entrepreneurship*, *17*(2), 229–248.

2.3.2 Contractual agreements: Licensing, Franchising, and Turnkey Projects

Unlike exporting, that require physical movement of goods by one country to another country, firms can choose a non-equity market entry mode define as contractual agreements that involve the transfer of intangible property, such as patents, formulas, trademarks, and management processes, in exchange of a compensation, where the relationship between the firm and the foreign partner is regulated by legally sanctioned rights and obligations rather than through capital ownership[263]. These entry modes are chosen by firms that possess valuable intangible assets but lack financial resources or risk tolerance necessary to undertake foreign direct investments, especially in complex markets like the Chinese one[264][265]; as a matter of facts, this is another common option for Italian small and medium enterprises since they possess valuable intellectual asset but usually operate with limited financial resources[266]. The more common contractual entry modes are licensing, franchising, turnkey projects, R&D contracts and strategic alliances[267].

Starting form licensing, this is an arrangement in which a licensor grants the rights to intangible property to another entity, the licensee, for a specific period and in exchange of a royalty fee; in this situation, the licensee is responsible for the capital investment needed to production and marketing in the host country while the licensor, instead, does not need to directly manage daily operations but earns revenue through royalties that are usually calculated as percentage of the sales. The early mentioned intangible property can be patents, inventions, formulas, processes, designs, copyrights, and trademarks[268]. In China, these licensing agreements are governed by the regulations on the administration

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[263] Katarzyna Twarowska & Magdalena Kakol, (2013), "International Business Strategy: Reasons and Forms of Expansion Into ForeignMarkets," Active Citizenship by Knowledge Management & Innovation: Proceedings of the Management, Knowledge and Learning International Conference 2013,, ToKnowPress

[264] Agarwal, S., Ramaswami, S., (1992), Choice of Foreign Market Entry Mode: Impact of Ownership, Location and Internalization Factors. *J Int Bus Stud* 23, pp. 3-4

[265] Hill, C. W. L. (2021). *International business: Competing in the global marketplace* (13th ed.). McGraw-Hill Education, pp.450-451

[266] Berra, L., Piatti, L., & Vitali, G. (1995). The internationalization process in the small and medium sized firms: A case study on the Italian clothing industry. *Small Business Economics*, 7(1), pp. 67–75.

[267] Katarzyna Twarowska & Magdalena Kakol, (2013), "International Business Strategy: Reasons and Forms of Expansion Into ForeignMarkets," Active Citizenship by Knowledge Management & Innovation: Proceedings of the Management, Knowledge and Learning International Conference 2013,, ToKnowPress

[268] Hill, C. W. L. (2021). *International business: Competing in the global marketplace* (13th ed.). McGraw-Hill Education, pp.450-451

of technology import contracts or RATIC, that generally establish that license contracts should not exceed ten years[269]. Licensing, as for the others contractual agreements, is highly attractive for firms with limited capital or those companies that do not want to commit significant investment in foreign markets. This entry mode also allows firms to bypass investment barriers in countries where local regulations restrict or prohibit or wholly foreign owned foreign operations[270]. Besides these advantages, a primary limitation of licensing is the lack of control over manufacturing, marketing, and overall strategic decisions and additionally, an even more critical issue is the potential dissipating of proprietary knowledge: in fact, over time, the licensee may absorb the technology or know-how transferred through the agreement and then become a direct competitor of the licensor. An example of this situation is when RCA (Radio corporation of America) licensed its colour TV technology to Japanese firms like Sony, these partners then improved their technology and used it to dominate the U.S. market, leading to RCA's decline. To prevent these risks, firms started to use a cross-licensing agreements, that consist in parties swapping valuable know-how to reduce opportunistic behaviour[271].

Secondly, there is franchising that is essentially a specialized and more rigorous form of licensing and that was primarily used by service firms: in this type of arrangement, the franchisor sells to the franchisee intangible property, that are usually a trademark, and require that the franchisee abide by strict operational rules regarding areas such as products, preparation methods, staffing, and store design. A common example of franchising includes McDonald's and Subway and a big difference between licensing and franchising is that franchising requires the transfer of an entire business format and system[272][273]. Franchising is often chosen by companies because it facilitates rapid global expansion at a relatively low cost and risk, because is the franchisee that is typically responsible for the investment required to enter the foreign market. The most significant challenge, however, regard the quality control: in fact, the geographic distance can make

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[269] Yadong Luo (2000) Entering China Today, Journal of Global Marketing, 14:1-2, pp.75-76
[270] Hill, C. W. L. (2021). *International business: Competing in the global marketplace* (13th ed.). McGraw-Hill Education, pp.450-451
[271] Ibidem
[272] Ivi pp. 451-452
[273] [273] Katarzyna Twarowska & Magdalena Kakol, (2013), "International Business Strategy: Reasons and Forms of Expansion Into ForeignMarkets," Active Citizenship by Knowledge Management & Innovation: Proceedings of the Management, Knowledge and Learning International Conference 2013,, ToKnowPress

it difficult for a franchisor to ensure that the franchisees maintain the brand's global standards, and to address this issue, many firms adopt a master franchisee model, in which a local entity is granted the right to supervise all franchises in a particular region, to better monitor and support local operations[274].

Thirdly, there is turnkey project where a contractor agrees to handle every stage of a complex project for a foreign client, including design, construction, and staff training, and, at the end of the contract, when the project is completed, the client receive a fully operational facility that is ready for full operation and to start production. This entry mode is typical used in industries that rely on expensive and large-scale production technologies, like chemicals, pharmaceuticals, and petroleum refining[275]. One of the main advantages of turnkey projects is that they allow firms to earn high economic returns from their technological and engineering expertise in countries where foreign direct investment is restricted by government regulations and it is also less risky compared to equity-based investment in politically unstable environments. However, after the project is delivered, the firm has no ongoing market presence or long-term interest in the host country and additionally the firm, by transferring its production technology and know-how, may unintentionally create a future competitor[276][277].

Lastly, there are R&D contracts and strategic alliances that represent a more modern forms of collaborative agreements which aim to share the high fixed costs and risks associated with innovation: R&D contracts allow firms to share resources for developing new products or processes, which is essential in high-tech sectors where product life cycles are very short[278], and, in the Chinese context, collaborating with local research centres can facilitate product adaptation to local requirements, a form of the so called exploitative learning[279]. Regarding instead strategic alliances, these are cooperative

[274] Hill, C. W. L. (2021). *International business: Competing in the global marketplace* (13th ed.). McGraw-Hill Education, pp.451-452
[275] Ivi pp.449-450
[276] Ibidem
[277] Cannavale, C., Calvelli, A., (2019). Internationalizing Firms. Internationalizing Firms. Internaltional Strategy, Trends and Challenges, pp. 97-101
[278] Katarzyna Twarowska & Magdalena Kakol, (2013), "International Business Strategy: Reasons and Forms of Expansion Into ForeignMarkets," Active Citizenship by Knowledge Management & Innovation: Proceedings of the Management, Knowledge and Learning International Conference 2013,, ToKnowPress
[279] Cannavale, C., Calvelli, A., (2019). Internationalizing Firms. Internationalizing Firms. Internaltional Strategy, Trends and Challenges, pp. 169-170

agreements between potential or actual competitors to achieve a specific task, like entering a new market or establishing technical standards**.** This type of alliances facilitates firms to enter in a foreign market because it provide connection and local market expertise that a foreign firm might lack but, the one of the risk regard competitive collaboration, where one partner tries to use the alliance to gain a competitive advantage over the other by expropriating technology, knowledge or market access[280][281].

[280] Katarzyna Twarowska & Magdalena Kakol, (2013), "International Business Strategy: Reasons and Forms of Expansion Into ForeignMarkets," Active Citizenship by Knowledge Management & Innovation: Proceedings of the Management, Knowledge and Learning International Conference 2013,, ToKnowPress
[281] Hill, C. W. L. (2021). *International business: Competing in the global marketplace* (13th ed.). McGraw-Hill Education, pp.450-461

2.3.3 Joint Ventures (JV)

Moving to equity-based entry modes, in this context, joint ventures represented the most important and complex form of cooperation for foreign firms entering in a foreign country, particularly in China[282]. A Joint Venture can be defined as a cooperative arrangement in which two or more independent firms, that are usually a foreign investor and a local partner, combine resources, capital, and expertise to create a new and jointly owned business entity, and, opposed to non-equity modes, this entry mode involves shared ownership, shared operational management, and distribution of risks and profits between the two parts[283]. During the period of reforms and opening up in China, joint ventures were the standard mode used by western firms to enter the market firstly because regulation require compulsory local partnership in several industries (see chapter 1.2.2) and secondly because foreign companies needed local support to operate in an unfamiliar business environment[284]. Nowadays, recent regulatory changes bring firms to switch entry mode in favour of wholly foreign-owned enterprises, but joint ventures still remains a vital strategic tool for companies especially because they offer a balance between control and local responsiveness[285]; in fact, the company's decision to enter a foreign market through a joint venture in driven by several factors: firstly, through JV can bring the firm to collaborate to local partner and acquire host country specific knowledge, including understanding of local competitive conditions, cultural habits, language barriers, and the complexity of the political and bureaucratic systems of a specific country[286]. As a matter of facts, local partners can close the gap between the two countries, especially if there is a great cultural distance like between Italy and China and give access to personal connections[287]. Additionally this partnership facilitate inter-firm learning and the transfer of intangible assets, because by combining the foreign firm's technological know-how or

282 Bing-sheng Teng, (2004), The WTO and entry modes in China, Thunderbird International Business Review, Volume 46, p.381-400
283 Hill, C. W. L. (2021). *International business: Competing in the global marketplace* (13th ed.). McGraw-Hill Education, pp. 452-454
284 Bing-sheng Teng, (2004), The WTO and entry modes in China, Thunderbird International Business Review, Volume 46, p.381-400
285 Leih, S. Teece, D. (2014), Market entry strategies, In D. Teece and M. Augier (eds). Palgrave Encyclopedia of Strategic Management, London. UK: Palgrave Macmillan
286 Hill, C. W. L. (2021). *International business: Competing in the global marketplace* (13th ed.). McGraw-Hill Education, pp. 452-454
287 Sun H (1999), "Entry modes of multinational corporations into China's market: a socioeconomic analysis". *International Journal of Social Economics*, Vol. 26, No. 5, pp. 642–660

the brand reputation with the local partner's marketing expertise, existing distribution channels, and trained workforce, the partners can create synergies that bring benefit to both parts and that improves the overall economic performance of the venture[288][289]. Secondly, entering a new market involves substantial financial and organizational commitments that, by choosing joint venture as an entry mode, can allow firms to share cost and risk of establishing production facilities with the local partner, this is attractive for small and medium-sized enterprises that often lack big capital to invest[290][291]. Lastly, in many cases, joint ventures are the only legally permitted entry mode and mixed-ownership firms often receive a favourable treatment from the government than wholly foreign-owned enterprises, also because local partners have interest in protecting the venture from unfavourable government action or nationalization[292][293]. Despite their benefits, joint ventures also bring some risks and are difficult to sustain, often ending in dissolution if the alliance. One of the main concerns for firms, especially in the Chinese context, is the loss of control over proprietary technology and know-how: in fact, close collaboration often allows the local partner to assimilate core competencies and become a global competitor in the future[294][295]. Joint venture can also generate tension because of the differences in organizational culture and managerial approaches of the two partners[296]: for example, Chinese partners may prioritize short-term results or social goals, like employment stability, while the foreign firm focus more on long-term stability and global coordination[297]. Lastly, joint ventures can also limit a multinational firm's ability to coordinate its international strategy effectively because a local partner, for example, the

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288 Yadong Luo (2000) Entering China Today, Journal of Global Marketing, 14:1-2, pp.57-82
289 Canfei He (2003) Entry Mode and Location of Foreign Manufacturing Enterprises in China, Eurasian Geography and Economics, 44:6, pp. 444-446
290 Hill, C. W. L. (2021). *International business: Competing in the global marketplace* (13th ed.). McGraw-Hill Education, pp. 452-454
291 Agarwal, S., Ramaswami, S., (1992), Choice of Foreign Market Entry Mode: Impact of Ownership, Location and Internalization Factors. *J Int Bus Stud* 23, pp. 4-5
292 Hill, C. W. L. (2021). *International business: Competing in the global marketplace* (13th ed.). McGraw-Hill Education, pp. 452-454
293 Canfei He (2003) Entry Mode and Location of Foreign Manufacturing Enterprises in China, Eurasian Geography and Economics, 44:6, pp. 444-446
294 Ibidem
295 Hill, C. W. L. (2021). *International business: Competing in the global marketplace* (13th ed.). McGraw-Hill Education, pp. 452-454
296 Hill, C. W. L. (2021). *International business: Competing in the global marketplace* (13th ed.). McGraw-Hill Education, pp. 452-454
297 Bing-sheng Teng, (2004), The WTO and entry modes in China, Thunderbird International Business Review, Volume 46, p.381-400

local partner may refuse to cooperate with the firm on decision that support global interest, like coordinate a global attack on a rival, if those actions negatively affect the profitability of the local venture[298][299].

Joint ventures are generally divided into two main forms: equity joint ventures and cooperative or contractual joint ventures, each with different legal structures and operational rules; An equity joint ventures is a standardized form of partnership that takes the form of a separate legal entity with its own limited liability status and both partners contribute to the capital of the venture, which can include cash, equipment, intellectual property rights, or land-use rights[300][301]. In general, the foreign partner's share was usually not less than 25% and profits, risks, and losses are distributed strictly in proportion to each partner's contribution to the registered capital[302]. Talking about management, it is organized through a board of directors, with the decision-making power that typically reflects the ownership structure[303]. The cooperative or contractual joint ventures, instead, is a more flexible partnership based on contractual agreement rather than strictly on equity participation: in fact, unlike the equity joint ventures, the distribution of profits, responsibilities, and assets is define by the joint venture contract and not by the capital contribution; additionally a cooperative joint ventures can choose to be a separate legal entity, so with limited liability, or a non-legal-person association, so with unlimited liability for the partners [304][305] . This model is ideal especially for project-based collaborations, like resource exploration or construction, and it can be advantageous foreign partners because it allow for more flexible financial arrangements and allow to negotiate an accelerated return on their investment, enabling them to recover their capital share before the end of the contract period[306]. Additionally, this type of joint ventures

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[298] Bing-sheng Teng, (2004), The WTO and entry modes in China, Thunderbird International Business Review, Volume 46, p.381-400

[299] Hill, C. W. L. (2021). *International business: Competing in the global marketplace* (13th ed.). McGraw-Hill Education, pp. 452-454

[300] Ibidem

[301] Yadong Luo (2000) Entering China Today, Journal of Global Marketing, 14:1-2, pp.57-82

[302] Binhong, F. (2025). The choice of foreign investment vehicles in China: Trends, factors and recommendations. *JOURNAL OF COMMERCIAL LAW REVIEW*, *9*(4), pp. 95-97.

[303] Canfei He (2003) Entry Mode and Location of Foreign Manufacturing Enterprises in China, Eurasian Geography and Economics, 44:6, pp. 444-446

[304] Binhong, F. (2025). The choice of foreign investment vehicles in China: Trends, factors and recommendations. *JOURNAL OF COMMERCIAL LAW REVIEW*, *9*(4), pp. 95-97.

[305] Yadong Luo (2000) Entering China Today, Journal of Global Marketing, 14:1-2, pp.57-82

[306] Ibidem

makes it easier to include non-monetary contributions, such as labour or natural resource usage rights, which are often difficult to value[307].

As mentioned before, after January 1, 2020, with the implementation of the foreign investment law that abrogated the three separate laws for equity joint venture, cooperative joint ventures and wholly foreign-owned enterprises, bringing them together under a single legal regime regulated by Chinese Company Law[308]. This marks a transition from a policy-access driven choice to a business strategy-driven choice, so today firms choose the entry mode that best fit in their business objective, and for that WFOEs have become the predominant entry mode since firms seek greater autonomy, accounting for approximately 70% of new projects after China's WTO admission[309]. For Italian firms, joint ventures still remain and important instrument especially to create strategic alliances and in many sector it is possible to find historical partnership between Italian companies and Chinese partners: an example is Naveco, a joint venture established between Iveco SpA , that is a global leader in commercial vehicles within the Fiat/Iveco Group, and the Nanjing Automobile Group Corporation[310][311]; in the agrifood sector, joint ventures are chosen because this mode help navigate the complexity of local distribution and an example is the strategic alliance between Salumificio Fratelli Beretta SpA and Yurun Group, one of China's largest meat processors[312][313]; lastly, in the highly regulated services sectors, joint ventures are essential to political legitimacy and regulatory access and an example is Generali China Life Insurance Co., Ltd., a partnership between Assicurazioni Generali SpA and China National Petroleum Corporation (CNPC), that is a state owned

[307] Canfei He (2003) Entry Mode and Location of Foreign Manufacturing Enterprises in China, Eurasian Geography and Economics, 44:6, pp. 446-447

[308] Info Mercati Esteri (2024). Report *Cina - Scheda paese*. Ministero degli Affari Esteri e della Cooperazione Internazionale, pp.20-21. https://www.infomercatiesteri.it/public/ime/schede-sintesi/r_122_cina.pdf

[309] Binhong, F. (2025). The choice of foreign investment vehicles in China: Trends, factors and recommendations. *JOURNAL OF COMMERCIAL LAW REVIEW*, *9*(4), pp. 95-96.

[310] https://www.ivecogroup.com/

[311] Info Mercati Esteri (2024). Report *Cina - Scheda paese*. Ministero degli Affari Esteri e della Cooperazione Internazionale, pp.46.

[312] Istituto per il Commercio Estero ICE, (n.d.). *Aziende e istituzioni italiane in Cina* - List of Italian companies and institutions in China

[313] Info Mercati Esteri (2024). Report *Cina - Scheda paese*. Ministero degli Affari Esteri e della Cooperazione Internazionale, pp.45.

enterprise, and this partnership is necessary for Generali to operate in the nationwide insurance network[314][315][316].

[314] Info Mercati Esteri (2024). Report *Cina - Scheda paese*. Ministero degli Affari Esteri e della Cooperazione Internazionale, pp.42.
[315] Istituto per il Commercio Estero ICE, (n.d.). *Aziende e istituzioni italiane in Cina* - List of Italian companies and institutions in China.
[316] http://www.generalichina.com:8080/

2.3.4 Wholly Foreign-Owned Enterprises (WFOEs)

The Wholly Foreign-Owned Enterprise, abbreviated WFOE, represents the market entry mode with the highest level of resource commitment, risk exposure, and operational control for a multinational firm[317] and is also defined as a foreign company that uses entirely its own capital, technology, and management while operating in a host country. From a legal perspective this mean that a WFOE establishes a 100% ownership structure, so the foreign parent company is responsible for all risks, gains, and losses. Unlike joint ventures, the WFOE does not involve a local partner, and this allows the company to keep full control on the operations and decisions[318][319]. When a firm decides to establish a WFOE, it should decide between two main implementation methods: one is the greenfield that involves building an operation starting from scratch; it is basically an internal growth strategy in which the company creates its own facilities, organizational culture, and operating systems without being influenced by an existing local company: opposite to greenfield there is brownfield, that involves purchasing an already existing firm in the target market and this is define as external growth since it offers faster entry into the market and immediate access to valuable strategic assets, like established distribution channels, local brand loyalty, and a skilled workforce[320][321].

Firms typically choose WFOE when they want to maintain absolute control over international transaction and competitive assets, even if this necessity for control go against the benefit of sharing the risk with a partner, typical of collaborative entry modes like joint ventures[322]. According to Transaction Cost Economics (TCE), firms usually will prefer to keep their operation internal when the costs of finding, negotiating, and

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[317] Hill, C. W. L. (2021). *International business: Competing in the global marketplace* (13th ed.). McGraw-Hill Education, pp. 453-454.
[318] Yadong Luo (2000) Entering China Today, Journal of Global Marketing, 14:1-2, pp.57-82
[319] Hill, C. W. L. (2021). *International business: Competing in the global marketplace* (13th ed.). McGraw-Hill Education, pp. 453-454
[320] Katarzyna Twarowska & Magdalena Kakol, (2013), "International Business Strategy: Reasons and Forms of Expansion into Foreign Markets," Active Citizenship by Knowledge Management & Innovation: Proceedings of the Management, Knowledge and Learning International Conference 2013, ToKnowPress
[321] Hill, C. W. L. (2021). *International business: Competing in the global marketplace* (13th ed.). McGraw-Hill Education, pp 456-458.
[322] Agarwal, S., Ramaswami, S., (1992), Choice of Foreign Market Entry Mode: Impact of Ownership, Location and Internalization Factors. *J Int Bus Stud* 23, pp. 4-5

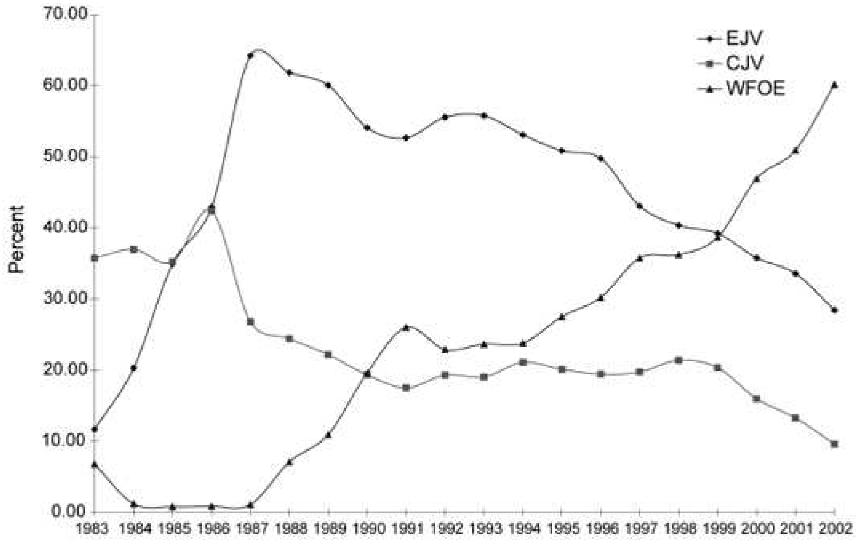
monitoring a local partner are too high[323]. WFOEs are also essential for multinationals companies that pursue global standardization or transnational strategies, because they require tight control to coordinate a value chain that is diffused globally and WFOEs allow headquarters to make centrally determined decisions regarding production volumes, pricing, and competition across different markets, without needing approval form a local partner who might oppose decisions that reduce local profits[324]. In fact, of the main reason and advantage for which firms choose WFOEs as entry mode to a foreign market is because the total operational autonomy they offer: firms can enjoy 100% share in profit and have complete freedom on business' decisions and the foreign investor is in charge of the strategic expansion and long term vision of the firm[325]; this advantage, however, came with many disadvantages like the fully risk exposure the firm has to face alone, like political instability or economic fluctuations, without the help of a local partner, and this is also include the exposure to the liability of foreignness. Additionally, this is generally the most expensive entry mode, and it require the firm to bear all the cost to establish presence in a foreign market[326]. On the other side, for firms is easier to establish and maintain operating routines and a specific organizational culture in a new subsidiary than changing an already existing culture that can exist in a joint venture or acquired company[327].

In China, the WFOEs were introduced in 1986 but they remained a marginal entry mode until the late 1990s, because of sectoral restrictions that favoured joint ventures; successively, as already mentioned in the previous chapter, after China's accession to the World Trade Organization in 2001, which required foreign companies to be treated the same as local ones, and after the implementation of the foreign investment law on 2020, that establish a unified legal regime under the Chinese Company Law, the situation changes and firm started to choose WFOEs that became the predominant entry mode in China, accounting for approximately 70% to 75% of new foreign direct investment

[323] Huang Lin (2000) Choice of Market Entry Mode in Emerging Markets, Journal of Global Marketing, 14:1-2, pp.86-90
[324] Hill, C. W. L. (2021). *International business: Competing in the global marketplace* (13th ed.). McGraw-Hill Education, pp. 453-454
[325] Ibidem
[326] Canfei He (2003) Entry Mode and Location of Foreign Manufacturing Enterprises in China, Eurasian Geography and Economics, 44:6, pp. 447-449
[327] Hill, C. W. L. (2021). *International business: Competing in the global marketplace* (13th ed.). McGraw-Hill Education, pp. 458-459

projects[328][329]. Figure 17 show the structural changes in foreign entry mode chosen by foreign firms to approach the Chinese market, from 1983, where there was a predominance of equity joint venture and cooperative joint ventures, until 2002 with a decrease of JV in favour of WFOEs[330].

Figure 18: Structural changes of foreign entry modes in China, 1983–2002



Source: Canfei He (2003) Entry Mode and Location of Foreign Manufacturing Enterprises in China, Eurasian Geography and Economics, 44:6, pp. 449

For Italian firms, particularly those in high-end manufacturing and the luxury sectors, the WFOE are an essential tool for protecting the made in Italy brand equity, and Italian entrepreneurs prefer maintaining the distinguished style and quality standards of their products that would be difficult when control is shared with a local partner who may prioritize volume over quality: in this case, WFOE give the company total control over the production process, ensuring that the "Italian Country Concept" is represented correctly and maintained also in the Chinese market[331]. At the same time, Italian small

[328] Bing-sheng Teng, (2004), The WTO and entry modes in China, Thunderbird International Business Review, Volume 46, p.381-400
[329] Binhong, F. (2025). The choice of foreign investment vehicles in China: Trends, factors and recommendations. JOURNAL OF COMMERCIAL LAW REVIEW, 9(4), pp. 96-97.
[330] Canfei He (2003) Entry Mode and Location of Foreign Manufacturing Enterprises in China, Eurasian Geography and Economics, 44:6, pp. 449
[331] Snaiderbaur S., (2010), 'Made in Italy' in China: From Country of Origin to Country Concept Branding, pp. 64-66

and medium enterprises, that excel in the industrial automation and mechanical sectors, prefer WFOEs because they safeguard specialized machinery and process know-how[332]. A good example of Italian WFOEs is the Ferrero Trading Co., Ltd., that is a WFOE founded by the Italian confectionery to maintain strict control over its production standards and distribution networks. Another important WFOE is based in Jiangsu and is the Ariston Thermo Co., Ltd., that focus on the design and production of heating systems, through direct transfer of Italian engineering expertise. Lastly there is Natuzzi China that operates WFOE facilities in Shanghai for the manufacturing and retail of high-end furniture, ensuring brand consistency across its global network[333][334].

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[332] Bontempi M. E., Prodi G., (2009), Entry strategies into China: The choice between Joint Ventures and Wholly Foreign-Owned Enterprises: An application to the Italian manufacturing sector, International Review of Economics & Finance, Volume 18, Issue 1, pp.11-19.
[333] Istituto per il Commercio Estero ICE, (n.d.). *Aziende e istituzioni italiane in Cina* - List of Italian companies and institutions in China
[334] Info Mercati Esteri (2024). Report *Cina - Scheda paese*. Ministero degli Affari Esteri e della Cooperazione Internazionale, pp.44.

2.3.5 Mergers & Acquisitions (M&A)

Mergers & Acquisitions, abbreviated M&A, in the strategic framework of internationalization represent an external growth strategy because they allow companies to enter a foreign market by using existing organizational structures instead of building them from scratch[335]. The two terms, merges and acquisition, are frequently used together but they describe distinct legal and organizational process, that have different implications for corporate governance and post-entry integration. In fact, a fundamental difference is in the ownership structure and the nature of the agreement between the participating entities: an acquisition happen when one company, the acquirer, take ownership of another company, the target, usually the acquirer purchases a controlling interest or 100% of the target company's asset or shares, and the acquired firm continue to operate as a subsidiary or become fully integrated in the parent's operations. Acquisition can be friendly, so the target company agrees to be acquired, or hostile, so the acquirer approaches directly shareholders without consulting the target company's management[336], and, in international business, acquisition is defined also as brownfield investment, since it involves the purchase of already existing industrial facilities[337]. On the other side, merges occurs when there is a mutually agreed decision between two independent companies to create a new organization under shared ownership, that combine their resources to form a new and single legal entity. In theory, mergers are partnerships between equals even if in practice one company often has more influence over the strategy and decision-making process[338].

Firm decide to choose M&A over internal growth; Greenfield, for different reasons: firstly, M&A is the quickest way to enter a foreign market because by acquiring an established enterprise in that market, a firm instantly gains an existing business with customers, revenue and profit and this also reduced market uncertainty[339]. Secondly, M&A give also access to valuable resources that are difficult to build independently, like strong local

[335] Mancin, M. (2016). Operazioni straordinarie e aggregazioni aziendali. Risvolti contabili, civilistici e fiscali. *ARCA (Università Ca' Foscari Venezia)*, pp.8-10
[336] Wong, N. EXPLORING CORPORATE STRATEGY, p.358-360
[337] Katarzyna Twarowska & Magdalena Kakol, (2013), "International Business Strategy: Reasons and Forms of Expansion into Foreign Markets," Active Citizenship by Knowledge Management & Innovation: Proceedings of the Management, Knowledge and Learning International Conference 2013,, ToKnowPress
[338] Wong, N. EXPLORING CORPORATE STRATEGY, p.358-360
[339] Ibidem

brands, established distribution channels, and a skilled workforce and this is also useful in market where relationship-based transactions are the norm[340]. Additionally, in rapidly globalizing industries, firms often use M&A to secure market opportunities before their rivals, preventing competition and gaining market share and in some cases, combining companies can reduce costs by sharing resources such as production facilities, management services, or distribution systems, creating greater efficiency and economies of scale[341]. M&A, however, came also with some disadvantages because this process can be extremely expensive, since companies need to pay a control premium, so a price higher than the actual market value of the target company, and often will encounter integration difficulties, because they need to integrate business operation, employees and even IT systems, action that is time consuming and require lots of effort[342]; as a matter of facts, one of the main reasons acquisitions fail is because of the conflict between the cultures and management styles of the two companies, especially in cross-border deals where national cultural differences can create additional management friction[343]. Lastly, the acquiring company may also take over existing problems, like outdated technology, inefficient employees, or organizational issues that are difficult to solve because of local laws and regulations[344].

Regarding the Chinese market, M&A was initially a less common entry strategy, due to strict regulatory barriers and a government preference for joint ventures to facilitate technology transfer, but now they became an attractive alternative for foreign investors looking for rapid expansion and access to strategy assets. In fact, the Chinese government has increasingly adopted a national treatment approach by giving foreign companies treatment similar to domestic firms and it has also supported M&A activity through policies for restructuring state-owned enterprises[345]. Additionally, the development of stock exchanges in Shanghai and Shenzhen has created a more transparent and accessible environment for foreign companies interested in acquiring shares in Chinese firms and

[340] Bing-sheng Teng, (2004), The WTO and entry modes in China, Thunderbird International Business Review, Volume 46, p.381-400
[341] Wong, N. EXPLORING CORPORATE STRATEGY, p.358-360
[342] Ibidem
[343] Hill, C. W. L. (2021). *International business: Competing in the global marketplace* (13th ed.). McGraw-Hill Education, pp. 456-460
[344] Bing-sheng Teng, (2004), The WTO and entry modes in China, Thunderbird International Business Review, Volume 46, p.381-400
[345] Ibidem

many foreign firms now use M&A to buy the shares of their local Chinese partners in existing joint ventures to gain the total control offered by a WFOE structure[346]. Meanwhile, for Italian companies choosing M&A in China is often a signal of strong commitment to this market and a desire to grow quickly in specific sectors; in general, Italian small and medium-sized enterprises prefer the Greenfield path to protect their made in Italy processes, but many larger groups prefer acquisitions to avoid the years of negotiation often required for joint ventures[347]. Additionally, Italian acquisitions often target specific technical know-how or brand prestige, and an example the acquisition of the Italian sports car brand De Tomaso by the Chinese Ideal Team Venture in 2015, and this acquisition was driven by the desire to acquire high-end technical specialties[348]. Another example of this case is the acquisition in 2012 of Ferretti Group, that is a world leader in luxury motor yachts owning brands like Riva and Pershing, by the Weichai Group, specialized in the electrical equipment sector, and the objective of this acquisition was to combine industrial production efficiency with the quality of Italian craftsmanship[349]. Italian fashion brands have also been at the centre of M&A activities, and an example is Miss Sixty group was acquired by Crescent Hyde Park specifically to exploit its established brand equity for a relaunch in international markets, including China[350], and Tacchini group that was acquired in 2007, before going bankrupt, and became part of Hembling International Holdings Limited, a Chinese company controlled by Billy Ngok, and that was already a supplier for Sergio Tacchini[351].

[346] Ibidem
[347] Katarzyna Twarowska & Magdalena Kakol, (2013), "International Business Strategy: Reasons and Forms of Expansion into Foreign Markets," Active Citizenship by Knowledge Management & Innovation: Proceedings of the Management, Knowledge and Learning International Conference 2013,, ToKnowPress
[348] Cannavale, C., Calvelli, A., (2019). Internationalizing Firms. Internationalizing Firms. Internaltional Strategy, Trends and Challenges, pp. 83-90
[349] Ivi pp. 15-16
[350] Ivi pp.85
[351] Ivi pp. 15-16

Chapter 3: Empirical analysis of Italian enterprises in the Chinese market

3.1 Overview of the Italian corporate presence in China

Shifting from theoretical entry mode strategies to the actual reality of firm in the Chinese market, it is possible to see that Italian companies have built a well-established presence in the Chinese market, and this relationship is not recent but has deep historical roots evidenced by the establishment of the first Italian Chamber of Commerce in China in 1903[352]; over time, the Italian approach, from focusing on mainly low-cost production and delocalization, shifted to a more advanced approach, where companies produce locally to meet the demands of the Chinese domestic market, especially in high-end consumer and industrial sectors[353]. Nowadays, the Italian corporate presence is an essential component of the Global strategic partnership between the two countries, and China remain Italy's main trading partner in Asia and its second largest trading partner outside of Europe, an also the leading destination for Italian exports in the region[354]. This chapter analyses the Italian corporate presence in China using data and reports from institution like InfoMercatiEsteri portal, the Italian Trade Agency (ICE), and the China-Italy Chamber of Commerce (CICC) and from database like AIDA and ORBIS, to understand the size, the geographic distribution and sector specialization of the Made in Italy network in China. In the current situation Italy have a significant stock of foreign direct investment, valued at approximately 15 billion euro, and this financial commitment shows that for Italian companies China is no longer only as a market for export but also a key strategic centre integrated into global value chains[355]. Additionally, Italian business presence is characterized by a dualism: on one hand, there are large industrial groups such as Luxottica, Pirelli, STMicroelectronics, and Ferrero, that operate in the Chinese market form many years, and, on the other hand, there are a large number of specialized small

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[352] China-Italy Chamber of Commerce. (2025). *Annual report 2025*. https://www.cameraitacina.com/news/general-news/ccic-annual-report-2025
[353] Italy China Council Foundation, (2023), *Cina 2023. Scenari politici e macroeconomici per le imprese*, Milano.
[354] China-Italy Chamber of Commerce. (2025). *Annual report 2025*. https://www.cameraitacina.com/news/general-news/ccic-annual-report-2025
[355] Italy China Council Foundation, (2023), *Cina 2023. Scenari politici e macroeconomici per le imprese*, Milano.

and medium-sized enterprises that reflect the business model oriented to niche market of the Italian economy. From empirical data it is possible to see that Italian company have a clear preference for high-control entry modes, with around 60% to 75% of Italian-participated firms in China operating as Wholly Foreign-Owned Enterprises. The following sections of this chapter will further analyse into the specific dimensions of this presence[356].

[356] China-Italy Chamber of Commerce. (2025). *Annual report 2025*. https://www.cameraitacina.com/news/general-news/ccic-annual-report-2025

3.1.1 Quantitative data and economic impact

To provide an evaluation of the scale of the Italian presence in the People's Republic of China, is essential to analyse empirically institutional data and different database and, to do so, this section combine together data form institutional website like the InfoMercatiEsteri portal, the ICE register, China-Italy Chamber of Commerce annual report, ORBIS and AIDA database; according to InfoMercatiEsteri 2025 report updated in December 30th 2025, the total number of enterprises in China directly or indirectly participated in by Italian firms are over 1600[357], more specifically, ORBIS database identified 1889 Italian companies active in the country between 2024 and 2025 with at least one subsidiary in China and a minimum of 25% ownership; in fact, this data do not only includes majority-controlled subsidiaries but also joint ventures and, commonly, the exact numbers differs across institutional sources because of different methods utilized and different registration criteria, which requires a comparative analysis to buid the overall picture[358]. For example, the official ICE register includes approximately 700 entities, but this is an underestimation of the actual Italian presence in China because this list is based on a voluntary registration, so it includes only the firms that maintain an institutional relationship with the Italian Trade Agency[359]. Meanwhile the data provided by InfoMercatiEsteri portal utilizes the Reprint database as main source: this database was developed through a collaboration between researchers of Politecnico di Milano and Brescia University, and it tracks real equity flows and company balance sheets, including not only majority-controlled subsidiaries but also joint ventures and minority participations, and for that it included more than 1600 enterprises in China with Italian participation[360]. Lastly, there are databases like ORBIS and AIDA that provide a broader perspective since it is possible to search for Italian firms with at least a 25% participation in Chinese subsidiaries, identifying 1,889 entities in ORBIS and 1,945 in AIDA, while by filtering for companies with at least 90% Italian ownership it is possible to identifies 1,511

[357] Info Mercati Esteri (2024). Report *Cina - Scheda paese*. Ministero degli Affari Esteri e della Cooperazione Internazionale, pp.50
[358] Bureau van Dijk. (2025). Orbis Database. Moody's Analytics. https://orbis.bvdinfo.com
[359] Istituto per il Commercio Estero ICE, (n.d.). *Aziende e istituzioni italiane in Cina* - List of Italian companies and institutions in China
[360] Info Mercati Esteri (2024). Report *Cina - Scheda paese*. Ministero degli Affari Esteri e della Cooperazione Internazionale, pp.50

entities in ORBIS and 1,465 in AIDA, so these are companies that operate in the Chinese market with high-control level mode that correspond to WFOEs[361][362]. The discrepancy between the ORBIS/AIDA data and the data of InfoMercatiEsteri report is because of larger Italian companies that often include multiple legal entities: these entities belong to the same industrial group but are registered individually for different activities such as production, holding, and trading operations. An example of this situation is the organizational structure of ENI S.P.A. Institutional reports identify ENI S.P.A. as a core company for the Italian presence in China, operating since 1984, and data from AIDA database reveals that this single industrial group operates through five distinct wholly owned legal entities[363].

Figure 19: ENI S.P.A. foreign subsidiary in China

Ragione sociale	Partecipate - Nome	Partecipate - Country ISO code	Partecipaz % Totale
ENI S.P.A.	ENI ENERGY (SHANGHAI) CO ...	CN	100,00
	EXPORT LNG LTD	CN	100,00
	ASIAN COMPOUNDS LTD	CN	100,00
	FINPROJECT GUANGZHOU TR...	CN	100,00
	VERSALIS PACIFIC TRADING (...	CN	100,00

Source: Bureau van Dijk. (2025). AIDA: Analisi Informatizzata delle Aziende Italiane. Database. Moody's Analytics. https://aida.bvdinfo.com

Additionally, it is essential to segment the corporate landscape based on levels of equity participation levels because this segmentation allows to understand the type of entry mode Italian firms apply when operating in the Chinese market: by analysing ORBIS and AIDA datasets, it is possible to confirm what was already stated in chapter 2.3.4, so that Italian firms prefer high-control entry modes since the vast majority of companies are held with at least 90% Italian ownership, effectively operating as WFOEs and according to ICCF 2023 report 1,424 out of 1,671 Italian enterprises, approximately 85%, are controlled subsidiaries[364]. This trend is also connected to the choice of Italian managers that

[361] Bureau van Dijk. (2025). *AIDA: Analisi Informatizzata delle Aziende Italiane.* Database. Moody's Analytics. https://aida.bvdinfo.com
[362] Bureau van Dijk. (2025). Orbis Database. Moody's Analytics. https://orbis.bvdinfo.com
[363] Bureau van Dijk. (2025). *AIDA: Analisi Informatizzata delle Aziende Italiane.* Database. Moody's Analytics. https://aida.bvdinfo.com
[364] Italy China Council Foundation, ICCF, (2023). *Cina 2023. Scenari politici e macroeconomici per le imprese*.

prioritize the protection of proprietary technological know-how and the made in Italy brand equity, and by choosing WFOEs, these firms can maintain full strategic autonomy in a highly competitive market like the Chinese one. Another portion of the Italian companies prefer joint ventures as entry mode[365]: the ICCF 2023 report identifies 247 Joint Ventures where Italian firms hold 50% or less of the equity, accounting around 15% of the Italian total presence, this is because joint ventures are required in regulated sectors or for strategic alliances with Chinese state-owned enterprises[366]. Some of Italian firm choose to approach the Chinese market by establishing Representative Offices, particularly small and medium-sized enterprises, because Representative offices, from a legal perspective, are not separate legal entity, they have not legal personality and is considered just an extension of the Italian parent company and also, they cannot engage in direct profit-making activities; in fact, Representatives offices are a common exploratory tool, used to get acquainted to a new market[367]. For Italian enterprises, according to a survey connected to the CCIC 2025 annual report, representative offices account for approximately 8% of the corporate structures, but this is only a percentage of the 365 companies taken into consideration, so it can not represent the actual percentage of the total scale of Italian companies[368]. Exporting also remain an important form of engagement for the majority of Italian firms; in fact, Italy classifies as the 4th largest Eu exporter for China, and around 28.5% of Italian companies in China operate in the wholesale sector[369].

Moving beyond numerical data, the Italian presence in the People's Republic of China requires an analysis of its qualitative economic weight that comprehend aggregated turnover, significant employment contributions, and a substantial commitment of capital through foreign direct investment; these indicators are important not only to demonstrate the commercial presence of Italian but also for the fact that this companies are part and

365 Niñerola A, Sánchez-Rebull M, Hernandez-Lara A (2017), "Entry modes and barriers to internationalisation in China: an overview of management consulting firms". *Measuring Business Excellence*, Vol. 21 No. 1 pp. 40-41.
366 Italy China Council Foundation , ICCF, (2023). *Cina 2023. Scenari politici e macroeconomici per le imprese*.
367 Yadong Luo (2000) Entering China Today, Journal of Global Marketing, 14:1-2, pp.57-82
368 China-Italy Chamber of Commerce. (2025). *CCIC annual report 2025*. https://www.cameraitacina.com/news/general-news/ccic-annual-report-2025
369 Info Mercati Esteri (2026). Report *Cina - Scheda di sintesi.* Ministero degli Affari Esteri e della Cooperazione Internazionale.

integrated to the Chinese industrial ecosystem. In fact, according to recent data from the Italy China Council Foundation, abbreviated ICCF, and the China-Italy Chamber of Commerce, abbreviated CICC, the aggregated annual turnover generated by Italian-participated companies in 2025 was around €33 billion euro, while in 2021 was around 27.5 billion euro, according to ICCF 2023 annual report, this suggests that revenues remained relatively stable even if there was a slowdown in the economy[370]. Additionally, Italian enterprises are vital employers in the Chinese labour market, in fact, data from infoMercatiEsteri indicates that Italian-participated firms altogether provide employment for around 170,000 workers, that is distributed in different sector: manufacturing and industrial sector employ approximately 69,338 workers while services and commercial sector employ approximately 34,413 workers[371]. Between 2017 and 2020 there was a 25.8% reduction in the number of employees in Italian-controlled firms, caused by the rising costs of local labour and a strategic trend toward industrial automation, however, China remains the fourth largest foreign employer for Italian multinational groups globally, following only the USA, Brazil, and Romania[372].

Regarding foreign direct investment and financial commitment of capital, the net flow of Italian FDI in China reached 1614 million euro in 2022 and 532 million euro in 2024, as shown in figure 20.

Figure 20: Italian FDI in China (blue column) compared to China FDI in Italy (red column)

[370] Italy China Council Foundation, ICCF, (2023). *Cina 2023. Scenari politici e macroeconomici per le imprese*.
[371] Info Mercati Esteri (2024). Report *Cina - Scheda paese*. Ministero degli Affari Esteri e della Cooperazione Internazionale, pp.50
[372] Italy China Council Foundation, ICCF, (2023). *Cina 2023. Scenari politici e macroeconomici per le imprese*.

Source: infoMercatiEsteri 2025 report - Scheda di Sintesi: CINA

Net FDI flows were stable in 2021 and 2022, respectively of 1176 million euro and 1614 million euro, but in 2023 there was a negative flow of - 244 million euro, probably caused by profit repatriation or the conclusion of specific investment projects. This negative flow was however recovered in 2024 that, as mentioned before, registered a net flow of 532 million euro, showing that Italian firms continue to maintain a long-term strategic commitment to the Chinese market[373].

Regarding trade, between the countries of the European Union, Italy maintains a good position as one of the main trade partners of China, with a bilateral trade volume that reaches 76.931 million euro in 2025, signing an increase of 11.2% compared to 2024; out of the total trade volume, Italian export to China were 14.321 million euro, of and 60,610 million euro of Italian import: this data show a decrease in export of 6.6% from the €15.33 billion recorded in 2024, and an increase of 16.4% in import from the 52.064 million euro of 2024, and also show a significant raise of the trade deficit that reaches -€46.29 million euro by the end of 2025. This trade deficit seem to widen in 2026: if we compare the data of the period January-March 2025 and the same period in 2026, it is possible to notice an increase in import from China to Italy (16.065 million euro of 2026 compared and 15.518 million euro of 2025) and a slight increase in export from Italy to China (3.831 million euro of 2026 and 3.438 million euro 2025); the trade deficit of the period January-March 2026 is -12.234 million euro, compared to the one in 2025 that was -12.0821 million euro[374].

Figure 21: bilateral trade between Italy and China. (in million euro).

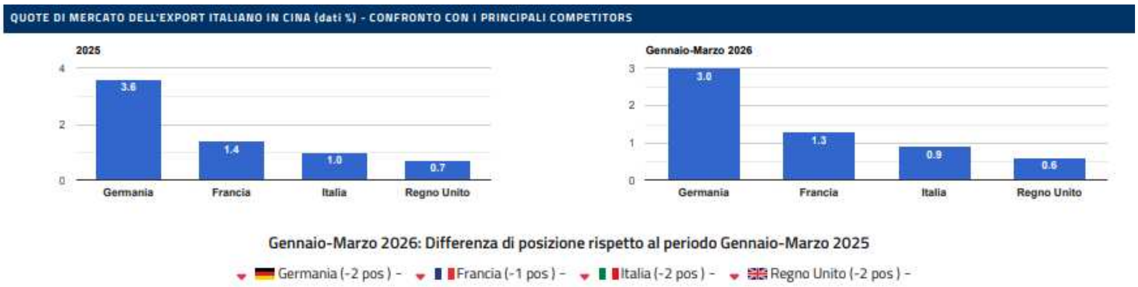
INTERSCAMBIO COMMERCIALE CON L'ITALIA (valori in milioni di euro)	2019	2020	2021	2022	2023	2024	2025	Gennaio - Marzo 2025	Gennaio - Marzo 2026
Interscambio Italia	44.632	45.106	54.234	74.287	67.822	67.398	74.931	18.956	19.896
Variazione % rispetto al periodo precedente	1,4	1,1	20,2	37	-8,7	-0,6	11,2		5,0
Export Italia	12.969	12.851	15.657	16.420	19.170	15.335	14.321	3.438	3.831
Variazione % rispetto al periodo precedente	-1,2	-0,9	21,8	4,9	16,8	-20	-6,6		11,4
Import Italia	31.663	32.256	38.577	57.868	48.652	52.064	60.610	15.518	16.065
Variazione % rispetto al periodo precedente	2,5	1,9	19,6	50	-15,9	7	16,4		3,5
Saldi	-18.693	-19.405	-22.920	-41.448	-29.481	-36.729	-46.290	-12.081	-12.234

Source: infoMercatiEsteri 2025 report - Scheda di Sintesi: CINA

[373] Info Mercati Esteri (2026). Report *Cina - Scheda di sintesi.* Ministero degli Affari Esteri e della Cooperazione Internazionale.
[374] Ibidem

Despite this trade deficit between the two countries, Italy's position in the Chinese market remained stable and Italy maintained a 1.0% market share in China in 2025, positioning in 4th position as the largest European Union supplier, just after Germany, France, and Netherland[375].

Figure 22: Market Shares of Italian Exports in China (%) - Comparison with Main Competitors



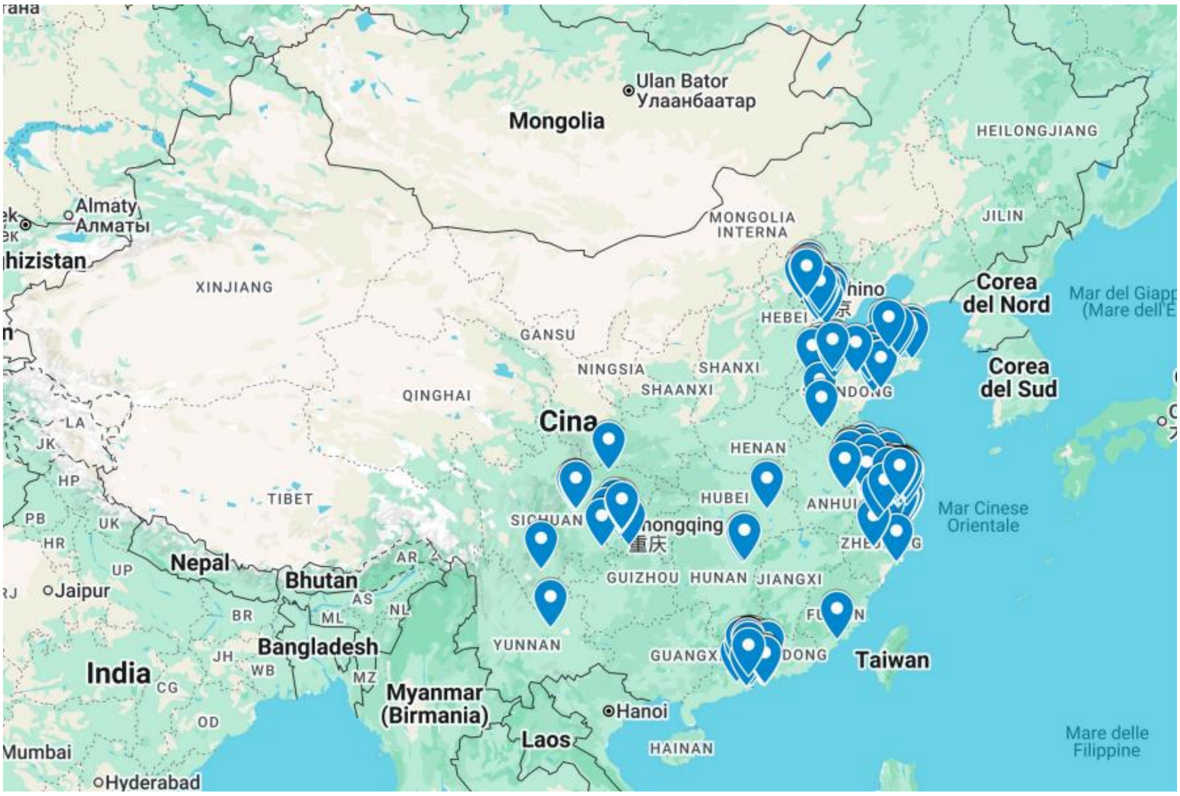
Source: infoMercatiEsteri 2025 report - Scheda di Sintesi: CINA.

[375] Info Mercati Esteri (2026). Report *Cina - Scheda di sintesi.* Ministero degli Affari Esteri e della Cooperazione Internazionale.

3.1.2 Geographic distribution

The geographic distribution of Italian companies in the People's Republic of China is an important factors because it reflects the industrial clusters, logistical advantages, and institutional condition connected with the made in Italy presence: before, Italian investment were concentrated in the Special Economic Zones, so more concentrated in the coastal regions, but, with the development of Chinese economy, the Italian presence gradually shifted from the wealthy eastern region to different places, developing a more diversified and multipolar structure[376]. This chapter analyse the current regional distribution of Italian companies in China and is supported by data acquired form CICC Business Map 2025, InfoMercatiEsteri reports, and an empirical mapping project conducted for this thesis based on the ICE register of Italian firms (see figure 23).

Figure 23: map of Italian companies in China



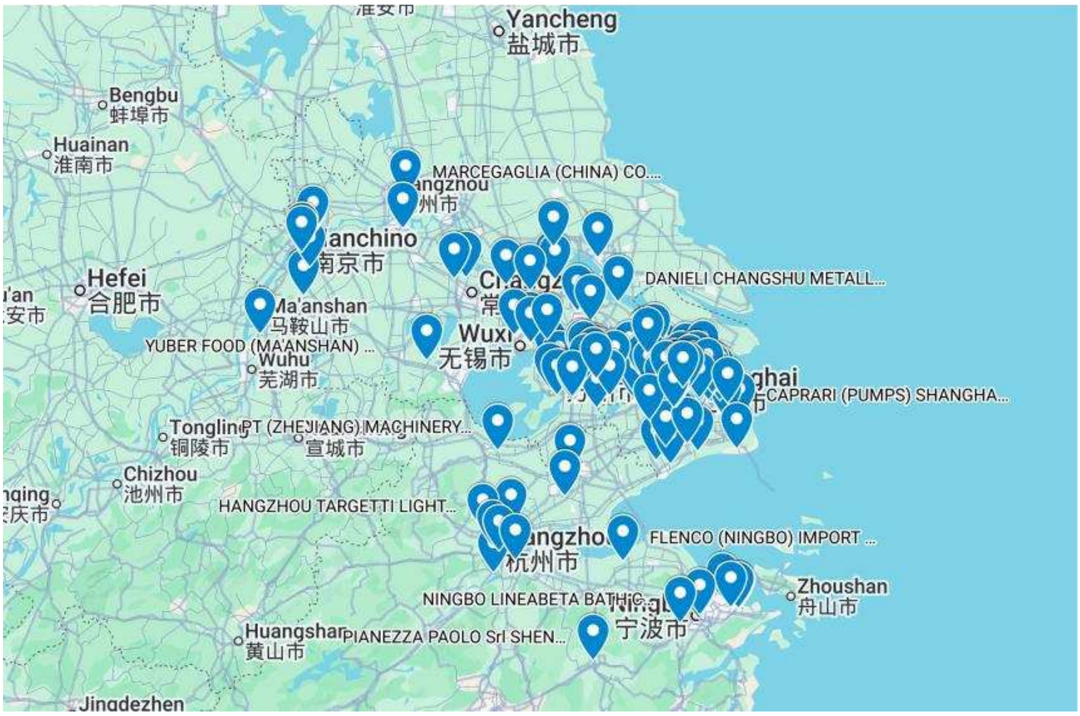
[376] Snaiderbaur S., (2010), 'Made in Italy' in China: From Country of Origin to Country Concept Branding.

Source: Elaborated by the author based on data from the ICE Register of Italian Firms.

Link for the map (accessible only through institutional email of Ca' Foscari University): https://www.google.com/maps/d/edit?mid=12oOlFuqzpo70dZyZuVhqK2eoKJoqioc&usp=sharing

Eastern China is the destination that attract most of the Italian investments, specifically the municipalities and provinces surrounding the Yangtze River Delta (Shanghai, Jiangsu, Zhejiang), hosting approximately more than a half of all Italian operations in the country. In particular, Shanghai is the centre of the Italian corporate presence, with 622 companies that accounts for 43.6% of the total Italian footprint. This city is a global financial centre and also the home of the world's largest container port and this condition make the city attractive for Italian and other foreign countries headquarters, holding companies, and high-end retail branches[377]. Figure 24 confirms this concentration in the city, showing an almost continuous blue zone of Italian companies.

Figure 24: map of Italian companies in China – Yangtze River Delta



Source: Elaborated by the author based on data from the ICE Register of Italian Firms.

[377] China-Italy Chamber of Commerce. (2025). *CCIC annual report 2025*. https://www.cameraitacina.com/news/general-news/ccic-annual-report-2025

Located next to Shanghai there is Jiangsu province that ranks second with 253 companies, around 16.7% of total companies, and much of this presence is located in Suzhou cluster that host 106 companies and that has become one of the most significant Italian industrial districts in the world. In fact, the concentration of manufacturing facilities in Suzhou is due to the presence of advanced industrial parks and a "follow-the-customer" strategy, which occur when a supplier enter a foreign market to continue serving a key client that has already expanded internationally, and this is what happen to Italian machinery suppliers that decide to localize near their primary European or Chinese industrial clients. Zhejiang province, in particular the cities of Hangzhou and Ningbo, host 109 companies, around 7.2% of the total Italian companies, and it is key hub for sectors such as mechanical engineering and the digital economy[378][379].

Figure 25: Top 10 Chinese provinces by number of Italian companies

#	Province	Number of companies	Share of total (%)
1	Shanghai	662	43.6
2	Jiangsu	253	16.7
3	Guangdong	183	12.1
4	Beijing	112	7.4
5	Zhejiang	109	7.2
6	Shandong	52	3.4
7	Tianjin	31	2
8	Chongqing	13	0.9
9	Liaoning	12	0.8
10	Sichuan	12	0.8

Source: China-Italy Chamber of Commerce. (2025). CCIC annual report 2025. https://www.cameraitacina.com/news/general-news/ccic-annual-report-2025

[378] China-Italy Chamber of Commerce. (2025). *CCIC annual report 2025*. https://www.cameraitacina.com/news/general-news/ccic-annual-report-2025
[379] Italy China Council Foundation, ICCF, (2023). *Cina 2023. Scenari politici e macroeconomici per le imprese*.

Figure 26: Top 10 Chinese cities by number of Italian companies

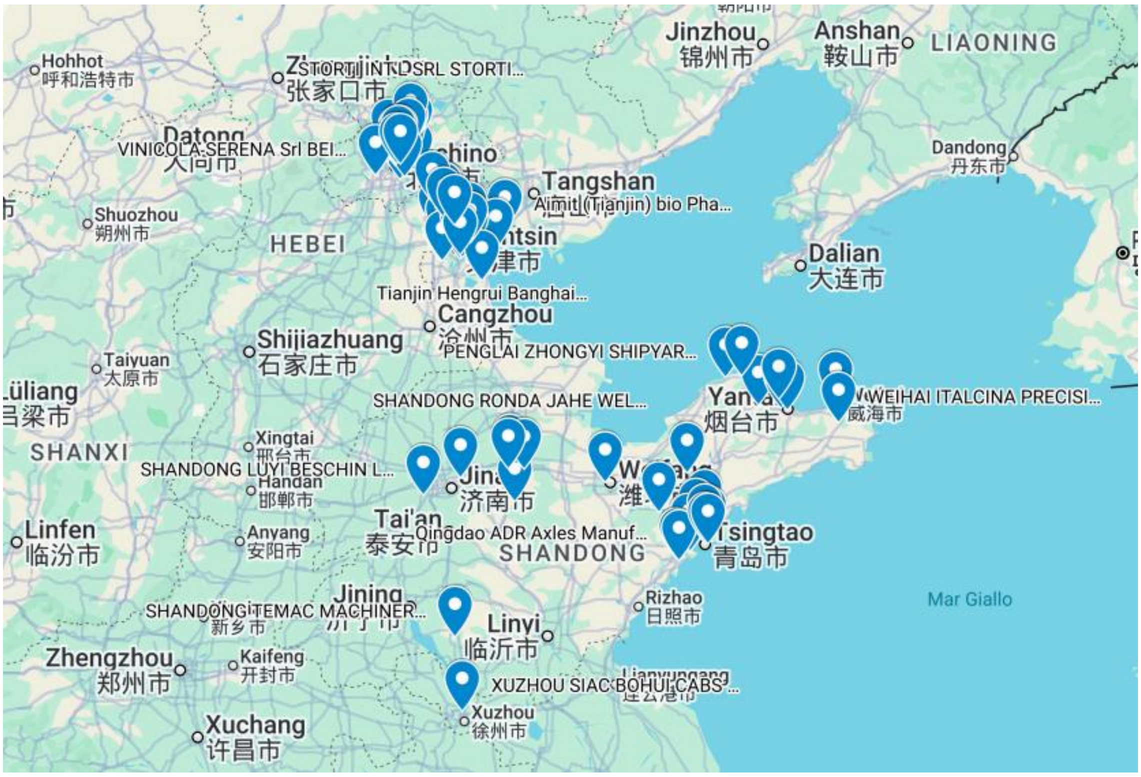
#	City	Number of companies	Share of total (%)
1	Shanghai	662	43.6
2	Beijing	112	7.4
3	Suzhou	106	6.9
4	Shenzhen	49	3.2
5	Guangzhou	47	3.1
6	Hangzhou	31	2
7	Tianjin	31	2
8	Wuxi	29	1.9
9	Ningbo	29	1.9
10	Foshan	26	1.7

Source: China-Italy Chamber of Commerce. (2025). CCIC annual report 2025. https://www.cameraitacina.com/news/general-news/ccic-annual-report-2025

In Northern China, the Beijing-Tianjin axis accounts for roughly 24% of the Italian presence and it is the second major cluster for Italian companies. In particular, Beijing hosts 112 companies, 7.4% of total Italian presence, and the capital is fundamental for relations with state-owned enterprises and professional services, with many large Italian groups, like ENI and Leonardo S.P.A. that maintain a significant presence there to manage bilateral relations and navigate complex regulatory frameworks[380]. Tianjin host 31 Italian companies and has the function of strategic maritime gateway for northern China, specializing in heavy manufacturing and industrial equipment, as seen in the presence of firms like Goglio and Tenova[381][382].

[380] Info Mercati Esteri (2024). Report *Cina - Scheda paese*. Ministero degli Affari Esteri e della Cooperazione Internazionale.
[381] China-Italy Chamber of Commerce. (2025). *CCIC annual report 2025*. https://www.cameraitacina.com/news/general-news/ccic-annual-report-2025
[382] Istituto per il Commercio Estero ICE, (n.d.). *Aziende e istituzioni italiane in Cina* - List of Italian companies and institutions in China

Figure 27: map of Italian companies in China - Northern China

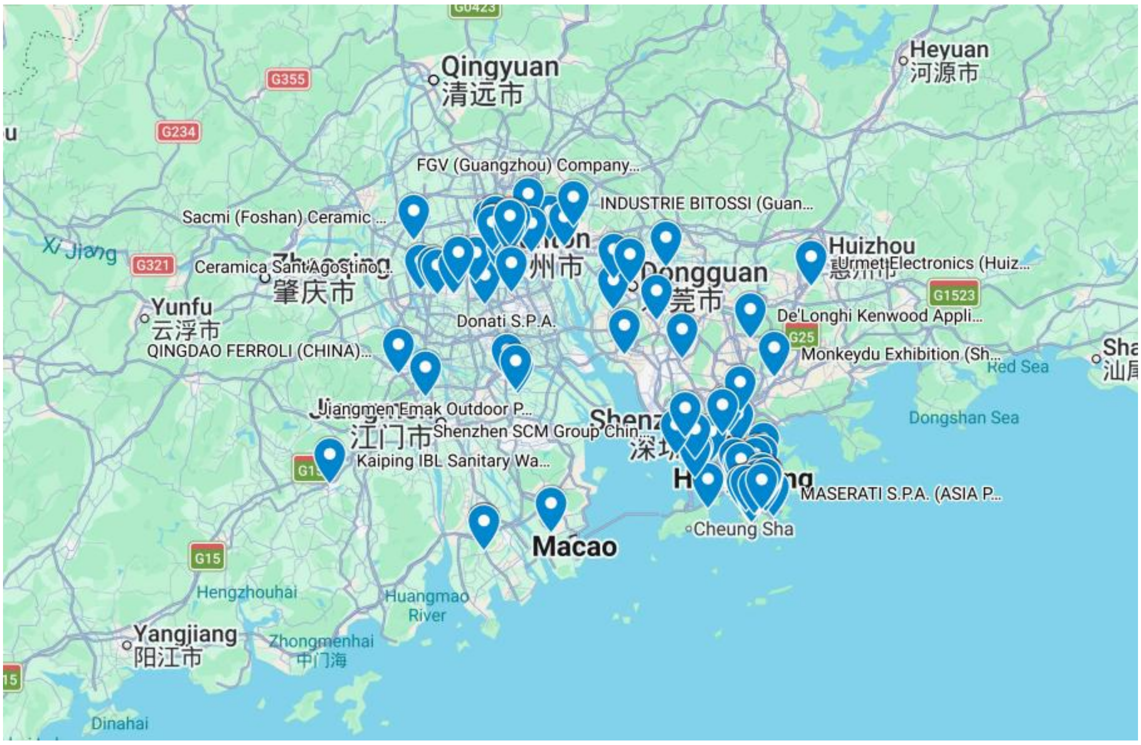


Source: Elaborated by the author based on data from the ICE Register of Italian Firms.

Southern China, specifically the Pearl River Delta in Guangdong, is a vital destination for trade and high-tech manufacturing, hosting 183 Italian companies, 12.1% of the total, and the activity is manly concentrate in Shenzhen (49 companies) and Guangzhou (47 companies). Guangzhou remains a traditional trade and distribution city, while Shenzhen has become the main destination for Italian firms for the high-tech and electronics supply chains, and for this reason the region's is define as China's Silicon Valley[383].

[383] China-Italy Chamber of Commerce. (2025). *CCIC annual report 2025*. https://www.cameraitacina.com/news/general-news/ccic-annual-report-2025

Figure 28: map of Italian companies in China - Southern China

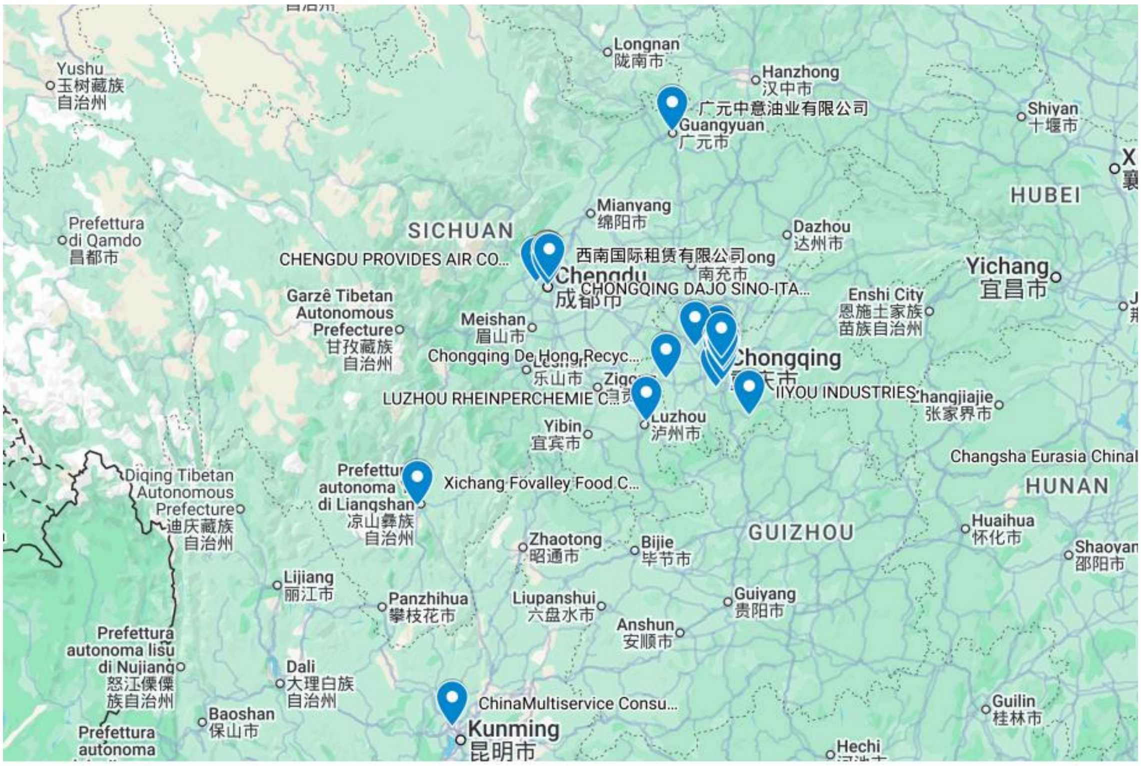


Source: Elaborated by the author based on data from the ICE Register of Italian Firms.

As just analysed, the coastal regions host over 80% of the total Italian presence but the Chinese government's "Go West" policy, to develop internal region, has encouraged a gradual expansion into the hinterland: nowadays, Southwest China**,** the province of Sichuan and the city of Chongqing, host approximately 6% of Italian companies; Specifically, Chongqing host 13 companies and it is a strategic point for the automotive and logistics sectors, while around other cities of Sichuan province, especially Chengdu, there are 12 companies[384].

[384] China-Italy Chamber of Commerce. (2025). *CCIC annual report 2025*. https://www.cameraitacina.com/news/general-news/ccic-annual-report-2025

Figure 29: Figure 28: map of Italian companies in China - Southwest China



Source: Elaborated by the author based on data from the ICE Register of Italian Firms.

The mapping project developed by the author based on the ICE register visually highlights the scarcity of Italian firms in the western provinces and provide a confirmation of the cluster described above: the map clearly illustrates the high-density blue zones along the Eastern coastline, particularly in the Shanghai-Suzhou area and also the visual representation highlights how Italian firms utilize logistical nodes like ports and major rail links, to mitigate the liability of foreignness to ensure ensuring efficient supply chain integration[385].

[385] Map elaborated by the author based on data from the ICE Register of Italian Firms https://www.google.com/maps/d/edit?mid=12oOlFuqzpo70dZyZuVhqK2eoKJoqioc&usp=sharing

3.1.3 Sectoral composition

The sectoral distribution of Italian enterprises in the People's Republic of China offer a comprehensive map of the competitive advantages that the made in Italy bring to companies abroad and its integration into the local value chain; in fact, the Italian presence is no longer limited to low cost production activities but has changed and developed in a more diversified ecosystem with high-end manufacturing (B2B) and with more advanced commercial and consumer-oriented sectors (B2C)[386]. This section analysed how Italian companies are distributed across different industry groups, categorizing them according to their regulatory classification and their strategic importance in the market, using data from official Chinese registration data (SAMR), institutional report of infoMercatiEsteri and CCIC and database like AIDA and ORBIS. According to the official classifications of the State Administration for Market Regulation (SAMR) and the 2025 CICC report**,** the Italian corporate presence in China is divided into several main industry groups. The following table (figure 30) illustrates the top 10 industries in which Italian companies operate in, over the total 21 Industry groups identified by SAMR: the manufacturing industry is the leader of the Italian presence, accounting for nearly 40% of all registered entities, and it also illustrate a dominance of the tertiary sector in terms of the number of companies[387].

Figure 30: Top 10 industry groups by number of Italian companies according to SAMR

#	SAMR Industry Group	Number of companies	Share of total (%)
1	Manufacturing Industry	606	39,9
2	Wholesale and Retail Industry	497	32,7
3	Leasing and Business Services	152	10
4	Scientific Research and Technical Services	128	8,4
5	Transportation, Warehousing and Postal Services	42	2,7
6	Information Transmission, Software and Information Technology Services	22	1,4
7	Finance Industry	19	1,2
8	Accommodation and Catering Industry	14	0,9
9	Culture, Sports and Entertainment Industry	12	0,8
10	Construction Industry	10	0,7

[386] Italy China Council Foundation, ICCF, (2023). *Cina 2023. Scenari politici e macroeconomici per le imprese*, pp.76
[387] China-Italy Chamber of Commerce. (2025). *CCIC annual report 2025*. https://www.cameraitacina.com/news/general-news/ccic-annual-report-2025

Source: China-Italy Chamber of Commerce. (2025). CCIC annual report 2025.

The data confirms that the Italian presence in China is still strongly connected with the traditional 4 As model: Automazione (Automation), Abbigliamento (Apparel), Alimentare (Agri-food), and Arredocasa (Furniture), which represent the historical strength in which Italian firms continue to maintain an important global comparative advantage[388]. The mechanical and engineering sector represents the core of the Italian industrial presence in China and is mainly categorized under the macro-group of manufacturing industry that represent 39.9% of all Italian legal entities in the country. In fact, Italian companies are valued for their expertise in specialized machinery and advanced industrial equipment that is essential for China's ongoing industrial transition toward intelligent manufacturing and high-quality production and by offering customized and high-tech solutions that local competitors cannot yet replicate, firms in this sector mitigate the liability of foreignness. This sector is also important for local B2B value chains, especially in the packaging, pharmaceutical, and food processing industries[389]. An example of companies that work in these sectors can be found through Aida database that identifies leaders such as IMA S.p.A., Marchesini Group, and Biesse S.p.A., which operate through 100% controlled subsidiaries, WFOEs, to protect their proprietary technological know-how[390]. At the same time, the fashion sector represents a major part of the wholesale and retail macro-group, which accounts for 32.7% of Italian companies in China, and fashion is also one of the main contributors to the value of Italian exports since it represents 24.1% of total exports to the PRC in 2025[391]. The success of Italian brands in China is linked to the quality of the products but also to the prestige and luxury image of Italian brands, especially among the younger generation and middle-class consumers who see Italian brands as symbols of status and lifestyle, as already mentioned in chapter 1.3.3. Data from Aida database reveals a preference for high-control ownership structures for companies in this sector, and major brands like Prada S.P.A., Valentino, Gianni Versace S.r.l., and Salvatore Ferragamo S.P.A. mainly operate through WFOEs to

[388] Balboni, B., Grappi, S., Martinelli, E., & Vignola, M. (2011). L'impatto del Made in Italy sul comportamento d'acquisto dei consumatori cinesi. *Micro & Macro Marketing*, *2011*(3), 446-448.
[389] China-Italy Chamber of Commerce. (2025). *CCIC annual report 2025*. https://www.cameraitacina.com/news/general-news/ccic-annual-report-2025
[390] Bureau van Dijk. (2025). Orbis Database. Moody's Analytics. https://orbis.bvdinfo.com
[391] China-Italy Chamber of Commerce. (2025). *CCIC annual report 2025*. https://www.cameraitacina.com/news/general-news/ccic-annual-report-2025

maintain absolute control over brand equity and the customer experience[392]. The agri-food his is currently one of the fastest-growing sectors for made in Italy in China, recording an export growth of 17%, also because the sector benefit from the Italian dream lifestyle perception, where the Mediterranean diet and Italian lifestyle are associated with high quality, wellness, and prestige among Chinese consumers[393]; under these condition, major Italian companies like Ferrero, operating through production plant in Hangzhou, and Cremonini S.p.A., with its Inalca's food and beverage holding units, have established specialized local subsidiaries to navigate China's complex food safety and sanitary regulations[394]. Italian design also continues to play a leading role in the premium segments of the Chinese home furnishing and hospitality markets with the Italian furniture firms that follow a lifestyle concept strategy, meaning that products are sold not only for their functionality but also as part of an experience of Italian beauty and tradition[395]. In this case, high-end brands like Natuzzi S.p.A., B&B Italia, and Poltrona Frau (under Design Holding) operate advanced retail and distribution networks in China's main cities to serve the growing Chinese middle class[396].

Beyond the traditional 4 As, Aida and Orbis data also highlight several other sectors in which Italian companies maintain a strong presence also tanks to advance technology and integration with global supply chain. Firstly, there is the automotive sector that represents only 4.7% of the Italian corporate presence in China (see figure 31), but it contributes significantly to the total turnover[397]. In fact, Italy is particularly competitive in high-performance components and design, and many Italian firms have utilized a "follow-the-customer" strategy and localize their production near global automotive hubs, especially in Suzhou and Shanghai for China, to serve both international and domestic

[392] Bureau van Dijk. (2025). *AIDA: Analisi Informatizzata delle Aziende Italiane.* Database. Moody's Analytics. https://aida.bvdinfo.com
[393] China-Italy Chamber of Commerce. (2025). *CCIC annual report 2025*. https://www.cameraitacina.com/news/general-news/ccic-annual-report-2025
[394] Bureau van Dijk. (2025). *AIDA: Analisi Informatizzata delle Aziende Italiane.* Database. Moody's Analytics. https://aida.bvdinfo.com
[395] Snaiderbaur S., (2010), 'Made in Italy' in China: From Country of Origin to Country Concept Branding, pp. 65-68
[396] Bureau van Dijk. (2025). *AIDA: Analisi Informatizzata delle Aziende Italiane.* Database. Moody's Analytics. https://aida.bvdinfo.com
[397] China-Italy Chamber of Commerce. (2025). *CCIC annual report 2025*. https://www.cameraitacina.com/news/general-news/ccic-annual-report-2025

manufacturers[398]. Some examples are Pirelli & C. SpA, specialized in tyres, Brembo, specialized in braking systems, and Magneti Marelli, specialized in electronics, all companies that have made substantial investment in the PRC[399].

Figure 31:Top 10 categories by number of Italian companies according to SAMR

#	SAMR Category	Number of companies	Share of total (%)
1	Wholesale	433	28,5
2	Business Service	152	10
3	General Equipment Manufacturing	130	8,6
4	Automotive Manufacturing	72	4,7
5	Electrical Machinery and Equipment Manufacturing	67	4,4
6	Special Equipment Manufacturing	66	4,3
7	Professional Technical Service	54	3,6
8	Retail	43	2,8
9	Technology Promotion and Application Services	37	2,4
10	Computer, Communications and Other Electronic Equipment Manufacturing	36	2,3

Source: China-Italy Chamber of Commerce. (2025). CCIC annual report 2025.

Meanwhile the pharmaceuticals and life sciences sectors have seen a very rapid growth, especially after 2023 when exports increased by 192.1%, and this situation made positioned Italy as China's second partner extra-EU after the USA[400]. The demand for advanced medical devices and specialized pharmaceutical products has increased due to China's aging population and the "Healthy China" policy[401], and Italian companies like Bracco S.p.A., DiaSorin (via Sorin Group), and Stevanato Group, that provide high-value technical services and specialized diagnostic equipment, found a good space in the market[402]. Lastly there is the energy and chemicals sectors where Italian presence is mainly represented by large industrial groups involved in complex projects and China's transition toward green energy and high-performance materials creates many opportunities for these Italian companies that operates in area like green energy,

[398] Info Mercati Esteri (2024). Report *Cina - Scheda paese*. Ministero degli Affari Esteri e della Cooperazione Internazionale
[399] Bureau van Dijk. (2025). Orbis Database. Moody's Analytics. https://orbis.bvdinfo.com
[400] Info Mercati Esteri (2024). Report *Cina - Scheda paese*. Ministero degli Affari Esteri e della Cooperazione Internazionale
[401] Italy China Council Foundation, ICCF, (2023). *Cina 2023. Scenari politici e macroeconomici per le imprese*.
[402] Bureau van Dijk. (2025). Orbis Database. Moody's Analytics. https://orbis.bvdinfo.com

chemicals, and material science[403]. A key example ENI S.p.A. that operates in China through several subsidiaries including Versalis Pacific Trading for chemicals and ENI Energy for downstream energy management[404]. Additionally, the Italian presence in China is characterized by a clear dual structure that comprehend a small number of large multinational groups and a many specialized SMEs: large industrial groups represent only 6% of Italian firms operating in China, yet they contribute for approximately 75% of the turnover and these groups dominate scale-intensive and highly regulated sectors like Energy and Chemicals (Versalism and ENI Energy) Transport and Aerospace (Leonardo S.p.A. and Fincantieri S.p.A) and Financial Services (Generali Group)[405][406]. On the other side there are small and medium enterprises, and Italian presence accounts for 58% of firms in China employing fewer than 50 people; These firms are primarily active in specialized machinery, to provide tailor-made solutions for specific industrial processes, (SITI-B&T group S.P.A. in ceramics or Cimbati in food processing equipment), consulting and professional services (Icona Design) and niche manufacturing, that consist in producing high-performance components for the medical and textile industries, where flexibility and customization are key competitive advantages[407][408].

To provide a more detailed analysis of the sectoral distribution of Italian firms operating in China, this thesis analysed data from the Orbis database: the sample consists of Italian companies holding at least one subsidiary in China with a minimum ownership stake of 25%, so it focus on firms with a significant degree of control over their Chinese operations[409]; the final dataset includes 1,889 Italian parent companies that has been classified according to their primary economic activity using the NACE Rev.2 Code but rather than relying on the two-digit NACE divisions that would result in a large number of categories and reduce the comprehensibility of the analysis, some related industries were grouped into macro-sectors, and this aggregation was realized by combining NACE

[403] Italy China Council Foundation, ICCF, (2023). *Cina 2023. Scenari politici e macroeconomici per le imprese*.
[404] Bureau van Dijk. (2025). Orbis Database. Moody's Analytics. https://orbis.bvdinfo.com
[405] Istituto per il Commercio Estero ICE, (2017). Italia Multinazionale 2017, capitolo 3: le partecipazioni italiane all'estero
[406] Bureau van Dijk. (2025). Orbis Database. Moody's Analytics. https://orbis.bvdinfo.com
[407] Ibidem
[408] China-Italy Chamber of Commerce. (2025). *CCIC annual report 2025*. https://www.cameraitacina.com/news/general-news/ccic-annual-report-2025
[409] Bureau van Dijk. (2025). Orbis Database. Moody's Analytics. https://orbis.bvdinfo.com

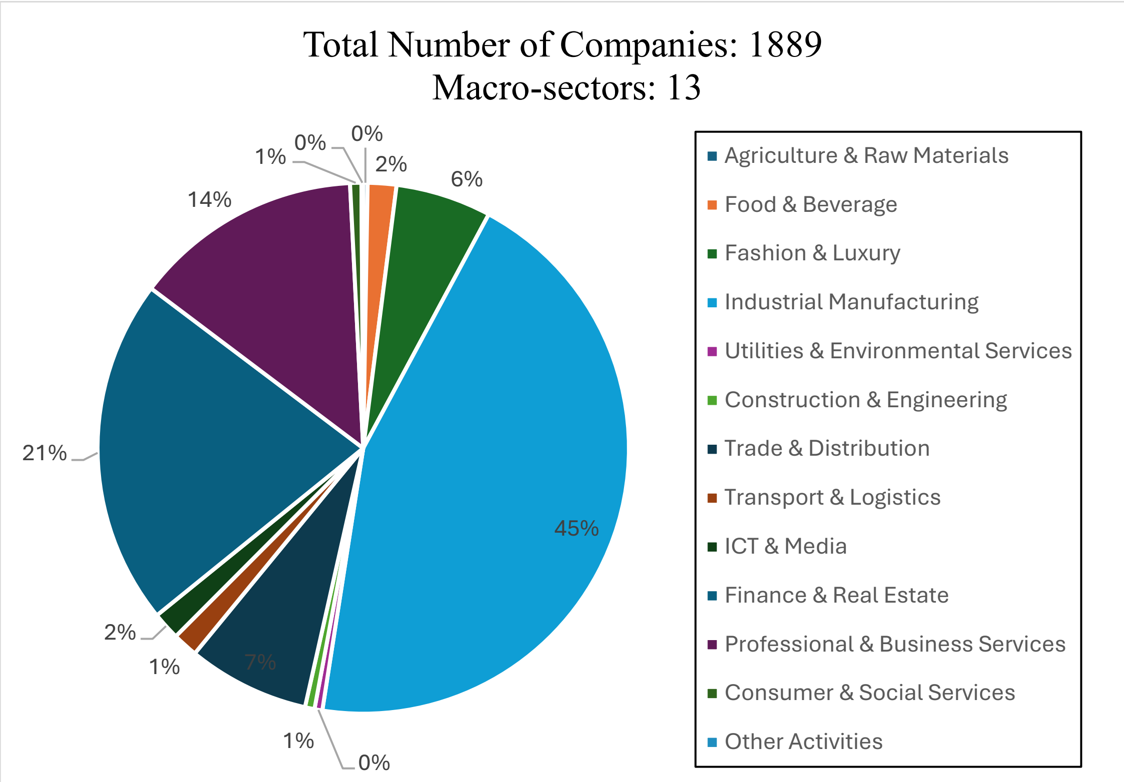
divisions with similar economic characteristics and production activities; for example the sector of food (two-digit NACE 10), beverage (two-digit NACE: 11) and tobacco (two-digit NACE: 12) has been classified together under the macro sector of food and beverage.

These are the macro-sector adopted for the classification:

1. Agriculture and Raw Materials (NACE 01–09);
2. Food and Beverage (10–12);
3. Fashion and Luxury (13–15);
4. Industrial Manufacturing (16–33);
5. Utilities and Environmental Services (35–39);
6. Construction and Engineering (41–43);
7. Trade and Distribution (45–47);
8. Transport and Logistics (49–53);
9. ICT and Media (58–63);
10. Finance and Real Estate (64–68);
11. Professional and Business Services (69–82);
12. Consumer and Social Services (55–56 and 85–96)

There is also a thirteenth category, called “other sectors", that includes firms operating in niche industries or economic activities that were represented by a just a few numbers of industries and could not be meaningfully incorporated into the broader macro-sector groups. This aggregation in macro-sector gives a clearer representation of the sectoral composition of Italian investments in China and at the same time maintain the main economic distinctions among industries. Figure 32 reports the distribution of Italian companies in the different macro-sectors and figure 33 shows the exact number of Italian firms in a determined macro-sector. This distribution confirms the patterns highlighted in the previous analysis based on SAMR, CCIC, Aida and Orbis data: in fact, industrial manufacturing is the largest macro-sector in the sample, accounting for the highest number of Italian parent companies operating in China (843 companies in total) and the dominance of this macro-sector is coherent with the traditional strength of Italian firms in high-value added manufacturing industries and with the importance of the "4 As" of made in Italy discussed earlier in this chapter. There is also a strong presence of firms operating in trade-related activities that shows the importance for Italian firms of commercial networks and market access strategies in China, and there is also a relevance of the fashion and luxury macro-sector that confirms the attractiveness of Italian brands among Chinese consumers and the strategic role of the premium and luxury segments. At the same time, there is a strong Italian presence in professional and business services and ICT-related activities that suggests that Italian firms in China are not exclusively concentrated in production activities but are increasingly involved in service-oriented sectors; in fact, while manufacturing remains the dominant part that includes Italian presence, there is an increasing relevance of service sectors which reflects the transformation of Italian internationalization strategies and the maturation of the Chinese market.

Figure 32: Sectoral Distribution of Italian Companies with Subsidiaries in China by Macro-Sector



Source: Author's elaboration based on data from the Orbis database. The sample includes Italian companies holding at least one subsidiary in China with a minimum ownership stake of 25%.

Figure 33: number of Italian companies by macro-sector

Macro Sector	**Number of Companies**
Agriculture & Raw Materials	5
Food & Beverage	33
Fashion & Luxury	110
Industrial Manufacturing	843
Utilities & Environmental Services	9
Construction & Engineering	11
Trade & Distribution	140
Transport & Logistics	29
ICT & Media	32
Finance & Real Estate	399
Professional & Business Services	263
Consumer & Social Services	13
Other Activities	2
Total	**1889**

Source: Author's elaboration based on data from the Orbis database. The sample includes Italian companies holding at least one subsidiary in China with a minimum ownership stake of 25%.

Lastly, it is essential to note that the classification presented in figure 32 and figure 33 is based on the primary economic activity of the Italian parent companies identified in the Orbis database and not the activities of their Chinese subsidiaries, so the sector assigned to each company reflects the core business of the Italian investing company that may not correspond to the activity performed by its subsidiary in China: in fact, many large groups often establish subsidiaries performing functions that differ from their parent company's main activity. The results of this analysis should be interpreted as representing the sectoral profile of Italian investors in China rather than the exact industrial distribution of their Chinese subsidiaries.

3.2 Comparative analysis of Italian enterprises in China

The choice of an entry mode is one of the most important decisions in an internationalization strategy, since it comprehend critical decision like the firm's level of resource commitment, its degree of operational control, and its overall exposure to risk in a foreign market, and in the Chinese context this choice is particularly complex because firm must deal with changing regulatory frameworks, high-intensity competition, and the lability of foreignness. For Italian firms, the strategy for entering and competing in the Chinese market has undergone significant transformations, moving from an initial cautious and exploratory approach to one characterized by greater commitment and higher levels of control. After describing the geographical and sectoral distribution in the previous chapter, this chapter provides a comparative analysis of the Italian industrial and commercial presence in China with the objective of examine the strategic reasons behind the organizational structures and entry modes adopted by Italian firms to create and capture value within China's economic environment.

3.2.1 analysis of data connected to the most common entry modes chosen by Italian companies

According to recent data from the Italian Ministry of Foreign Affairs and the China-Italy Chamber of Commerce, Italian companies have established a significant presence in China with currently over 1,600 enterprises with Italian participation active in China and together these firms employ around 170,000 workers, generate an estimated annual turnover estimated at 33 billion euro and are supported by an investment stock of over 15 billion euro[410]. This strong economic presence reflects the strategic importance of the Chinese market for Italian businesses across a wide range of industries and because of that is essential to analyse their chosen entry modes, since the way firms enter and operate in China is a key factor to understand their performance and long-term strategies. This chapter examines the main organizational forms adopted by Italian firms in China and to provide an empirical overview it combines data from institutional sources such as ICE,

[410] China-Italy Chamber of Commerce. (2025). *CCIC annual report 2025*. https://www.cameraitacina.com/news/general-news/ccic-annual-report-2025

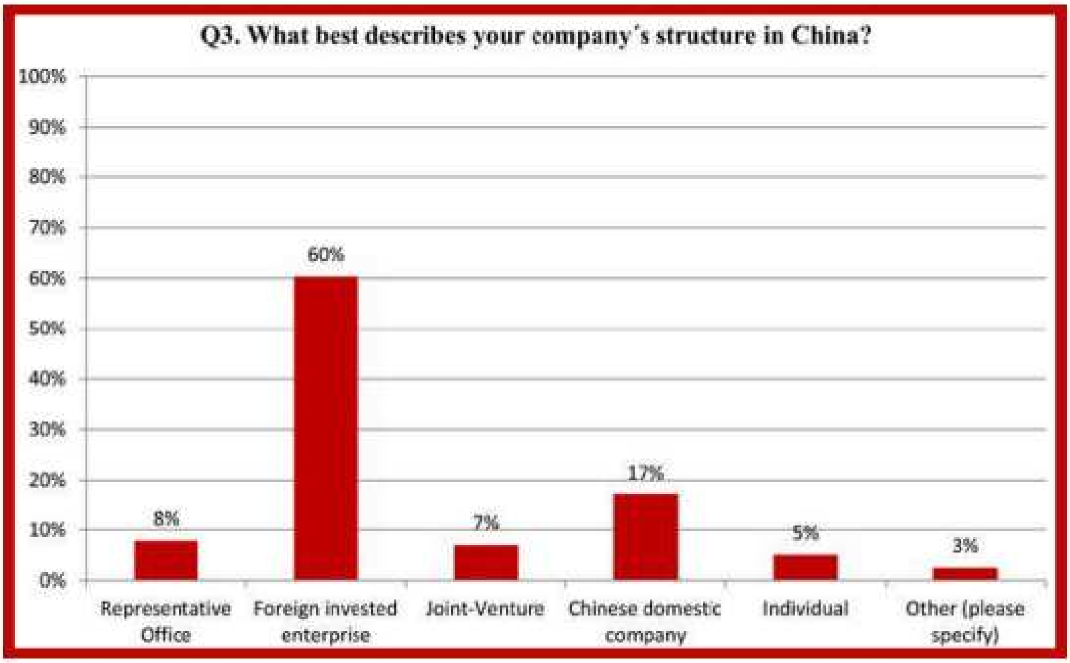
InfoMercatiEsteri, and the China-Italy Chamber of Commerce (CICC) and information from the AIDA and ORBIS databases; through this analysis, the Italian presence is classified into four main entry modes: Wholly Foreign-Owned Enterprises (WFOEs), Joint Ventures (JVs), Representative Offices (ROs), and Exporting operations[411].

Wholly Foreign-Owned Enterprises

The Wholly Foreign-Owned Enterprise is the most used entry mode chosen by Italian enterprises in the People's Republic of China and in the Chinese territory it is defined as a limited liability company where 100% of the equity capital is contributed exclusively by foreign investors; this entry mode, as already explained in chapter 2.3.4, is the one with the highest level of resource commitment and operational control available to a foreign firm[412]. Both Aida and Orbis database identify around 1500 entities with at least 90% Italian ownership, specifically AIDA identifies 1,465 entities and Orbis identifies approximately 1,511 entities. By contrast, by adjusting the research of a minimum 25% of Italian ownership, both databases show a larger number of Italian companies involved in China: this distinction is important because a 90-100% ownership is more consistent with WFOE structures, while lower ownership percentages may indicate joint ventures or minority participations[413][414]. This data also aligns with recent survey data from the China-Italy Chamber of Commerce (CICC) that which indicates that 60% of respondent firms operate as WFOEs because they prefer autonomy over shared control[415].

[411] Istituto per il Commercio Estero ICE, (n.d.). *Aziende e istituzioni italiane in Cina* - List of Italian companies and institutions in China
[412] Yadong Luo (2000) Entering China Today, Journal of Global Marketing, 14:1-2, pp.58-63
[413] Bureau van Dijk. (2025). Orbis Database. Moody's Analytics. https://orbis.bvdinfo.com
[414] Bureau van Dijk. (2025). *AIDA: Analisi Informatizzata delle Aziende Italiane.* Database. Moody's Analytics. https://aida.bvdinfo.com
[415] China-Italy Chamber of Commerce. (2025). *CCIC annual report 2025*. https://www.cameraitacina.com/news/general-news/ccic-annual-report-2025

Figure 34: Italian company's structure based on the survey of CCIC



Source: China-Italy Chamber of Commerce. (2025). CCIC annual report 2025. [*https://www.cameraitacina.com/news/general-news/ccic-annual-report-2025*](https://www.cameraitacina.com/news/general-news/ccic-annual-report-2025)

The dominance of the WFOE mode is driven by two fundamental strategic advantages: firstly WFOEs provide total operational and strategical control, allowing Italian managers to expand as quickly as they desire and implement their global corporate strategy without discussing it with local partners and this is essential for the China for China strategy, since it requires to rapidly adapt to local market demands[416]. Secondly, as already mentioned before, WFOEs can protect proprietary technological know-how or high-prestige branding of Italian firms by minimizing the dissemination risk[417]. Consulting the databases and institutional reports is it possible to see that the Italian preference for WFOEs is most pronounced in high-value-added sectors where asset specificity is high, so where companies' assets are unique and cannot be easily relocated. One of these sectors is the mechanical Engineering and automation in which Italian firms like IMA, Marchesini, and Sacmi use WFOEs to localize production and after-sales services while protecting their proprietary know-how. Another sector is the fashion and retail one, were

[416] Yadong Luo (2000) Entering China Today, Journal of Global Marketing, 14:1-2, pp.58-63
[417] Niñerola A, Sánchez-Rebull M, Hernandez-Lara A (2017), "Entry modes and barriers to internationalisation in China: an overview of management consulting firms". *Measuring Business Excellence*, Vol. 21 No. 1 pp. 37-49

luxury groups such as Prada, Versace, and Valentino operate through wholly owned trading and retail vehicles to maintain control over brand equity and also maintain a premium customer experience. The agri-food sector also presents many firms like Ferrero that utilize WFOEs to navigate complex local health protocols and ensure quality standards[418][419].

Based on the analysis of the ICE Register, AIDA and ORBIS databases, and infoMercatiEsteri report the following table (table 35) presents a selection of 20 representative Italian companies that have adopted the WFOE model (defined as holding 90% to 100% of the Chinese entity's equity).

Table 35: Italian enterprises operating via WFOEs in China (representative sample)

Company Name	Sector	Size	Employee Count	Principal China WFOE entity	Primary activity in China
ENI S.p.A.	Energy/Chemicals	Large	32,421	Versalis Pacific Trading (Shanghai)	Chemical trading & production
Pirelli & C. SpA	Automotive	Large	29,915	Pirelli Logistics (Yangzhou) Co. Ltd	Tire manufacturing & logistics
Leonardo S.p.A.	Aerospace/Defense	Large	62,762	Leonardo (China) Co. Ltd	Tech capabilities & security
Prada S.p.A.	Fashion/Luxury	Large	15,489	Dongguan Prada Trading Co. Ltd	Retail management & leather goods
Ferrero (infoMercatiEsteri)	Agri-food	Large	17,578	Ferrero Food (Hangzhou) Co., Ltd.	Food production & trading
Technogym S.p.A.	Wellness/Tech	Large	2,639	Technogym Asia Ltd	Wellness technology distribution

418 Istituto per il Commercio Estero ICE, (n.d.). *Aziende e istituzioni italiane in Cina* - List of Italian companies and institutions in China
419 China-Italy Chamber of Commerce. (2025). *CCIC annual report 2025*. https://www.cameraitacina.com/news/general-news/ccic-annual-report-2025

De'Longhi S.p.A.	Home Appliances	Large	10,553	De'Longhi Household Appliances	Manufacturing & retail
Cremonini S.p.A.	Agri-food/Meat	Large	17,578	Inalca Food & Beverage Shanghai	F&B distribution
IMA S.r.l.	Machinery	Small	34	RAIMBOW	manufacuring and chemical products
Marchesini Group	Machinery	Large	3,010	Marchesini Group (Shanghai) Trading	Pharma packaging machinery
Sacmi	Machinery/Ceramics	Large	1,268 (Aida)	Sacmi (Nanhai) Machinery Co. Ltd	Industrial plant manufacturing
Brunello Cucinelli	Fashion/Luxury	Large	3327	Brunello Cucinelli (Shanghai)	Luxury retail & distribution
Gianni Versace S.r.l.	Fashion/Luxury	Large	836	Versace Shanghai Limited	High-end retail management
Valentino S.p.A.	Fashion/Luxury	Large	4368	Valentino (Beijing) Fashion Trading	Brand protection & retail
Ferretti S.p.A.	Shipbuilding	Large	1700	Ferretti Group Asia Pacific Ltd	Yacht manufacturing & services
Zegna	Fashion/Luxury	Large	590	Zegna (China) Enterprise Mgmt	Retail & apparel distribution
Brembo S.p.A.	Automotive	Large	14739	Brembo (Nanjing) Brake Systems	High-performance components
Datalogic S.p.A.	Automation/IT	Medium-Large	393 (aida)	Datalogic (Shenzhen) Industrial	Tech equipment & data collection

Goglio S.p.A.	Packaging	Large	2210	Goglio (Tianjin) Packaging System	Packaging manufacturing
Bormioli Luigi S.p.A.	Glass Industry	Large	2,272	Bormioli Rocco Asia Pacific Ltd	Perfume and beverage containers

Source: elaborated by the author based on data from CCIC annual report 2025, ICE register, Aida and Orbis database.

Table 35 is coherent with the theoretical considerations discussed previously regarding the advantages of the WFOE entry mode: in fact, from a first observation it is possible to see that the vast majority of the selected companies are large multinational groups, many employing several thousand workers worldwide, this is because the WFOE model is particularly attractive for firms with substantial financial resources and long-term strategic commitments in the Chinese market. Regarding the sectoral distribution of the sample, it also reveals a clear concentration in industries characterized by high levels of technological expertise, brand value, or product specialization.: mechanical engineering and industrial machinery are strongly represented by firms like Marchesini Group, and Sacmi; the automotive sector is represented by Pirelli and Brembo and fashion and luxury sector are represented by brands such as Prada, Brunello Cucinelli, Versace, Valentino, and Zegna. Additional representation can be found in the agri-food sector (Ferrero and Cremonini), home appliances (De' Longhi), wellness technologies (Technogym), aerospace and defence (Leonardo), and energy and chemicals (ENI). All these sectors, as previously explained, have a preference for WFOEs since they rely heavily on proprietary technology, specialized production processes, strong brands, or unique know-how, so they benefit from the higher level of control offered by wholly owned subsidiaries, and, many of these firms operate in premium or highly specialized market segments and they need to maintain quality standards[420].

Joint Ventures

WFOEs have already become the most common entry mode for Italian firms in China, but joint Venture (JV) remains a critical entry mode for high-capital projects, restricted industrial sectors, and complex market-entry scenarios, where a local partner is essential. In fact, a joint venture involves the creation of a new legal entity with equity, management,

[420] Analysis based on data from CCIC annual report 2025, ICE register, Aida and Orbis database

risks, and profits shared between at least one Italian investor and a Chinese partner[421]. As previously explained in chapter 2.3.3, the Chinese regulatory landscape historically offered two primary JV structures, equity joint ventures (EJV), that are separate limited liability companies where profit distribution is proportional to the capital contributed by each party, and contractual joint ventures (CJV), where profit distribution and management can be determined by the specific terms of the contract rather than equity shares[422]. Analysing the Aida and Orbis databases alongside the ICE Register, it is evident that Italian firms prefer equity joint ventures: the data shows a clear pattern of fixed equity participations, typically between 25%; that is the minimum to receive Foreign-Invested Enterprise tax benefits, to 50%. On the other side, contractual joint ventures have become a less common mode, used by Italian firms for short-term, project-based collaborations in construction or infrastructure where is essential to have flexibility in asset valuation[423]. Italian managers choose to enter a JV for mainly two reasons: one is to get access to restricted sectors under China's Guidance Catalogue: in fact, even if 2020 Foreign Investment Law have liberalized many areas, some sectors still necessitate local partnership, like aerospace, some automotive segment (that involve Stato owned enterprises) defence etc. the second reason is beyond legal requirement, but focus more on mitigating liability of foreignness and access to local Guanxi and already established distribution networks, and deep market knowledge with the help of a local partner[424]. In fact, the sectoral analysis of the ICE list confirms that JVs are more prevalent in industries where the Chinese government has maintained some restriction for foreign entry like the automotive sector: in this sector Italian giants like IVECO, with its EJV named NAVECO, and Piaggio, with its JV in Foshan, historically utilized this entry mode to localize production and navigate complex licensing regimes. Similar is the aerospace and defence sectors, where Leonardo S.p.A. operates through strategic alliances like Jiangxi Changhe

[421] Hill, C. W. L. (2021). *International business: Competing in the global marketplace* (13th ed.). McGraw-Hill Education, pp. 452-454
[422] Yadong Luo (2000) Entering China Today, Journal of Global Marketing, 14:1-2, pp.58-67
[423] Bureau van Dijk. (2025). Orbis Database. Moody's Analytics. https://orbis.bvdinfo.com
[424] Bing-sheng Teng, (2004), The WTO and entry modes in China, Thunderbird International Business Review, Volume 46, p.381-400

Agusta, that is a partnership with a domestic aviation group, essential to manage institutional relations and high-tech security protocols[425].

The following table, take data from Aida and Orbis database and ICE register and identifies some representative Italian firms that utilize the JV mode to maintain their presence in the Chinese market.

Table 36: selection of Italian enterprises operating via joint ventures in China (representative sample)

Company name	**Chinese Entity (with share 5)**	**Sector**	**Strategic reason**
Leonardo S.p.A.	Jiangxi Changhe Agusta Helicopter (40%)	Aerospace	Regulatory (Defense/Aero)
Poste Italiane S.p.A.	Sengi Express Guangzhou Limited (40%)	Logistics	Distribution/E-commerce
OMNIAHOLDING S.P.A.	Piaggio China Co. Ltd (26.75%)	Automotive	Local manufacturing & network
Iveco S.p.A.	NAVECO Ltd (20%)	Automotive	Mandatory JV
Fincantieri S.p.A.	CSSC-Fincantieri Cruise (40%)	Shipbuilding	Technology Transfer & SOE Link
Assicurazioni Generali	Generali China Insurance company limited (50%)	Finance	Regulatory Restricted Sector
Landi Renzo S.p.A.	IMW ENERGY TECH LTD (51%)	Energy/Auto	Local distribution & LPG expertise
Cassa Depositi e Prestiti	Ansaldo Gas Turbine (52.97%)	Energy	Strategic SOE Alliance
Intesa Sanpaolo S.p.A.	Penghua Fund Management (49%)	Finance	Regulatory Financial Access
Salumificio Beretta	YUBER FOOD CO. LTD (29.9%)	Agri-food	Supply chain & Cold Chain access

[425] Istituto per il Commercio Estero ICE, (n.d.). *Aziende e istituzioni italiane in Cina* - List of Italian companies and institutions in China

F.lli Corneliani SpA	CORNELIANI SHANGHAI COMMERCIAL CO LTD (n.d)	Fashion	Market knowledge & Production
El.En S.p.A.	SHENZEN KBF LASER TECH CO., LTD (41.78%)	Machinery	Technology & local R&D
STMicroelectronics	ST-Sanan Joint Venture (49%)	Semiconductors	Partnership with a major Chinese semiconductor player
Amplifon S.p.A.	Beijing Cohesion Hearing Science & Technology Co. Ltd. (51%)	Healthcare	Retail footprint expansion
Rostoni Macchine	Jiangyin Four-Star Rostoni (n.d)	Machinery	SME cluster participation
Ferroli S.p.A.	Qingdao Ferroli HVAC (n.d)	Energy/HVAC	Localized production & support
SIAC S.p.A.	XUZHOU SIAC BOHUI CABS MANUFACTURI NG CO., LTD (n.d)	Machinery	Follow-the-customer strategy

Source: elaborated by the author based on data from CCIC annual report 2025, ICE register, Aida and Orbis database.

Table 36 highlights a completely different situation to the one observed for WFOE: in fact, while WFOEs are concentrated in sectors characterized by strong proprietary assets where there is the need for full control, joint ventures are found in industries where the cooperation with a Chinese partner is advantageous for reasons like regulatory constraints, technological complexity or the strategic importance of local networks. Many of the firms operate in sectors like aerospace, automotive, shipbuilding, energy, financial services, and industrial machinery, all sectors that have been subject to higher regulatory scrutiny or that required collaboration with Chinese state-owned enterprises and local institutions. Some examples that can be found in the table is Leonardo's partnership with Jiangxi Changhe Agusta in aerospace, Fincantieri's cooperation with CSSC in the cruise industry, and Intesa Sanpaolo's participation in Penghua Fund Management in the financial sector. Another important point to analyse is the shared ownership structures that for Italian firms has a typical range between 40% and 50% of equity participation: this suggests that Italian companies seek a balance between maintaining strategic influence and the different benefits that the local partner brings, in fact, JVs represent a compromise between autonomy and local integration[426].

Representative Offices

The Italian corporate presence in China is mostly defined by high-commitment equity modes; however, Representative Office remain a fundamental tool for the preliminary stages of internationalization because, unlike WFOEs or joint ventures, a representative office is not a separate legal entity, but it is established as an extension of the Italian parent company. In fact, RO enables firms to establish a local presence, gain an initial market knowledge, and also reducing geographical and cultural barriers before undertaking a more substantial investment. Representative offices, as already explained in chapter 3.1.1, have a non-commercial nature, meaning that it lacks independent legal personhood and it cannot engage in direct profit-making activities, so it is prohibited from signing commercial contracts in its own name or issuing local tax invoices and cannot accept payments from Chinese clients for goods or services. For these reasons activities are more focused on market research, promotions, quality control, coordination of local supply chains, and on acting as an intermediary between the Italian headquarters and Chinese partners or authorities. Since it cannot generate any income, all operational expenses are funded by the Italian parent company, who is also fully liable for all legal and financial obligations of the representative office[427][428].

For the analysis of the ICE Register and InfoMercatiEsteri data is it possible to notice that representative offices are concentrated among specific sectors: firstly there are banks like Intesa Sanpaolo, UniCredit, and Monte dei Paschi di Siena that utilize representative offices to facilitate trade finance for their Italian clients and, at the same time, maintain relationships with Chinese financial institutions; secondly there are energy giants like Enel S.p.A. that maintains a representative office in Beijing to coordinate its interests in the Chinese renewable energy sector and monitor policy shifts and lastly, there are firms specialized in industrial machinery, like Union Officine Meccaniche, that use

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426 Analysis based on data from CCIC annual report 2025, ICE register, Aida and Orbis database
427 Yadong Luo (2000) Entering China Today, Journal of Global Marketing, 14:1-2, pp.57-82
428 Mechem, R. M. (2004). Strategies for investing in China. *The China Business Review*, 31(5), 6-10.

representative office to provide local intermediary for their B2B clients in industrial city like Jiangsu[429][430].

The following table presents a selection of representative Italian ROs currently active in the PRC.

Table 37: Italian Representative Offices in China (representative sample)

Company name	RO Location	Sector
Enel S.p.A.	Beijing	Energy
Intesa Sanpaolo S.p.A.	Beijing	Banking
UniCredit S.p.A.	Beijing	Banking
Baxi S.p.A.	Beijing	Heating/Eng.
Union Officine Meccaniche	Nanjing	Machinery
UBI Banca (now Intesa)	Shanghai	Banking
Monte dei Paschi di Siena	Beijing/Shanghai	Banking
Giacomini S.p.A.	Beijing	Energy/HVAC
Alfa Wassermann SpA	Beijing	Pharma
ACG Shanghai	Shanghai	Machinery
BPER Banca	Shanghai	Banking
Ansaldo STS	Beijing	Transport
Ariston Thermo	Beijing	Heating
Elettronica S.p.A.	Beijing	Aerospace
FederlegnoArredo	Shanghai	Furniture

[429] Istituto per il Commercio Estero ICE, (n.d.). *Aziende e istituzioni italiane in Cina* - List of Italian companies and institutions in China
[430] Info Mercati Esteri (2024). Report *Cina - Scheda paese*. Ministero degli Affari Esteri e della Cooperazione Internazionale

Source: elaborated by the author based on ICE Register and InfoMercatiEsteri 2025 report.

From figure 37 is in possible to notice that representative offices in China are mostly used by large and well-established companies, particularly in the banking, energy, industrial machinery, transportation, and engineering sectors, and these major financial institutions like Intesa Sanpaolo or UniCredit, maintain representative offices in China even if they possess the resources required for other higher commitment entry modes: this is because the objective of these offices is not market penetration with direct commercial activities, but they are more focus on relationship management, market intelligence, and support for existing international operations. A second important pattern to analyse is the geographical concentration of RO: most representative offices are located in Beijing and Shanghai, that are the two most strategic cities for foreign firms operating in China; in fact, Beijing is attractive for firms that have activities linked to government policies, regulatory developments, and institutional relationships (firms operating in banking, energy, aerospace, and transportation sectors) while Shanghai is China's main commercial and financial hub and it attracts representative offices focused on business development, customer relationships, and coordination of commercial activities[431].

Exporting

Exporting is the most prevalent and strategically flexible entry mode for Italian enterprises that want to penetrate the Chinese market, especially for small and medium-sized enterprises and the majority of Italian industrial fabric, because it does not require many initial resources and also can preserve of the country-of-origin effect that remains a primary competitive advantage for the made in Italy brand[432]. In fact, exporting allows firms to acquire experiential knowledge of the Chinese consumer without the high fixed costs associated with establishing a permanent physical structure: this entry mode does not require the establishment of a registered legal entity under Chinese law, so it bypasses the complex bureaucratic barriers and the high fixed costs of local compliance.[433] Italian

[431] Analysis based on data from ICE register and infoMercatiEsteri report
[432] Info Mercati Esteri (2024). Report *Cina - Scheda paese*. Ministero degli Affari Esteri e della Cooperazione Internazionale
[433] Hill, C. W. L. (2021). *International business: Competing in the global marketplace* (13th ed.). McGraw-Hill Education, pp. 448-450

exporters usually operate through local distributors, commercial agents, or trade brokers because doing so, Italian firms can leverage the partner's established warehouse infrastructure, have relationship with local retailers, and knowledge of regional consumer preferences; the Italian parent company maintains production in Italy and then it ships products to major Chinese ports, like Shanghai, Ningbo or Shenzhen; in this way the company can minimize capital risk but, at the same time, it can also limit direct interaction with end customers, potentially restricting the company's ability to acquire accurate and timely market information and also sometimes the local distributor can lack of specialized sales force or can prioritize other brands, causing the Italian firm's growth to slow down[434]. Additionally, Italian exporters, especially in the fashion and food and beverage sector, are increasingly utilizing cross border e-commerce and reports from the China-Italy Chamber of Commerce show that 45% of firms plan to strengthen these digital distribution channels to overcome physical logistical barriers[435]. Export, however, is an entry mode that bring some hurdles especially regarding customs and non-tariff barriers[436], like complex sanitary and phytosanitary protocols, that for example excluded from Chinese market Italian pork products due to African Swine Fever, despite strong potential demand; some local producers also associate Italian sounding name or imagery with non-Italian products, and this is a phenomenon that direct exporters struggle to combat without a marketing presence involved directly in the market[437].

As already mentioned in chapter 3.1.1 and according to data from infoMercatiEsteri, CCIC report and ICE register, China is a strategic destination for Italian goods ranking as Italy's 10th largest destination market globally and its primary partner in Asia with Italy holding a 1% market share of total Chinese imports in 2025, positioning it as China's 25th global supplier. Table 38 provides a representative sample of approximately 20 Italian companies that utilize exporting or models based on heavy distribution to serve the Chinese market: from these data it is possible to see that Italian firms frequently rely on

[434] China-Italy Chamber of Commerce. (2025). *CCIC annual report 2025*. https://www.cameraitacina.com/news/general-news/ccic-annual-report-2025
[435] Italy China Council Foundation, (2023), *Cina 2023. Scenari politici e macroeconomici per le imprese*, Milano
[436] Hill, C. W. L. (2021). *International business: Competing in the global marketplace* (13th ed.). McGraw-Hill Education, pp. 448-450
[437] China-Italy Chamber of Commerce. (2025). *CCIC annual report 2025*. https://www.cameraitacina.com/news/general-news/ccic-annual-report-2025

export-based entry strategies, often complemented by local support distribution structures such as trading WFOEs or representative offices, that allow companies to manage downstream activities, coordinate distribution channels, and maintain proximity to customers while preserving their core production activities in Italy.

Table 38: Italian Companies Engaged in Exporting/Distribution in China (representative sample)

Company name	Sector	Local Vehicle / Structure	Strategic Function in China
Cantine Riunite & CIV	Agri-food (Wine)	Direct Export + Trading	High-volume wine distribution.
Pastificio Rummo	Agri-food (Pasta)	Direct Export	Premium retail and lifestyle positioning.
Illy caffè S.p.A.	Food and beverage	Illycaffè Shanghai (Trading)	Premium coffee distribution in Tier-1 cities.
Artemide Group	Lighting / Design	Artemide Trading (Shanghai)	Distribution of high-end Italian lighting.
Monnalisa S.p.A.	Fashion	Monnalisa China (Trading)	Wholesale of children's luxury apparel.
Fabbri G. Holding	Food and beverage	Fabbri (Shanghai) Food Trading	Supply of specialized F&B ingredients.
Pasqua Vigneti	Agri-food (Wine)	Pasqua China Co. Ltd	Distribution of DOCG Italian wines.
Gessi S.p.A.	Arredo / Design	Gessi Beijing Consulting	Support for high-end furniture/fixtures.
In.Al.Pi. S.p.A.	Agri-food (Dairy)	Inalpi Shanghai Dairy	Export-led dairy product distribution.
Liu Jo (Exelite S.p.A.)	Fashion	Liu Jo Shanghai Trading	Retail and wholesale of fashion items.
Savio S.p.A.	Machinery	Savio Thesan Building Material	Distribution of window/door components.

Baralan International	Packaging	Baralan Shanghai	Packaging for the cosmetic industry.
Richard Ginori	Arredo / Ceramics	Ginori 1735 Retail Shanghai	High-end porcelain export and retail.
Alessi S.p.A.	Arredo / Design	Alessi Shanghai Trading	Kitchenware distribution and promotion.
Valvitalia S.p.A.	Machinery	Valvitalia China	Specialized B2B industrial equipment.
Botter S.p.A.	Agri-food (Wine)	Shanghai Viva Botter Trading	Bulk and premium wine exports.
Ariston Thermo	Home Appliances	Beijing Representative Office	Liaison for heating systems exported from IT
Donelli Vini S.p.A.	Agri-food (Wine)	Qingdao Donelli Wine & Co	Distribution of fermented musts and wines.
AC Rolcar S.r.l.	Automotive Parts	EFSM Auto Parts Trading	Wholesale of vehicle spare parts.
Zonza Baruffa	Textiles	Zegna Baruffa Far East	High-quality wool and fiber distribution.

Source: elaborated by the author from ICE Register, AIDA, and ORBIS databases.

From table 38 it is possible to analyse some common characteristics among Italian firms that rely on exporting and distribution-based entry strategies in China: firstly, the sample is heavily concentrated in sectors traditionally associated with the competitive strengths of the Italian economy, like agri-food products, fashion and luxury goods, furniture and design, industrial machinery, and specialized manufacturing; in fact, these industries' value rely on the made in Italy label, product quality, craftsmanship, technological expertise, and design capabilities, so for them it is essential to maintain production activities in Italy while exporting to China. Secondly, it is possible to notice that even if exporting is often the preferred entry mode for small and medium-sized enterprises, the sample demonstrates that this strategy is also adopted by firms of different sizes: there are medium-sized enterprises like Baralan, Donelli Vini, and Savio but also larger and internationally recognized groups such as Illy caffè, Artemide, Ariston Thermo, Liu Jo, and Valvitalia; this situation suggests that exporting is not only chosen by resource-constrained firms, but is also a strategic choice for companies that want to serve the Chinese market while retaining production and core competencies in Italy. The table additionally highlights the widespread use of complementary local structures: many firms have established trading companies, representative offices, or commercial subsidiaries in major Chinese cities, particularly Shanghai and Beijing, rather than relying exclusively on direct exports, because these structures help the companies to perform important functions like distribution management, customer support, marketing activities, or coordination with local partners; in fact, this combination with exporting and with a limited physical presence, give the possibility to Italian firms to remain close to customers without undertaking the substantial investments associated with manufacturing subsidiaries or joint ventures. Lastly, regarding the geographical distribution, it is possible to see that there is a predominance of trading entities located in Shanghai since it is China's principal commercial and logistics hub and also the country's largest port and one of its most internationally connected business centres; the city in fact, is chosen by many international companies because it provides efficient access to distribution networks, import infrastructure, and high-income consumer markets[438].

Mergers and Acquisition (M&A)

While WFOEs and joint ventures generally represent greenfield investments, so where a company builds its operations from scratch, mergers and acquisitions (M&A) constitute a brownfield entry mode: as already explained in chapter 2.3.5, this strategy involves the purchase of an existing Chinese company or a majority stake in its operations[439]. M&A for Italian firms in the People's Republic of China has historically been less frequent than M&A in European or North American markets because of the regulatory hurdles and high valuation complexities, but with the maturation of the Chinese market, M&A has become an increasingly attractive vehicle for established Italian groups that want to accelerate the long setup times required by greenfield projects and gain immediate access to local market[440]. In fact, by purchasing a Chinese entity, Italian firms can acquire the local

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438 Analysis based on data from ICE register, Orbis and Aida database, and infoMercatiEsteri report
439 Hill, C. W. L. (2021). *International business: Competing in the global marketplace* (13th ed.). McGraw-Hill Education, pp. 456-460
440 Mariotti e Mutinelli, ICE, (2017), Italia multinazionale 2017- Le partecipazioni italiane all'estero Capitolo 3

partner's operational experience and relationships with regional authorities, which helps mitigate the liability of foreignness[441].

Providing a comprehensive quantitative overview of mergers and acquisitions as an entry mode for Italian companies into China presents significant methodological challenges: M&A transactions are not always directly identifiable through the information available in the AIDA and ORBIS databases, because they record the resulting ownership structure from a transaction, often listing the acquired entity as a WFOE or a subsidiary with more than 50% ownership control, without explicitly indicating whether the investment originated from a greenfield project or from the acquisition of an existing Chinese firm. However, both databases include dedicated sections on M&A deals, so to identify acquisition-based entries every company should be individually examine. Additionally, many acquisitions involving Italian companies are conducted with intermediate holding companies that are in counties like Hong Kong, Singapore, Luxembourg, or the Netherlands and this ownership structure often make it difficult to identify the direct relationship between the Italian parent company and the Chinese target firm[442][443]. For these reasons, this thesis adopts a qualitative case-study approach to the analysis of M&A entry modes: the research focuses on a selection of representative cases identified through the M&A sections of AIDA and ORBIS and information from institutional annual reports and publications to identify the strategic motivations behind M&A transaction to access the Chinese market and to illustrate how Italian firms have used this entry mode. The following cases provide representative examples of acquisition-based entry strategies adopted by Italian enterprises in China:

Brembo S.p.A.: this company is a global leader in the design, development, and production of high-performance braking systems, for both original equipment manufacturers and the aftermarket, and the company's competitive advantage is its ability to blend advanced metallurgy with high-end engineering, producing specialized components for passenger vehicles, commercial vehicles, motorcycles, and motorsport applications. Before expanding through acquisitions, Brembo followed a gradual

[441] Mechem, R. M. (2004). Strategies for investing in China. *The China Business Review*, 31(5), 6-10.
[442] Bureau van Dijk. (2025). Orbis Database. Moody's Analytics. https://orbis.bvdinfo.com
[443] Bureau van Dijk. (2025). *AIDA: Analisi Informatizzata delle Aziende Italiane.* Database. Moody's Analytics. https://aida.bvdinfo.com

internationalization strategy in China: firstly, the firm established a network of wholly owned subsidiaries, like Qingdao Brembo Trading Co. Ltd. and Brembo (Nanjing) Automobile Components Co. Ltd., that allowed the company to develop commercial operations and local manufacturing activities but at the same time maintain full control over production processes and technological know-how. In 2016, Brembo acquired a 66% majority stake of Asimco Meilian Braking Systems (Langfang) for approximately €86 million: the target company was a well-established Chinese manufacturer of cast-iron brake discs located in Langfang in Hebei Province, that is the main automotive production areas; the acquired company employed approximately 637 workers and generated an annual turnover of around 90 million euro and it was a main supplier for regional car manufacturers, particularly for the large joint ventures between domestic Chinese firms and Western automotive giants. The acquisition enabled Brembo to strengthen its position in the Chinese automotive market by gaining immediate access to an established production base, an existing customer network, and local manufacturing capabilities, in fact, by acquiring a local leader, Brembo transformed from a foreign exporter into a domestic producer and this allowed the group to supply both international joint ventures and emerging Chinese domestic carmakers directly from the same region, reducing both logistical costs and response times. By owning a local foundry in Hebei, Brembo was able to combine its technological expertise and quality standards with a strong local manufacturing presence and following the acquisition, the company was renamed Brembo Hulian (Langfang) Brake Systems Co. Ltd., as confirmed by Aida and Orbis database. The expansion strategy continued in April 2019 when Brembo inaugurated a new 100 million euro plant in Nanjing, featuring 67 production lines capable of producing two million pieces annually and then in 2021 with the acquisition of the Spanish company J. Juan Group, specialized in motorcycle brake tubes, that had an production facility in Jiaxing, Zhejiang Province, allowing the group to expand its presence in the two-wheeler segment of the Chinese market[444].

[444] Analysis based on data from ICE register, Orbis and Aida database, CCIC annual report, ICCF 2023 report and infoMercatiEsteri report

Figure 39: Brembo's subsidiaries in China (with total share %)

Ragione sociale	Partecipate - Nome	Partecipate - Country ISO code	Partecipazioni Città	Partecipazioni % Totale
1. **BREMBO N.V.**	QINGDAO BREMBO TRADING CO. LTD.	CN		100,00
	BREMBO HULIAN (LANGFANG) BRAKE SYSTEMS CO. LTD. (EX ASIMCO MEILIAN BRAKING SYSTEMS CO. LTD.)	CN		n.d.
	BREMBO (NANJING) AUTOMOBILE COMPONENTS CO., LTD.	CN	NANJING	60,00
	SHADONG BRGP FRICTION TECHNOLOGY CO LTD	CN	JINAN	n.d.

Source: AIDA database

GVS S.p.A.: this company, with the headquarter in Bologna, is a global leader in the development and manufacturing of highly specialized filtration solutions and it operates across 3 main business segments: healthcare and life sciences, energy and mobility, and health and safety. The firm's competitive advantage is based on technological expertise, proprietary manufacturing processes, and the production of highly specialized filtration systems and plastic components for regulated industries. Before the acquisition, GVS's presence in China was mainly based on Greenfield WFOEs, like GVS Technology (Suzhou) Co., Ltd. which served as a manufacturing and distribution hub for the Chinese market, and gthis structure allowed the company to maintain full control over its intellectual property and, at the same time, supplying both international and domestic customers operating in the healthcare sector. In March 2022, GVS acquired 100% of Shanghai Transfusion Technology Co., Ltd. for an initial value of around 50 million euro, with an additional payment of 9 million euro contingent linked to future product authorizations. The acquired company was a historic Chinese player with a prestigious reputation in the domestic medical ecosystem and also a national leader in blood treatment products, a segment that is characterized by extremely high regulatory scrutiny and localized quality standards. In fact, the acquisition helped the company to overcome some of the challenges typically faced by foreign firms operating in China's medical device industry, like gaining access to existing product registrations and licenses and avoiding the lengthy and uncertain process required to obtain new regulatory approvals independently: the transaction also facilitated closer integration into local supply chains and procurement networks, improving the firm's ability to compete in a highly regulated environment and gave the company immediate access to production facilities and an established customer base within the Chinese healthcare system. Following the acquisition, GVS expanded its presence in China by combining its existing wholly owned subsidiaries with the newly acquired local company: the Suzhou subsidiary continues to support manufacturing activities and Shanghai Transfusion Technology strengthens the group's position in the domestic healthcare market. As shown in the AIDA and ORBIS databases, GVS now governs a complex legal infrastructure including Suzhou Laishi Transfusion Equipment Co., Ltd. and GVS Fortune Holding Limited, that support a shift toward a more mature and multi-entity presence[445].

Figure 40: GVS S.p.A.'s subsidiaries in China (with total share %)

Ragione sociale	Partecipate - Nome	Partecipazioni Città	Partecipazioni % Totale
1. **GVS S.P.A.**	GVS FORTUNE HOLDING LIMITED		100,00
	GVS TECHNOLOGY (SUZHOU) CO., LTD.	SUZHOU	100,00
	SHANGHAI TRANSFUSION TECHNOLOGY CO.LTD		100,00
	SUZHOU LAISHI TRANSUSION EQUIPMENT CO.LTD		100,00
	SUZHOU GVS TRADING CO., LTD.	SUZHOU	100,00
	YUYAO YIBO MEDICAL DEVICE CO. LTD		n.d.

Source: AIDA database

Aeffe S.p.A.: is an Italian luxury fashion group operating through a portfolio of internationally recognized brands like Alberta Ferretti, Philosophy di Lorenzo Serafini, Moschino, and Pollini and it combines manufacturing and distribution activities of luxury goods, allowing it to manage the entire value chain of its luxury products. Before 2021, Aeffe's presence in China relied primarily on a combination of trading WFOEs and local partners, in fact, according to Aida and Orbis databases, the group controlled several entities in the Chinese market, including Aeffe Shanghai Ltd., Moschino Asia Pacific, and

[445] Analysis based on data from ICE register, Orbis and Aida database, CCIC annual report, ICCF 2023 report and infoMercatiEsteri report

Anfei (Shanghai) Trading Co., Ltd. That are units which handled the importation and wholesale distribution of garments madE in Italy to local intermediaries. In November 2021, Aeffe the company announced the direct takeover of Moschino's retail operations in Mainland China: until that point, Moschino's retail operations in China were managed by Scienward Fashion & Luxury, that is a group specialized in the distribution of luxury fashion brands within the domestic market; the operation became effective in June 2022 and resulted in Aeffe buying back the commercial rights and directly assuming the management of the physical stores that were previously operated by the local distributor. This operation is a shift from an indirect distribution model to greater direct control over commercial activities: in fact, by internalizing the retail network, Aeffe gained closer oversight of brand positioning, customer experience, merchandising decisions, and marketing activities and it also reduced the company's dependence on external intermediaries, allowing it to collect market information more directly and respond more effectively to changing consumer preferences. From a strategic perspective, the operation shows the growing importance of China in the global luxury industry, because the country is not solely as an export destination but as a key market requiring direct managerial involvement and closer control over retail operations, and this approach is particularly relevant in the luxury sector, where brand image and customer experience are critical competitive assets[446].

Figure 41: Aeffe's subsidiaries in China (with total share %)

Ragione sociale	Partecipate - Nome	Country ISO code	Partecipazioni Città	Partecipazioni % Totale
1. AEFFE S.P.A.	AEFFE SHANGHAI LTD.	CN		100,00
	MOSCHINO ASIA PACIFIC	CN		100,00
	MOSCHINO SHANGHAI	CN		100,00
	ANFEI (SHANGHAI) TRADING CO., LTD.	CN	SHANGHAI	100,00

Source: AIDA database

[446] Analysis based on data from ICE register, Orbis and Aida database, CCIC annual report, ICCF 2023 report and infoMercatiEsteri report

The analysis of these three selected case studies confirms that mergers and acquisitions represent a distinctive, but less common entry mode for Italian firms operating in China that enable companies to obtain immediate access to strategic assets that would otherwise require time and resources to be developed. Additionally, the three cases highlight the diversity of strategic objectives pursued through acquisition-based entry: for Brembo, the acquisition of Asimco Meilian provided direct access to local manufacturing capabilities and allowed the company to integrate more effectively into the Chinese automotive supply chain: for GVS, the acquisition of Shanghai Transfusion Technology facilitated access to a highly regulated healthcare market by providing existing licenses, regulatory approvals, and an established customer base; for Aeffe acquisition was a tool for downstream integration, that by internalizing the management of Moschino's retail network, helped the company to strengthen control over brand positioning, customer experience, and commercial activities. The three cases share also several common characteristics: firstly, all acquisitions were undertaken by medium-large or large Italian firms with significant financial and managerial resources; secondly, each company had already established a presence in China through other entry modes, in general WFOEs and trading subsidiaries, before undertaking the acquisition and this suggests that M&A is rarely used as a firm's initial entry mode into the Chinese market, both because it requires high commitment and resources and brings many risk, but is more an advanced stage of internationalization used to consolidate and expand in an already existing presence. Lastly, in all the three cases, the acquisition strategy was motivated by the need to gain access to resources that could not be obtained as efficiently through organic growth alone[447].

Table 40 provides a comparative overview of the principal entry modes adopted by Italian firms operating in China explained in this chapter and summarizes the evidence collected from the AIDA and ORBIS databases, the ICE Register, and institutional reports.

[447] Analysis based on data from ICE register, Orbis and Aida database, CCIC annual report, ICCF 2023 report and infoMercatiEsteri report

Table 42: Comparative overview of the main entry modes adopted by Italian firms in China

Entry mode	Typical firm size	Main sectors	Objective	Representative Italian firms
Wholly Foreign-Owned Enterprise (WFOE)	Medium-large and large enterprises	Machinery, Automotive, Food Processing, Industrial Manufacturing	Full operational control, protection of intellectual property, local production, supply chain integration	Brembo, Ferrero, De'Longhi, Technogym, Sacmi, Marchesini Group
Joint Venture (JV)	Large enterprises	Automotive, Aerospace, Finance, Energy, Shipbuilding	Access to regulated sectors, local market knowledge, institutional relationships, risk sharing	Leonardo, Iveco, Generali, Intesa Sanpaolo, Fincantieri, Landi Renzo
Representative Office (RO)	Large enterprises and financial institutions	Banking, Energy, Engineering, Services	Market intelligence, institutional relations, customer support, coordination of local activities	Intesa Sanpaolo, UniCredit, Monte dei Paschi di Siena, Enel, Ariston Thermo
Exporting / Distribution	SMEs and large consumer-oriented firms	Food & Beverage, Fashion, Design, Furniture, Consumer Goods	Market access with limited investment, preservation of Italian production, exploitation of the Made in Italy effect	Illy, Pasqua Vigneti, Artemide, Liu Jo, Alessi, Richard Ginori
Mergers & Acquisitions (M&A)	Large multinational groups	Automotive, Healthcare, Luxury Fashion, Advanced Manufacturing	Rapid access to local assets, customers, licenses, production facilities, and distribution networks	Brembo, GVS, Aeffe

Source: Elaborated by the author based on AIDA, ORBIS, ICE Register, CCIC, and ICCF reports

3.2.2 Comparison between companies: common success factors and critical issues

The previous sections analysed the main entry modes adopted by Italian firms in China, however, the objective of this research is not only to identify these organizational structures used by Italian companies, but also to determine if there are common patterns that emerge across different sectors, firm sizes, and internationalization strategies, and by comparing the evidence collected from the AIDA and ORBIS databases, the ICE register, and institutional reports published by ICE, CCIC, and ICCF, it is possible to identify a set of recurring success factors and critical challenges that characterize the Italian presence the Chinese market. The analysis shows that success is not only associated with the choice of a specific entry mode but is more a combination of strategic choices that allow firms to balance local adaptation with global strategic control.

In fact, Italian firms do not choose their organizational structures randomly but instead, the entry mode is dictated by specific requirements and dynamics of the industrial sector: all the companies have a common made in Italy heritage, their structures and entry mode choices in China vary a lot according to characteristics of their sector and the nature of the strategic assets they want to protect. For example, for the mechanical engineering and automation sector, the main objective is the protection of proprietary know-how and technology, so Italian firms like IMA, Marchesini, and Sacmi will prefer WFOEs over joint ventures or other entry modes, because in this way they can minimize dissemination risk. In the fashion and retail sector, where operate luxury brands like Prada, Versace, and Valentino, the priority is to preserve brand equity and ensure a premium customer experience, so many firms start with exporting and then shift toward trading WFOEs or direct control of retail operations, as seen in Aeffe's case, to maintain absolute control over the luxury service. In the healthcare and life sciences sector, where there are high regulatory barriers and needs for local certifications, Italian firms often utilize M&A or joint ventures to gain regulatory access, as GVS S.p.A. did by acquiring Shanghai Transfusion Technology. For the banking and financial services sectors, where is essential to have Institutional presence and liaison, Italian banks like Intesa Sanpaolo, UniCredit, and Monte dei Paschi di Siena rely on representative offices for market intelligence and institutional relations, and sometimes also rely on joint ventures to navigate the financial regulations and gain access to restricted licenses. In the automotive sector, historically there were many joint ventures because of regulatory mandates, like NAVECO, but the sector is now a mix of WFOEs, like Pirelli and Brembo's production plants, and M&A to to strengthen their integration within local supply chains[448]. Table 42 summarize the most common entry modes adopted by Italian firms across different sectors.

Table 43: Sectoral strategic mapping of Italian firms' entry modes

Sector	Most common entry mode	Objective	Representative Italian firm
Machinery	WFOE	Protect proprietary know-how	IMA, Sacmi, Marchesini
Fashion	Export + Trading WFOE	Preserve brand equity	Prada, Valentino, Zegna
Healthcare	M&A	Regulatory access and license	GVS, Bracco, DiaSorin
Banking	RO / Joint Venture	Institutional presence and liaison	Intesa Sanpaolo, UniCredit
Automotive	WFOE + M&A	Supply-chain integration	Pirelli, Brembo, Marelli

Source: Elaborated by the author based on Aida and Orbis database, CCIC 2025 report, and ICE register.

A second pattern emerging from the firm's analysis concerns the relationship between firm size and the level of commitment undertaken in the Chinese market: in fact, data collected form Aida and Orbis databases suggests that larger firms are usually more willing and able to adopt high commitment entry modes, while smaller firms prefer organizational structures with lower levels of risk and resource investment. This situation is coherent with the resource-based view, for which internationalization modes are connected with the firm's financial and managerial capital and so, firms with greater

[448] Analysis based on data from ICE register, Orbis and Aida database, CCIC annual report, ICCF 2023 report and infoMercatiEsteri report

financial, managerial, and organizational resources are better positioned to support complex internationalization strategies[449]. Large multinational groups like ENI, Leonardo, Brembo, Pirelli, and Ferrero typically operate through wholly owned subsidiaries, manufacturing plants, and, in some cases, acquisition-based expansion strategies, all modes that require the highest level of commitment: in fact, these firms have the resources required to sustain substantial capital investments, manage complex organizational structures and also the risks associated with operating in a highly competitive environment like China. For that, WFOEs often are the preferred organizational form since they provide a high degree of control and autonomy essential for global coordination. On the other side there are small and medium enterprises that typically prefer exporting, local distributors, and representative offices: this is a lighter approach to the Chinese market because these firms need to maintain flexibility and lower capital risk. In fact, from the CCIC surveys is it possible to see that SMEs have adopted intermediate solutions, especially trading WFOEs, because they allow them to have greater control over local distribution and customer relationships while preserving production activities in Italy[450].

This analysis has shown that the choice of entry mode varies according to sector-specific characteristics and firm size, but, despite these differences, the comparison of Italian firms operating in China reveals several common patterns that appear to contribute to successful internationalization.

One of them is the progressive commitment to the Chinese market: many resilient Italian firms adopt a gradual approach to internationalization, and this method aligns with the Uppsala model, analysed in chapter 2.1.3, which suggests that firms progressively increase their commitment to foreign markets as they accumulate knowledge of the market and reduce uncertainty[451]. The evidence indicates that successful Italian firms rarely enter China through high-capital investments like manufacturing plants or acquisitions, instead, they follow a progressive path where they gradually increase their level of resource commitment, in many cases, Italian firms approach the Chinese market

[449] Wong, N. EXPLORING CORPORATE STRATEGY, p.94-96
[450] Analysis based on data from ICE register, Orbis and Aida database, CCIC annual report, ICCF 2023 report and infoMercatiEsteri report
[451] See chapter 2.1.3

with exporting activities or local distributors, to test the market demand with minimal resource commitment, and, when they achieve a stable presence, they invest in manufacturing facilities, wholly foreign-owned enterprises, or acquisition based expansion strategies. This kind of evolutionary path can be observed with Brembo, in the automotive sector, that initially developed its presence through trading entities and manufacturing subsidiaries before completing the acquisition of Asimco Meilian in 2016, and also with GVS, in the healthcare sector, that first established wholly owned operations in Suzhou and only later acquired Shanghai Transfusion Technology to gain access to local certifications and hospital procurement networks. The same logic can also be observed among many firms analyzed in the WFOE section: companies such as Ferrero, De'Longhi, Technogym, and Sacmi initially entered the Chinese market through commercial activities and then expanded their local operations through wholly owned subsidiaries focused on manufacturing, sales, or after-sales services. These evidences suggest that firms that eventually adopt high-control entry modes frequently reach this stage through a gradual learning process rather than through an immediate large-scale investment, gradually increasing their commitment to the Chinese market to reduce risk associated with institutional uncertainty and the liability of foreignness[452].

Table 44: Progressive resource commitment among selected Italian firms operating in China

Company	Exploratory Stage	Intermediate Stage	Maturity Stage	Strategic Outcome
Ferrero	Exporting from Italy	Sales offices & distribution subsidiaries	Manufacturing plant (Hangzhou) / Greenfield FDI	20% premium chocolate market share
Ariston	Exporting	Representative Office (Beijing)	Manufacturing WFOE (Jiangsu)	Localized engineering and production

[452] Analysis based on data from ICE register, Orbis and Aida database, CCIC annual report, ICCF 2023 report and infoMercatiEsteri report

Company	Exploratory Stage	Intermediate Stage	Maturity Stage	Strategic Outcome
Brembo	Exporting & commercial presence	Manufacturing subsidiaries	Acquisition of Asimco Meilian (2016)	Strong integration in China's automotive supply chain
GVS	Commercial presence	Existing WFOE operations	Acquisition of Shanghai Transfusion Technology	Regulatory and licensing capabilities
Aeffe (Moschino)	Local distributors	Retail partnerships	Direct control of retail network	Stronger brand control

Source: Elaborated by the author based on the case studies presented in Sections 3.2.1, using data from the AIDA and ORBIS databases, the ICE Register, CCIC reports, company disclosures and Cannavale & Calvelli (2019).

Another challenge that Italian firms have to face is, as explained in chapter 2.1.3, the balance between global integration and local responsiveness, and evidence suggests that successful Italian firms operating in China do not view these two objectives as mutually exclusive, but, instead, they pursue a strategy that can be defined as local presence combined with strategic control, where they establish a strong operational footprint in China while, at the same time, retain direct control over the activities that generate their competitive advantage[453]. This approach helps explain the dominance of Wholly Foreign Owned Enterprises among Italian firms: as shown in the quantitative analysis presented in Chapter 3.1.1, approximately 60% of Italian entities in China operate as WFOEs, while the ICCF 2023 report estimates that WFOEs account for nearly 85% of the Italian corporate presence when majority-owned subsidiaries are included[454]; this preference for full ownership shows that Italian firms want to preserve quality standards, protect intellectual property, maintain brand consistency, and avoid the risks associated with shared governance structures. This pattern can be observed across several sectors: for example in the agri food sector Cremonini manages its Chinese operations through wholly

[453] Analysis based on data from ICE register, Orbis and Aida database, CCIC annual report, ICCF 2023 report and infoMercatiEsteri report
[454] See chapter 3.1.1

owned entities in order to supervise quality control and cold-chain logistics more effectively, while in the automotive sector, Ariston Thermo established manufacturing operations in China to adapt products to local demand while preserving control over engineering and product development activities. Additionally, large multinational groups often use multiple subsidiaries to coordinate different business activities while preserving strategic autonomy: an example is ENI that manages several wholly owned entities in China, each focused on specific functions like trading, chemicals, or energy-related operations, to respond efficiently to local market conditions without relying on external partners. So, in the end, successful Italian firms do not reject localization, but they seek to internalize it, adapting to the Chinese market without compromising the distinctive assets that is their competitive advantage[455].

A final success factor, emerging from the comparative analysis, is the ability of Italian firms to balance local adaptation with the preservation of the distinctive characteristics associated with the made in Italy brand: as discussed in Chapter 2.2.4, international firms often need to face a trade-off between standardization and adaptation, but the evidence collected in this research suggests that the most successful Italian companies operating in China do not fully use either approach but they adopt a hybrid strategy that combines local responsiveness with the protection of their core competitive assets. On one hand, firms try to preserve those elements that constitute the foundation of their competitive advantage: in luxury industries, companies like Prada, Valentino, and Aeffe continue to rely on Italian design, creativity, and brand heritage as sources of differentiation and, in the machinery and automation sectors, firms such as IMA and Sacmi maintain control over proprietary technologies, engineering expertise, and research and development activities; in both cases, an important component of the value proposition offered to Chinese customers remains the Italian origin of the product. On the other hand, these Italian firms adapt the aspects of their business model that are necessary to compete effectively within the Chinese market: an example of adaptation is the localization of distribution networks, retail management, digital channels, customer service, and, in some cases, manufacturing activities: between Italian firms it is possible to find Illycaffè that manages local distribution through its Shanghai trading subsidiary while maintaining

[455] Analysis based on data from ICE register, Orbis and Aida database, CCIC annual report, ICCF 2023 report and infoMercatiEsteri report

production and roasting activities in Italy or Ferrero that established manufacturing facilities in China to serve the local market more efficiently, while continuing to operate according to the technological and quality standards defined by their Italian headquarters. Adaptation is also required for the growing importance of digital channels, l and as already mentioned in chapter 2.2.4 and 3.2.1, many Italian firms are increasing their investments in cross border e-commerce and digital distribution platforms to reach more effectively the Chinese consumers and respond to the characteristics of the country's highly digitalized marketplace. Also, many Italian brands have aligned with the national tide (Guochao**),** infusing their products with Chinese traditional elements, like Benetton and Laura Biagiotti. To summarize, this comparative analysis highlights three recurring success factors shared by Italian firms operating in China, regardless of their size, sector, or entry mode: firstly, successful firms tend to increase their commitment to the Chinese market gradually, accumulating market knowledge and reducing uncertainty before undertaking high-risk investments; secondly, they combine a strong local presence with a high degree of strategic control, to adapt to local conditions while protecting their core competitive assets and, in the end, they adopt a hybrid approach that balances local responsiveness with the preservation of the distinctive characteristics associated with the made in Italy brand. So it is possible to say that success in the Chinese market is not determined by the adoption of a specific entry mode but more form the ability to exploit these three core factors, essential for establish a strong presence in the Chinese market[456].

The analysis also reveals several recurring challenges that affect Italian firms regardless of the organizational structure adopted: one of the most persistent problem for Italian enterprises identified in the research is the high level of regulatory uncertainty and the decentralized nature of the Chinese bureaucracy: in fact, as explained in chapter 1.2.4, the Chinese administrative landscape is often described as an administrative maze with different government units at the national, provincial, and municipal levels that may claim jurisdiction over a single project. The Chinese government has also a negative list for foreign investment which prohibits or restricts foreign participation in determined strategic sectors, like finance, aerospace, and telecommunications, where foreign firms

[456] Analysis based on data from ICE register, Orbis and Aida database, CCIC annual report, ICCF 2023 report and infoMercatiEsteri report

are often forced into joint ventures or limited to representative offices[457]. An example analysed in chapter 3.2.2, are the financial and banking sectors, were firms like Intesa Sanpaolo and UniCredit face strict licensing restrictions, so they need to operate through representative office for institutional monitoring. For healthcare and medical devices also, there are rigorous cost controls and a state-funded procurement model known as Volume-Based Procurement (VBP) and as seen in the case of GVS S.p.A., firms must know how to navigate a complex landscape of local manufacturing licenses to avoid being excluded from state hospital circle. The situation is further aggravated by the liability of foreignness over foreign firms that are more exposed to scrutiny than domestic competitors[458]. Another important challenge emerging from the analysis is the cultural and institutional distance between Italy and China: even if the Chinese economy undertakes a process of modernization, business relationships continue to be strongly influenced by traditional cultural values that affect negotiations, administrative procedures, and stakeholder management, with the central role of the concept of *Guanxi* and *Mianzi* explained in chapter 1.2.4. The case studies and institutional reports suggest that establishing relationships with local stakeholders is still a critical factor for market access and operational efficiency, and several Italian firms progressively increased their local presence not only to expand commercial activities but also to strengthen relationships with customers, suppliers, or public authorities; for example, Pirelli strengthened its integration in the Chinese market with a long-term industrial investments and close cooperation with local stakeholders, and, at the same time, Ferrero expanded its presence by developing local distribution networks and adapting its commercial strategies to Chinese consumers. Italian firms also adopt a strategy of hiring local managers who are already in a regional connection network, this is what happened with firms like Motorola or the Chinese units of Brembo[459]. Lastly, a further challenge highlighted by recent institutional reports regards the growing competitiveness of Chinese domestic firms that driven by industrial policies such as "Made in China 2025", have progressively moved up the value chain, developing advanced technological capabilities and increasing

[457] See chapter 1.2.3
[458] Italy China Council Foundation, ICCF, (2023). *Cina 2023. Scenari politici e macroeconomici per le imprese*.
[459] Yadong Luo (2000) Entering China Today, Journal of Global Marketing, 14:1-2, pp.57-82

investments in research and development[460]; according to recent CCIC and ICCF reports, many Italian firms now identify competition from Chinese companies as one of the main challenges affecting their operations in the country and this trend is particularly evident in sectors such as healthcare, advanced manufacturing, renewable energy, and digital technologies, where Chinese firms compete both on cost and both on innovation and product quality, and, at the same time, the growing popularity of domestic brands among Chinese consumers, has intensified competitive pressure in consumer goods and fashion industries. For these reasons, Italian firm should not only base their competitive advantage on the Made in Italy label, but they must continuously invest in innovation, product differentiation, and brand positioning while adapting to the evolving preferences of Chinese consumers[461][462].

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[460] See chapter 1.2.3
[461] China-Italy Chamber of Commerce. (2025). *CCIC annual report 2025*. https://www.cameraitacina.com/news/general-news/ccic-annual-report-2025
[462] Italy China Council Foundation, ICCF, (2023). *Cina 2023. Scenari politici e macroeconomici per le imprese*.

Conclusions and Limitations of the Study

The objective of this thesis was to analyse the entry modes used by Italian firms to enter and operate in the Chinese market, identifying which one was the most common entry modes, the factors that contribute to successful internationalization, and the principal challenges faced by Italian companies operating in the People's Republic of China. The analysis combined a theoretical review of internationalization strategies with an empirical investigation based on AIDA and ORBIS databases, and institutional reports published by ICE, China-Italy Chamber of Commerce (CCIC), and the Italy China Council Foundation (ICCF): with this approach, it was possible to map the Italian corporate presence in China and examine the characteristics of firms operating through different entry modes. The findings reveal that the Chinese market still continues to be a strategic destination for Italian companies, specifically in sectors traditionally associated with the Made in Italy competitive advantage, like fashion, food and beverage, machinery, automation, design, healthcare, and advanced manufacturing, and, at the same time, the analysis demonstrates that Italian firms do not adopt only a single internationalization model, but instead, the entry mode selection is different according to sector-specific characteristics, firm size, resource availability, and the strategic assets that firms seek to protect. The empirical evidence shows a clear predominance of Wholly Foreign-Owned Enterprises, which have progressively replaced joint ventures, because full ownership allows companies to maintain control over technology, product quality, brand reputation, and strategic decision-making while simultaneously developing a local presence in the Chinese market. However, joint ventures have also an important role in regulated sectors where local partnerships facilitate access to licenses, networks, and institutional relationships; exporting remains the most common entry mode among small and medium-sized enterprises, and Mergers and Acquisitions are generally adopted by larger firms seeking rapid market penetration, regulatory access, or supply-chain integration. Additionally, the comparative analysis identified recurring patterns among successful Italian firms operating in China: companies tend to increase their commitment gradually, following a progressive internationalization path that moves from exporting and commercial activities toward more advanced forms of local investment and also they seek to combine strong local presence with high levels of strategic control, especially for technology, quality standards, and brand management. Successful firms are also able to balance adaptation to local market conditions with the preservation of the distinctive characteristics associated with the Made in Italy identity. The research also highlights several common challenges for Italian firms like regulatory complexity, administrative uncertainty, cultural distance, intellectual property protection, and the growing competitiveness of domestic Chinese firms. From a theoretical perspective, the results found support several internationalization theories discussed in Chapter 2, like the Uppsala Model and the standardization-adaptation framework and, at the same time, the findings suggest that successful Italian firms frequently combine elements from different theoretical approaches rather than following a single internationalization path.

Despite its contributions, this study presents several limitations: the analysis relies primarily on secondary sources and corporate databases and even if Aida and Orbis provide valuable information regarding ownership structures and corporate presence, they do not always allow researchers to reconstruct the complete decision making process behind entry mode selection and, certain forms of internationalization, especially mergers and acquisitions, are difficult to identify in a systemic way because transactions are often conducted through foreign holding companies or international subsidiaries. Additionally, the study focuses exclusively on Italian enterprises operating in China and therefore does not allow direct comparisons with firms from other countries. Future research could address these limitations by adopting qualitative methodologies, such as interviews with managers and entrepreneurs directly involved in internationalization processes, or compare Italian firms with companies from other European countries or investigate how recent geopolitical tensions, digital transformation, sustainability requirements, and the growing technological capabilities of Chinese competitors are reshaping foreign firms' strategies in China.

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