



Europe – Opportunities and Challenges

CHINA OUTBOUND INVESTMENTS –THOUGHTS FROM THE ITALIAN EXPERIENCE

European (Italian) Door Is Open

- ▶ In the last couple of years Italy has experienced massive Chinese M&A activities: ± 10 billion Euro in 2015, a promising 2016. Only Germany has been more attractive
- ▶ The recipe: even large Italian companies too small and/or financially weak to compete in global markets + Chinese large corporations generally too local and unsophisticated
- ▶ Part of the “go global” national policy; targets in all industries; full takeover or control; long term strategic commitment
- ▶ The White Knights:
 - They save financial distressed companies: Ferretti
 - They open new markets (China's first of all): Ansaldo Energia (minority deal, jv in China); Pirelli
 - They increase competitiveness by upgrading financial capacity: FC Inter
 - (- They also provide funds and trust to public companies: 2% investment in blue chips on the stock exchange)
- ▶ Those who don't sell buy. In any case, China has a major role in all Italian mid-large enterprises' strategies: the case of Brembo

Chinese Investors Interest

- ▶ Why so much Italy?
- ▶ The most prestigious national brand of the world (“Made in Italy”), with all its attachments in terms of industrial innovation and development, for a very reasonable price and in reasonably safe political, social and economic conditions
- ▶ Chinese (large) companies target Italy:
 - To acquire technology, know how, quality, reputation
 - To diversify (Zoomlion on Ladurner) and increase their productive standards
 - To diversify and enlarge their markets and acquire global know how
 - To enter the EU market
 - Potentially, Italy might be used by China also as a hub for approaching EMEA, as the most western station of the Silk Road. Will our government be able to create the conditions to make this happen? And can OBOR be used to that end?
- ▶ Interdependence: Europe needs China and China needs Europe.

Some Critical Issues

- ▶ Chinese investors often weak in
 - international (corporate and personal) experience
 - Italian culture, language, politics, law
 - international corporate techniques
 - adaptability of the business style and decision-making process to local environment
- ▶ Issues arise in both M&A process (high rate of failure) and post-merger integration: minor bureaucratic hurdles may become huge problems, inappropriate behaviors may become legal offenses
- ▶ Selection and training of human resources is critical(Benelli): integration is mainly a matter of training people: we have learned the lesson IN China, but Chinese shareholders in Italy are not always fully conscious of that
- ▶ Signs of a slow improvement: second generation Chinese; new class of Chinese managers and advisors (M&A boutiques, law firms...). Results are coming: Ferretti reached its first break even last year

What Next?

- ▶ Such improvement must be supported because a healthy economic cooperation may be a key factor in the globalization process of both countries
- ▶ General framework important. We must
 - understand and respect the dynamics of Chinese investments flow and the national interest that stands behind it
 - facilitate such trend and include its huge potential in our own development strategy by simplifying and improving the investment framework (tax, immigration, administration) and by investing on China-related knowledge and training infrastructures
- ▶ Chinese companies must understand that being global requires to abandon certain traditional ways of running a business and become part of a larger global community
- ▶ Within the EU framework, the two countries can initiate a promising common path: in the interest of Italy, but of China as well