ITALY IN THE BELT AND ROAD INITIATIVE

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Abstract

Within the Belt and Road Initiative (BRI), a massive international infrastructure investment programme designed by China under President Xi's leadership, Italy has a geopolitical advantage as access to continental Europe, which has further increased after the huge Chinese investments in Piraeus, now the main hub of Chinese trade in Europe. Italy has been targeted by Chinese investors since quite some time, aiming well beyond its manufacturing industries, specifically in infrastructures (ports, logistics and utilities), but Chinese interest in Italian ports has intensified over the past few years. This led to the signature of a MoU on BRI in March 2019. In this paper we review the circumstances that led to the above MoU, mainly focusing on economic aspects.

Keywords: China, Italy, Belt and Road Initiative

1. Introduction

2020 is going to be a special year in bilateral relations between Italy and China. Being the 50th anniversary since the establishment of diplomatic relations between the two countries, official celebrations have gathered a lot of attention and efforts within the diplomatic community, since a few years ago - a project known as "Road to 50". That road reached rather unexpected heights when the two countries signed a Memorandum of Understanding (MoU) on the Belt and Road Initiative (BRI) on March 23rd, 2019, during the first State visit to Italy by President Xi Jinping.

Although Italy-China relations have always been very positive and further improved over the last few years, they have strengthened throughout 2018 and the trend continued through 2019. The main tools for strengthening were (Ambasciata d'Italia in Cina, 2020):

- official bilateral meetings between representatives of the Italian and Chinese governments. In September 2018, the Minister of Economic Development Luigi Di Maio and the Minister of Economy and Finance Giovanni Tria participated in an official state visit to China. The following month, on the sidelines of the twelfth Asia-Europe Meeting (ASEM) in Brussels, Prime Minister Giuseppe Conte met with his Chinese counterpart, Premier Li Keqiang. In late January 2019, the Minister of Foreign Affairs of the People's Republic of China Wang Yi was on a State visit to Italy. These meetings have proved essential to define cooperation

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agreements between the two countries: the new Global Strategic Partnership, the Action Plan for strengthening cooperation in the field of economy, trade, culture, science and technology for the 2017-2020 four-year period and the Memorandum of Understanding for cooperation in third countries.

- a series of informal agreements and working groups that operationalized cooperation between the two countries: the thirteenth meeting of the Mixed Committee held in Beijing on December 17, 2018, the Italy-China Forum for small and medium-sized enterprises held in Dalian and Qingdao from June 19 to 21, 2018, the fifth Business Forum of November 6, 2018, the China Task Force of the Ministry of Economic Development (MISE), the agreement between the China Council for the Promotion of International Trade (CCPIT) and the Italy-China Foundation for cooperation in the Belt and Road Initiative (BRI), the Mechanism of dialogue between the Ministries of Finance and the Italy-China Intergovernmental Committee whose tenth plenary session is scheduled in China in 2020.

China is an important trading partner for Italy, both on the export and import side (ISTAT, 2020). To China are headed 2.8% of our total exports, equal to 13.7 billion euros in 2018, compared to the EU (55.5%), the USA (9.1%), Switzerland (4.6%). To this aggregate figure must be added, although without being able to substantiate it with reliable data, the value of the purchases of Chinese tourists in Italy, which represent an important share of purchases in the luxury sector. On the import side, China is a key partner for Italy, with 7.1% of the total imports (30.78 billion euros in 2018), after the EU (55.5%). The trade balance between the two countries gradually deteriorated from 2001 onwards, and was negative for Italy with a 17.6 billion deficit in 2018 (due to exports decreasing by 2.4% compared to 2017, and imports increasing by 8.2%).

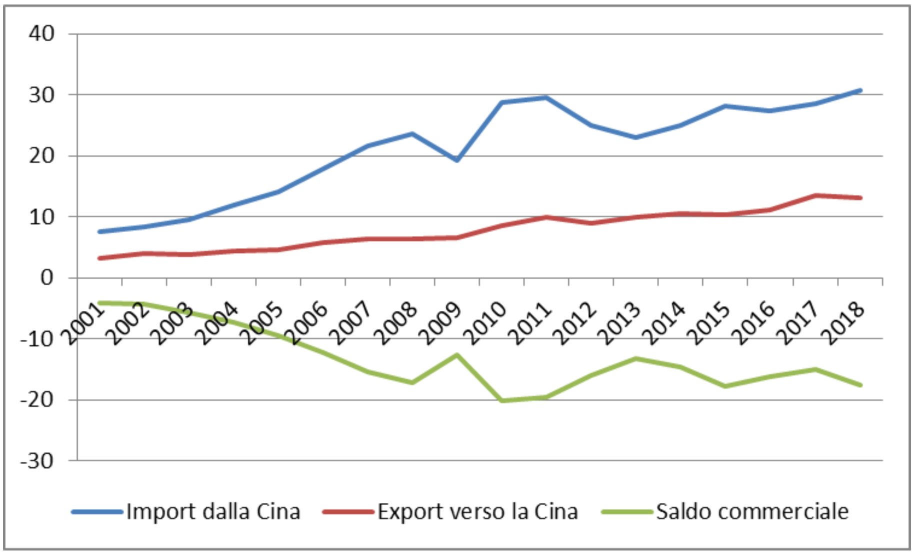

Figure 1: Italy-China trade flows since 2001 (€ billion).
Source: author's elaboration on data from Coeweb Istat.

The main Italian products exported to China are special-purpose machines (1.360 million), general-purpose machines (994 million), clothing items (744 million), other general-purpose machines (724 million) and cars (601 million). The main Chinese products imported into Italy are telecommunications equipment (2.186 million), clothing items (1.945 million), basic chemicals, fertilizers and nitrogen compounds, plastics and synthetic rubber in primary forms (1.442 million), machines for general use (1.307 million) and computers and peripheral units (1.269 million).

As regards bilateral investments, Italy's net foreign direct investment (FDI) in China amounted to € 537 million in 2017 according to balance of payments data, while the flow of net FDI from China to Italy went from 60 million euros in 2016 to 9 million in 2017. This decrease is in part a consequence of the 2017 Chinese regulations that limit the flow of Chinese investments abroad. In the five years between 2013 and 2017, the stock of Italian direct investments in China increased only slightly, from 8.8 to 8.9 billion euros (ICE, 2020).

In October 2017, the Italian government approved a decree to strengthen the disclosure requirements for foreign investors who intend to acquire significant shares in Italian companies and expand the "Golden power", under which transactions may be vetoed in some strategic sectors and in high-tech companies, such as those dealing with data storage and processing, artificial intelligence, robotics, semiconductors, dual-use technology and space / nuclear technology.

Italy has been among the first recipient countries of Chinese acquisitions in the past 20 years, after Great Britain and Germany. From 2000 to 2018, 15.3 billion euros arrived in Italy, slightly more than the 14.3 billion arrived in France, compared to 22.2 billion in Germany and 46.9 in Great Britain. In this regard, it is worth noticing that Brexit will unquestionably modify this composition in favor of EU countries, since Great Britain has represented an entry point into the EU and most of the Chinese investments there actually had continental Europe as an indirect target.

There are 539 Italian companies with Chinese controlling interests (with at least 25% of the share capital) at the end of 2017, with a strong incidence in the wholesale and retail sectors (124 companies), manufacturing (110) and professional, technical and scientific services (63). It is worth noticing that 80 of these companies, i.e. 14.8% of the total, operate in sectors now considered "strategic", as their activities have significant repercussions for the economy and national security. Among the latest Chinese high-profile acquisitions in Italy, we shall remember Candy (together with two of its supplier companies Bessel and Gasfire) by Haier (for 475 million euros), and in the medical sector, the acquisition of 90% of the shares of the NMS Group (for a value of approximately 300 million euros) by Hefei SARI V-Capital Management Co. Ltd and by Esaote by the sovereign wealth fund China Investment Group. The main operations concluded between 2014 and 2016 on Italian territory include the purchase by China National Chemical of a controlling stake in Pirelli (specifically for controlling the company's Trucks division) for 7.3 billion euro, the 400-million-euro investment of Shanghai Electric in Ansaldo Energia and the acquisition of 35% of Cdp Reti by the electricity giant China State Grid, for a value of 2.81 billion (ICE, 2020).

Italy-China relations have recently developed also through a quite significant expansion of bilateral tourism. 2020 was scheduled to be "the year of Chinese tourism in Italy", if the recent widespread contagion from the Covid-19 virus had not forced a temporary shut-down of direct flights between the two countries. 2018 was "the year of EU-China tourism", an initiative was launched in Venice in January 2018 to promote sustainable tourism, stimulate investment opportunities, improve connectivity and flight safety and reduce visa requirements between China and the countries of the European Union. In 2018, Italy was the third most visited country in

Europe by Chinese tourists. On average, tourists were families and small groups. The length of each stay extended in 2018, which marks an important change in Chinese tourism in Italy. In terms of connectivity, air transport from China to Italy between January and April 2018 recorded an increase of about 10% compared to the same period of 2017. Air connections between Italy and China have doubled in the last five years, the highest rate when compared with the connections between China and the rest of Europe. In terms of flows, China is the eleventh country of origin for tourists in Italy with an annual average of five million visitors. Lazio, Veneto and Tuscany are the regions that most attract Chinese tourists (63.5% of the total flow). Lazio and Veneto are also the best destinations for spending rates, after Lombardy. As China is a world leader in international tourism spending rates, the country has been one of the most interesting markets for Italy, which still shows significant growth potential. The total annual expenditure of Chinese tourists in Italy is around 480 million euros. Monthly spending trends are extremely unstable, recording the highest peaks in September (53 million euros) and at the end of the year (48 million euros in November and 49 million euros in December). The average daily expenditure of Chinese tourists in Italy is 900 euros and mainly includes luxury goods or services. Although the spending of Chinese global shoppers decreased by 4% compared to 2017, China remained the nation with the best performance in the duty-free shopping market worldwide and represents 29% of the total duty-free expenditure in the whole Europe (MIBACT, 2020).

2. How was that Italy joined the BRI

Italy's embrace of BRI represents a milestone in Italy-China relations. Under the umbrella of the BRI, China has organised all of its foreign relations since 2013, developing bilateral infrastructure, trade, finance agreements with now more than 70 countries that have partnered on that Initiative (Amighini, 2017; Blanchard and Flint, 2017). However, BRI is not only a geopolitical and geo-economic initiative, but also a major "exercise in geo-cultural power" (Winters, 2020), as confirmed by the specific developments in March 2019. Celebrations for the 50th anniversary are organized within a joint project called "the year of culture and tourism between Italy and China", foreseeing a series of events, shows and exhibitions in the two countries. "China and Italy are two symbolic nations, respectively of the East and the West" said Zheng Hao, deputy director of the Ministry of Culture, fluent in Italian. They are global leaders ex aequo for UNESCO World Heritage Sites with 55 each (although Italy is far above both for geographical density and in per capita terms). Italy was the most favourite European destination by Chinese tourists in 2018, with around 3 million visitors, which are estimated to have increased by 20 percent in 2019. A recent agreement signed by ENAC, the Civil Aviation Authority, and the Chinese counterpart, has increased the slots on the China and Italy axis from 56 to 164 per week, the highest number among European countries (temporarily suspended at the end of January 2020 due to the sanitary measures to prevent a further spread of a new coronavirus - COVID19 - from China).

Italy is potentially a strategic terminal hub in the BRI, one of the most important of the 65 countries involved (Amighini, 2017). First of all, with 477 million tons, it is the third European country for managed traffic, equal to 12.8 percent of the total. This helps to explain China's great interest in intensifying relations with Italy. The geopolitical advantage of Italy as access to continental Europe has further increased after the huge Chinese investments in Piraeus (two thirds of the port of Athens have recently been acquired by the Chinese Cosco) which has now become the main hub of Chinese trade in Europe.

Italy has been targeted by Chinese investors since quite some time, aiming well beyond its manufacturing industries, specifically in infrastructures (ports, logistics and utilities), since when a Chinese delegation visited the port of Gioia Tauro back in 2008 with then PM Romano Prodi. Much before the official launch of the BRI in 2013, the strategic position of Italy in the Mediterranean was clear to Chinese leaders and it still is. Several Italian ports have been approached but so far there is no approved project up to the size required to meet Chinese needs to proceed from Pireus to the centre of Europe. Hence their interest in having a stronger relationship with Italy. At the same time, Italy has tried to attract investments to improve its competitive position compared to northern European routes and ports. The possibility to attract and develop infrastructure development projects financed by the AIIB has been poor, not least for the lack of transparency of the Bank's financing procedures. One major problem in Italy is that there has been no strong enough vision and willingness on the part of the central government in Italy to define national priorities, and this is due to internal competition among different regions. Moreover, the growing trade deficit with China, and therefore the need to improve Italian exports explains why the MoU was mostly perceived as a way to secure more exports to China and more chances to access financing from the AIIB.

Central in the framework of the TEN-T transport networks is the integrated logistics center of Mortara, located at the intersection of the Mediterranean Corridor and the Rhine-Alps Corridor, one of the few infrastructures in Lombardy capable of guaranteeing the integration of a railway terminal to logistics. The strategic nature of the infrastructure can also be seen by considering the travel times: the journey between Mortara and Chengdu is between 17 and 19 days, significantly less than the 45 days needed on the sea route. Furthermore, if on the one hand the Rotterdam-Shanghai sea route serves inefficiently the territories of the European and Chinese hinterland where important manufacturing productions are located, on the other hand, the Mortara-Chengdu line guarantees the connection between two centers with a strong manufacturing vocation in the respective territories. Mortara can manage the logistics needs of Lombardy and Northern Italy, while the new area of Tianfu serves the Chiengdu Hi-tech Industrial Development Zone.

Behind the "romantic" and peaceful - aura of the legendary Silk Road, there are huge financial resources channeled through the Silk Road Fund ($ 40 billion) and the Asian Infrastructure Investment Bank ($ 100 billion), both Chinese initiatives intended to finance investments to build the BRI. Among these, the idea of a Balkan corridor, Piraeus-Budapest, a project that the Austrians had already hypothesized more than a century ago (Thessaloniki-Novi Pazar-Pest railway) to obtain a logistic route on the Aegean Sea in the case of blockade of the Adriatic.

Chinese pragmatism suggests looking also to the northern Adriatic as a strategic outlet to connect maritime trade in the Mediterranean with Austria, Germany, Italy, Switzerland, Slovenia and Hungary, leveraging the interest of all its ports as a relevant alternative to the major terminals of the Northern Europe. The northern Adriatic certainly has an advantage over the upper Tyrrhenian Sea, as the orographic conformation and the infrastructural difficulties due to the numerous railway or road tunnels do not facilitate the development of further logistics lines. This requires careful reflection on the future of Italian port and the great ports of the South: if Gioia Tauro has progressively lost volumes of traffic, the real Italian natural hub - Puglia with its largest port, Taranto - is sharply growing. Truly creating an integrated Italian port and logistics system that leverages on the location advantages is not only an opportunity for the South, but for the whole country.

Chinese interest in Italian ports has intensified over the past year, precisely in consideration of the strategic nature of the Peninsula's logistics platform within the framework of the BRI. Beijing has already secured a direct presence in Ligurian logistics since 2016, through a participation of 49.9% in the container terminal of Vado Ligure (40% through COSCO Shipping and 9.9% in the port of Qingdao), where it is building a new platform that should be operational by the end of 2019, equipped with the latest technologies in terms of automation and capable of accommodating large ships. Interest has also been shown for the port infrastructures of Genoa and Savona, with the recent visit of representatives of the Port of Qingdao and with the signature of a cooperation agreement with the CCCC (Chinese Communications Construction Company), aimed at construction of works aimed at strengthening the Ligurian logistics system. However, Beijing already accounts for 30% of the total interchange between the two airports. On the Adriatic side, there has been intense cooperation with Beijing for some time. Trieste is part of the Trihub project, within the framework of a framework agreement between the EU and China to promote mutual infrastructure investments. The China Merchants Group could make new investments in the Trieste port, while the giant CCCC intends to engage with a huge financial exposure (equal to about 1.3 billion euros) in the construction of a deep-sea dock in the port of Venice. In the Adriatic too, in 2018 the China Merchant Group invested 10 million euros in the port of Ravenna with the aim of making the Byzantine city the European hub of naval engineering and Oil & Gas (strategic and sensitive sector included in the European investment screening document that Italy has not adhered to).

The signing of a Memorandum of Understanding (MoU) with China on March 23, 2019, during the first visit of Chinese President Xi to Rome, attracted the attention of half of Europe, the EU and Washington, since its first announcement in October 2018. A founding country of the Union and still among the pillars of a united Europe, as well as a founding member of NATO, Italy was the first G7 country to sign such a document with Beijing. The signature of Italy has attracted criticism from both Washington, based on vivid concerns about a growing Chinese interference in strategic sectors (such as 5G technology, infrastructures and networks in which China asks for a greater presence) and for the consequences that this interference could have on the role of Italy in the North-Atlantic alliance, both in Brussels, which has long sought to build a shared position in Europe on the future of economic relations with Beijing (Tiezzi, 2019).

As for the contents regarding the areas of cooperation, the draft confirms the intention to include in the bilateral cooperation some strategic sectors, such as transport, infrastructure, logistics, environment and finance. Like all the other MoUs signed by China, the areas of cooperation are the same 5 that make up the official BRI deliverables, namely: policy coordination, connectivity and infrastructure, free trade, financial integration and cultural exchanges. Regardless the potential opportunities for Italy as a partner of the BRI, critical issues remain. It is also worth mentioning that the other major European exporters, whose main economic and commercial strength in China is underlined, have not signed any MoU, but led and supported consortiums and business missions to sign contracts and agreements. BRI is one of the projects that will have the greatest geopolitical and economic repercussions in the near future. Italy, like all other European countries, must carefully weigh the opportunities and risks that accompany the project, also in view of the current rebalancing of the structures of international power and of the mounting concerns and criticisms about the multifaced rationales behind the BRI, as described in the next section.

3. BRI around the world: political support, debt, procedures, arbitrations and contracts

Beyond the common narrative, the BRI, in Italy often translated as “new silk roads”, is an internal and international development project with important geopolitical connotations (Amighini, 2017). On October 24, 2017, the completion of the BRI was included in the Chinese Constitution, which coincides with the Constitution of the CCP. The BRI is now a strategic state objective, not just an economic and commercial initiative.

Far beyond the logistics and transport projects, therefore, the new silk roads are today the main driving forces of Chinese foreign policy. Since physical, digital and institutional infrastructures simultaneously represent the skeleton, circulation and power of the global economy, China is preparing to become a leader in the governance of the global economy, since it aims to control ever wider areas (Amighini, 2017). As a result, the Chinese approach to regional integration differs from ASEAN or EU-style regionalism. Instead of using multilateral treaties to liberalize markets, China promises prosperity by linking countries to its continued growth through physical infrastructure such as railways, highways, ports, oil pipelines, industrial parks, border customs services and special economic and commercial areas; virtual infrastructures such as payment and virtual connectivity networks; institutional infrastructures such as finance for development, bilateral trade and investment agreements and regional cooperation forums, as in the case of the 17 + 1 initiative. Not only does this approach not open the markets in a non-preferential way, but it could create economic, financial, if not political dependence on China. The spirit and the inclusive and cooperative intent of the BRI, which China continually emphasizes, does not mean that it does not have a strong national strategic interest in it, with the aims to access raw materials and take them home for its manufacturing and construction industries, to use the special economic areas where the sorting and processing of exports takes place near the main markets to increase its turnover, to manage the virtual space of activity of millions of individuals, to collect the data of millions of consumers, to become a creditor of a growing number of countries, potentially also to guarantee a cooperative attitude in multilateral decisions (Sidaways and Woon, 2017).

In recent years, China has established closer ties with the emerging economies of Africa and South America, leading many of these nations to break ties with Taiwan. One of the most controversial projects is in Sri Lanka, where the government has signed a 99-year lease agreement for the unprofitable, but located along a busy Indian Ocean shipping lane, along with land for the development of a free trade zone, to a company controlled by Chinese capital, in an agreement opposed by residents. China entered into trade agreements worth $ 390 billion with the countries participating in BRI in the first four months of 2018, an increase of 19.2% year-on-year. In addition, China held the first round of free trade agreement (FTA) negotiations with Mauritius and the second round of FTA talks with Pakistan. It also signed an economic and trade cooperation pact with the Eurasian Economic Union. By the end of April, China had built 75 zones of economic and trade cooperation along the “belt and road” countries with a total investment of $ 25.5 billion. In this context, it is difficult to believe that China is not pursuing any geopolitical purpose: above all by looking at the ways in which BRI projects are developing, with priority in areas of strategic importance, from Central Asia to Southeast Asia, from Middle East to West Africa. In fact, China’s port projects abroad include activities that can lend themselves to dual civil-military use. Furthermore, the influence of the Chinese Communist Party is high in these projects, through the involvement of Chinese state-owned companies and control through shareholdings or long-term leasing. Finally, the opacity and low expectations of expected return on investments make them extremely risky. State banks have lent billions of dollars to hundreds of projects in countries where most investors are afraid of even joining. A Bloomberg News analysis last October showed that among 68 BRI partner nations, the sovereign debt of 27 was classified as junk, or less than investment grade according to the top three international rating companies. Another 14, including Afghanistan, Iran and Syria have not been rated or have withdrawn their rating requests. In addition, these projects are often developed in places of great political and commercial risk, or places where legal systems are uncertain, as well as legal and commercial culture. According to recent analyzes by the Center for Global Development, BRI creates the potential for debt sustainability problems in some of the weakest economies in the world (Rolland, 2017; Yong, 2016). Infrastructure projects have a very high marginal impact on the external debt / GDP ratio in some countries and are therefore putting them at risk of excessive debt, in particular Djibouti, Kyrgyzstan, Laos, Maldives, Mongolia, Montenegro, Pakistan and Tajikistan. This creates potential problems for the receiving countries, and consequently an excessive power of Beijing, in addition to what it already exercises through commercial dependence. Along with well-being and growth, the new silk roads also build an economic and financial, and therefore potentially political, dependence on China (Yuan, 2018).

Speculation abounds among scholars and politicians as to which strategy inspires Chinese investors and whether the visible hand of the Chinese government, much more than the invisible hand of the market, works behind the scenes to orchestrate those investment flows. The search for new markets and technologies are clearly the main reasons for Chinese investments in Europe, similarly to other foreign investments in the old continent. However, the Chinese nationality of investors requires more attention from beneficiary countries in Europe, due to the widespread role of the state behind investment decisions. The state could pursue other objectives in addition to profitability, such as market share, especially when the restructuring of the sector of state-owned and controlled companies (SOE) culminated in the creation of large industrial conglomerates, within which a company was listed only in part but is still classified as a private company by Chinese statistics. The entry of large groups with overcapacity on European and global markets also prevented competition. In addition, the main investors are also a rather concentrated group. Six investment companies have more than 10 agreements, which increases investor’s market power.

Overall, the circumstances that made Italy sign a MoU on BRI with China are very peculiar. The Italian rationale in signing the BRI MoU mainly builds on economic motivations, which have largely outweighed other motives. When the Italian government originally started tentative talking about its membership in the BRI, that was based on hopes that it would improve bilateral trade and investment relations, compared to those that Germany and France has held for 4 decades. The belief that the MoU was a vehicle for deepening business and trade relations with China was offered as a major justification for the Italian signature in front of both the Parliament and the public opinion. Certainly, there was a combination of factors that convinced the government at that time that such a move would be a way forward in bilateral relations, given the strong interest by China for a largest Italian role in both the maritime and the overland trade routes within BRI. The idea was that trade relations could be significantly improved as a result of the MoU, and also that such a decision would put Italy in a position to become a favourite partner within the EU. Unfortunately, so far there is no clear signs that those expectations have been met, while signs are piling up confirming the Chinese perspective about the role of Italy within BRI.

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