

Italy Changes Track: From the Belt and Road to (Re)Alignment with Washington

by Xixi Hong



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E S S A Y P R I Z E

Italy officially became part of China's Belt and Road Initiative (BRI) on 23 March 2019.¹ The announcement came during President Xi Jinping's state visit to Rome, and made Italy the first G7 member to formally adhere to China's signature trade and connectivity project.

The agreement, which took the form of a Memorandum of Understanding (MoU), promotes bilateral cooperation

¹ China's BRI was unveiled in October 2013 by President Xi Jinping during a visit to Kazakhstan. As of January 2021, the number of countries that have joined the BRI by signing a Memorandum of Understanding with China is 140. Christoph Nedopil, *Countries of the Belt and Road Initiative*, Beijing, IIGF Green BRI Center, 2021, <http://green-bri.com/?p=575>.

in six different areas: (1) policy dialogue; (2) transport, logistics and infrastructure; (3) unimpeded trade and investment; (4) financial cooperation; (5) people-to-people connectivity and (6) green development cooperation.²

While not legally binding (no specific projects were identified), the signature of the MoU was a deeply symbolic event in the recent history of Italian

² Italy and China, *Memorandum of Understanding Between the Government of the Italian Republic and the Government of the People's Republic of China on Cooperation within the Framework of the Silk Road Economic Belt and the 21st Century Maritime Silk Road Initiative*, 23 March 2019, https://www.governo.it/sites/governo.it/files/Memorandum_Italia-Cina_EN.pdf.

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foreign policy. Italy's membership in the BRI caused alarm in Europe and the United States and was also contested by Italian opposition parties at the time, who worried that such a move would challenge Italy's traditional alliance frameworks.

The MoU was signed by a coalition government, whose lead participants included the Five-Star Movement (*Movimento 5 Stelle* – M5S) and the right-wing League party. Yet, in September 2019, a new coalition government was born with the M5S joining the centre-left Democratic Party (*Partito Democratico* – PD), with Giuseppe Conte retaining the premiership.

With the appointment of Mario Draghi as Prime Minister in February 2021, Italy completed a decisive change of track, distancing itself from a previous openness towards China. In this, Draghi has returned Italy to its dual Atlanticist and European frame while labouring to strengthen multilateralism and the rules-based system as chair of the Italian G20 Presidency.

Trade and technological competition

The BRI was initially perceived as a mere commercial and connectivity project, although Beijing's efforts to launch a new form of Sino-centric globalism were evident to many from the start. In this regard, the BRI has been described as a strategic "bag" or "container" into which virtually everything can be included.³ In other words, it represents

³ Jie Yu, "The Belt and Road Initiative: Domestic Interests, Bureaucratic Politics and the EU-

a political initiative with long-term strategic goals.

Italy's growing scepticism towards China was already visible in March 2021, when Draghi exercised the so-called "golden power" rule to oppose the takeover of Lpe, a small semiconductor firm based near Milan, by Shenzhen Invenland Holdings Co., a partially state-owned Chinese company.⁴ The government used its veto power to block the foreign acquisition of strategic assets for the first time, albeit similar measures had been used by the previous Conte II government to prevent China's access to 5G networks in Italy.⁵

Italy-China relations have indeed also been impacted by broader concern over China's penetration of European 5G networks. In May 2021, Rome authorised Vodafone's Italian unit to use Huawei's 5G equipment under rigid security conditions.⁶ This came after the Conte II government had prevented four 5G technology transactions

China Relations", in *Asia Europe Journal*, Vol.16, No. 3 (September 2018), p. 223-236 at p. 225, <https://doi.org/10.1007/s10308-018-0510-0>.

⁴ Ferruccio de Bortoli, "Golden Power, la Lpe e la difesa del Made In Italy (non solo dai Cinesi)", in *Corriere della Sera*, 20 April 2021, https://www.corriere.it/economia/aziende/21_aprile_20/golden-power-caso-lpe-serve-piano-europeo-difendere-made-italy-anche-cinesi-38d47eea-a1a5-11eb-b3ed-ee5b64f415b7.shtml.

⁵ "Dopo il golden power sul 5G, la Cina chiede fiducia all'Italia", in *Agf*, 6 September 2021, https://www.agf.it/economia/golden_power_5g_cina_huawei_zte-6142815/news/2019-09-06.

⁶ "Il governo a Vodafone: 'Forniture da Huawei per il 5G solo a queste condizioni'", in *Repubblica*, 31 May 2021, https://www.repubblica.it/economia/2021/05/31/news/il_governo_a_vodafone_forniture_da_huawei_per_il_5g_solo_a_queste_condizioni_-303666819.

involving Italian companies from dealings with Chinese firms.⁷

The US-led ban on the Chinese technological company Huawei, which has also affected Italian and European dealings with the company, is reflective of the growing technological competition with China. Indeed, technology has turned into a core battlefield in US–China and EU–China relations due to its strategic relevance from national security to trade, environmental policies and human rights.

US–China tensions and Italy's G20

On the Chinese side, a strengthening of innovation and industrial development policies is being promoted with a strong emphasis on “self-reliance”. One example is the “Made in China 2025” industrial development plan, which aims to boost domestic consumption and progressively reduce economic dependence on foreign countries.⁸ Meanwhile, the BRI represents China's ambition to redefine globalisation with “Chinese characteristics” through massive investments and loans.

US–China tensions have also spilled over into Europe and key multilateral organisations such as the G7, the G20

and the Cop26, not to mention the UN and others such as the World Health Organization (WHO). At this year's G7 summit in Cornwall, US President Joe Biden presented the US's Build Back Better for the World (B3W) project, intended as an alternative to China's BRI.⁹ The B3W claims to be highly committed to human rights, the fight against climate change, the rule of law and corruption prevention, elements intended to differentiate the plan from the BRI.

In a similar fashion, the EU has recently launched other initiatives, such as the Agenda for the Mediterranean and the Global Gateway initiative, both of which also retain the objective of counterbalancing China's BRI. On top of these initiatives, growing criticism of China's human rights record, particularly with regards to Hong Kong and Xinjiang, have added to new tensions and reciprocal sanctions between EU states and China.¹⁰

⁷ “Rete 5G, il governo Conte 2 esercita il golden power su 4 operazioni: coinvolte Tim, Linkem, Vodafone, Fastweb”, in *Il Fatto Quotidiano*, 5 September 2019, <https://www.ilfattoquotidiano.it/2019/09/05/rete-5g-il-governo-conte-2-esercita-il-golden-power-su-4-operazioni-coinvolve-tim-linkem-vodafone-fastweb/5433501>.

⁸ Alessia Amighini, “What the MIC 2025 Means for the Chinese Economy” in *ISPI Commentaries*, 3 August 2018, <https://www.ispionline.it/en/node/21108>.

⁹ White House, *Fact Sheet: President Biden and G7 Leaders Launch Build Back Better World (B3W) Partnership*, 12 June 2021, <https://www.whitehouse.gov/briefing-room/statements-releases/2021/06/12/fact-sheet-president-biden-and-g7-leaders-launch-build-back-better-world-b3w-partnership>.

¹⁰ See for instance, Council of the European Union, *EU Imposes Further Sanctions Over Serious Violations of Human Rights Around the World*, 22 March 2021, <https://europa.eu/!PV48GM>; China's Ministry of Foreign Affairs, *Foreign Ministry Spokesperson Announces Sanctions on Relevant EU Entities and Personnel*, 22 March 2021, <https://www.mfa.gov.cn/ce/ceit/ita/xwdt/t1863135.htm>; G7, *2021 G7 Leaders' Communiqué: Our Shared Agenda for Global Action to Build Back Better*, 13 June 2021, <https://www.consilium.europa.eu/en/press/press-releases/2021/06/13/2021-g7-leaders-communication>.

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Italy has been in the limelight this year due in large part to the Italian G20 Presidency and Italy's co-chairmanship of Cop26 with the UK. In both of these forums, China and US/EU-China tensions have impacted the negotiations.

The Italian G20 presidency placed key emphasis on the ongoing health emergency, vaccine accessibility and economic recovery. Environmental policies were also tackled, since G20 countries collectively account for approximately 80 per cent of global greenhouse-gas emissions and later further developed at the Cop26 meeting in Glasgow. Given the importance of China on all of these issues, much anticipation was understandably directed at the G20 Summit and Cop26.

Yet, the absence of Chinese President Xi Jinping and Russian President Vladimir Putin at both the G20 and Cop26 meetings immediately raised concern that both gatherings would be hard pressed to deliver concrete results. The absence further reflected the fraying of the multilateral system amidst a revival of East–West tensions. While the US and China surprised many by issuing a joint statement during the Cop26,¹¹ promising to achieve the 1.5°C temperature goal set out in the Paris Agreement, much concern persists about the ability of these states to genuinely collaborate in the fight against climate change.

¹¹ US Department of State, *U.S.-China Joint Glasgow Declaration on Enhancing Climate Action in the 2020s*, 10 November 2021, <https://www.state.gov/u-s-china-joint-glasgow-declaration-on-enhancing-climate-action-in-the-2020s>.

Beyond the outcome of negotiations, it is clear that the G20 presidency and co-chairmanship of Cop26 provided the Draghi government with an excellent opportunity to re-polish Rome's transatlantic vocation and promote Italy's support for multilateralism.¹² In this, the announcement of a suspension of US and EU tariffs on steel and aluminium imports helped promote the image of a new beginning in EU–US relations after the Trump era.¹³

Italy–China relations

While Italy under Draghi appears to have completed this change of track, returning Rome to stand fully within Italy's traditional alliance frameworks, it is also clear that Italy has extensive economic interests at stake with China.

Bilateral trade reached 45.1 billion euro in 2020, including 12.8 billion of Italian exports to China.¹⁴ Meanwhile, between 2000–2020, Italy was among the main beneficiaries of Chinese foreign direct investment: 16 billion euro were invested in Italy over the past ten years, behind the United Kingdom (51.9 billion) and Germany (24.8 billion), but surpassing France (15 billion).¹⁵

¹² Ettore Greco, "The Italian G20 Presidency: A Post-Summit Assessment", in *IAI Commentaries*, No. 21|55 (November 2021), <https://www.iai.it/en/node/14362>.

¹³ US Trade Representative, *Joint US-EU Statement on Trade in Steel and Aluminum*, 31 October 2021, <https://ustr.gov/node/11265>.

¹⁴ Italian Ministry of Foreign Affairs and International Cooperation, *Osservatorio economico. Scheda di sintesi: Cina*, updated 16 December 2021, https://www.infomercatiesteri.it/public/osservatorio/schede-sintesi/repubblica-popolare-cinese_122.pdf.

¹⁵ Agatha Kratz, Max J. Zenglein and Gregor Sebastian, "Chinese FDI in Europe: 2020

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Significantly, Germany and France never formally joined the BRI, yet both are involved in projects undertaken within this initiative.

For this reason, Italy – like many other states in Europe and further afield – must develop creative avenues to balance its relations with the US and EU, Italy's fundamental strategic anchors, with Rome's trade and commercial interests vis-à-vis China. There are no easy solutions to this challenge. Pragmatism, however, appears to be a more suitable approach compared to more forceful or ideologically imbued containment or rollback efforts.

Such pragmatism requires firm Italian coordination with similar EU states – such as France, Germany and others – to jointly define parameters of engagement or criticism of China, as well as national political dialogue within Italy to define a joint and bipartisan approaches to Beijing across various dossiers.

Greater discussion at the domestic level within Italy among ministries, the private sector, academia, political parties, civil society and expert communities could help promote a truly national approach to the rise of China, helping to strengthen Italy's domestic posture and avoid that political infighting or divisions weaken Italian stances.

That said, Italy, together with its allies, should remain firm on human rights, support for multilateralism

Update", in *MERICs Reports*, June 2021, p. 11, <https://meric.s.org/en/report/chinese-fdi-europe-2020-update>.

and the rules-based order. More concretely, these actors should be more committed to countering China's growing tendency to retaliate with sanctions or economic blockades on private companies, individuals and/or providers for publishing material considered sensitive by Chinese authorities – an unacceptable measure aimed at stifling criticism and deterring others from deviating from Chinese narratives.

In this regard, Italy could proactively support the European Commission's proposal for the creation of an anti-coercion instrument that would allow EU institutions to deter instances of economic coercion from third countries.¹⁶

Ultimately, following the backlash generated by the 2019 MoU, Italy has realised that its national interests are best served by a degree of pragmatism when it comes to China, one based on close cooperation with the EU and dialogue with the US. Nevertheless, coordination among allies is proving to be challenging. While the Biden administration is pursuing a more confrontational stance, the EU is trying to avoid excessively antagonising Beijing while seeking to develop a more unified and less naïve approach towards China. For this, Italy and Europe should labour to re-empowering multilateral organisations, arguing that such fora are best placed to engage constructively with China, especially on global challenges.

¹⁶ European Commission, *EU Strengthens Protection Against Economic Coercion*, 8 December 2021, <https://trade.ec.europa.eu/doclib/press/index.cfm?id=2339>.

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