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China's Belt and Road Initiative in Italy: An Analysis of Financial Cooperation

by Nicola Bilotta

ABSTRACT

Financial cooperation is essential to boosting bilateral economic ties, providing firms with more effective instruments to operate in foreign markets. It should come as no surprise, then, that financial cooperation was a pillar of the 2019 Memorandum of Understanding (MoU) reached between Italy and China in support of the latter's Belt and Road Initiative (BRI). However, a preliminary analysis of BRI-related commercial agreements between Italian financial institutions and their Chinese counterparts shows that they have not resulted in any ground-breaking development. These Memoranda have apparently just added a "BRI" badge to pre-existing trends of collaboration. The BRI-related MoUs in the field of financial cooperation do not, for the time being at least, justify concerns that China may gain an economic foothold in Italy large enough to win it much political influence. A more realistic risk is that these MoUs may undermine a common European approach to China, weakening the negotiating stance of the European Union's.

Italy | China | Finance | Banks

keywords

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Introduction

With the explosion of cross-border financial transactions, investments and industrial delocalisation, financial institutions have been compelled to expand their business to support corporate clients abroad. As entering a foreign market can be an extremely difficult exercise, financial institutions have, in addition to opening branches in other countries, been building up partnerships with local counterparts in order to mitigate risks and reduce costs. The strategic relevance of cooperation with foreign financial institutions lies in the fact that banks prefer lending through foreign affiliates that are located closer to the borrower than to those institutions' own home countries. Financial cooperation is indeed a cornerstone of international economic activity, facilitating and empowering trade, investment and business relations – and thus providing corporate firms with essential instruments with which to operate in foreign markets.[1]

Italy's and China's growing financial cooperation fits within this overall picture. While Italy constitutes a small part of China's integration into the global economy and the global financial system, it contributes to the latter's consolidating its status as a global economic superpower.[2]

[1] An extensive literature on why domestic banks expand abroad exits. See, for example, Eugenio Cerrutti, Catherine Koch and Swapan-Kumar Pradhan, "Banking Across Borders: Are Chinese Banks Different?", in *BIS Working Papers*, No 892 (October 2020), https://www.bis.org/publ/work892.htm; Claudia M. Buch, "Why Do Banks Go Abroad: Evidence from German Data", in *Kiel Working Papers*, No. 948 (September 1999), http://hdl.handle.net/10419/17810; Richard A. Brealey and Evi C. Kaplanis, "The Determination of Foreign Banking Location", in Journal of International Money and Finance, Vol. 15, No. 4 (August 1996), p. 577-597.

[2] Eugenio Cerutti and Haonan Zhou, "The Chinese Banking System: Much More than a Domestic Giant", in *VoxEU*, 9 February 2018, https://voxeu.org/node/62550.

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Over the last six years, the two countries' financial cooperation has grown dramatically. Through high-level meetings, informal agreements and working groups, they have developed deep financial ties. A turning point was the signing in 2014 of 20 commercial agreements, in which strengthening financial cooperation was a key driver. A further step was pursued in the wider framework of the "Memorandum of Understanding (MoU) between the Italian and the Chinese governments on cooperation within the framework of the Silk Road Economic Belt and the 21st Century Maritime Silk Road Initiative", signed in March 2019. The MoU included a specific section on "Financial Cooperation": "[…] The Parties will encourage the partnerships between the respective financial institutions to jointly support investment and financing cooperation, at bilateral and multilateral level and towards the third Countries, under the framework of [the] Belt and Road Initiative."[3]

A number of separate institutional and commercial agreements were signed within the framework of the MoU. For instance, Italy's sovereign wealth fund, Cassa Depositi e Prestiti (CDP), partnered with Bank of China (BoC) to support Italian enterprises in the Chinese market. The agreement also promised the implementation of an issuance plan for debt securities known as "Panda Bonds". In addition, CDP's subsidiary SACE-SIMEST, an agency specialising in supporting Italian companies in foreign markets, signed a technical MoU with two Chinese firms. Intesa Sanpaolo, Italy's second-largest banking company holding (BCH), struck an agreement with the Municipality of Qingdao to strengthen commercial relations. During the First China-Italy Finance Dialogue of June 2019, the Export-Import Bank of China (EXIM Bank) signed two further important MoUs in the field of financial cooperation. The first was with UniCredit, Italy's largest BCH, to promote deeper cooperation between Italian, Chinese and Central/Eastern European companies. The second was an additional initiative with the already-mentioned SACE-SIMEST to support the expansion of Italian and Chinese enterprises into each other's markets.

While Italy's joining the BRI carried significant symbolic power, the MoUs between their financial entities were for the most part a point of arrival of pre-existing trends. Furthermore, they are wide and ordinary frameworks of cooperation, simply adding the "BRI" badge to a financial collaboration that already existed and that would have continued even without the MoU. While they may have fostered a more positive environment in which business relations between the countries could be strengthened, a preliminary analysis of macro-trends and developments in the framework of the BRI-related agreements indicates that China–Italy financial cooperation has advanced only modestly since their signing.

[3] 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*, 22 March 2019, http://www.governo.it/sites/governo.it/files/Memorandum_Italia-Cina_EN.pdf.

The COVID-19 pandemic has certainly affected potential developments in Italy–China commercial relations, forcing companies to slow down investment plans. However, turning framework agreements into sustained cooperation would have been challenging even in ordinary times. Another reason for slow progress is the change in the government coalition ruling Italy that occurred in September 2019. The Democratic Party (PD), which has replaced the League as the junior party in the Five Star Movement-led government, is evidently keen on improving ties with China but is also sensitive to ensuring that this goal is achieved within the Euro–Atlantic framework. This shift has grown even more marked with the recently established government led by former European Central Bank (ECB) President Mario Draghi.

That said, the BRI-related MoUs do raise some concerns. One risk is that most BRI-related projects are financed by Chinese banks with little support from local or international financial actors – feeding fears about the financial conditions applied to Chinese lending and funding, and about China's unilateral gains from such arrangements.

Moreover, borrowing from two of China's "policy" banks – China Development Bank and EXIM Bank – could produce market distortions as these financial entities benefit from Chinese public finance. However, the framework of the institutional BRI-MoU mitigates this set of risks, as it gives the Asian Infrastructure Investment Bank (AIIB), a multilateral development bank, a primary role instead of relying on the two Chinese policy banks. The AIIB's transparency standards, while not optimal, are generally considered vastly superior to those of other Chinese development banks.

A third risk is that the BRI could create debt traps for recipient states (and for China itself). Yet, this is not the case for Italy. Only a tiny share – about 7 per cent – of Italy's national debt is held by entities based outside the Eurozone, minimising potential risks even if the country were to increase its overall exposure to China. This consideration also applies to the issuance of the Panda bonds, which represented merely 0.65 per cent of CDP's total bond funding in 2019.[4]

A final risk is that increased financial cooperation between Chinese and Italian financial entities could facilitate Chinese investments – and, consequently, influence – in sensitive/strategic Italian assets. However, this danger is mitigated by domestic and external factors: Italy, as a member of the European Union, has in place effective mechanisms of protection – although some of these are yet to be tested.

Therefore, the Italy–China MoUs in the field of financial cooperation do not, for the time being, justify concerns related to the risks that are generally associated

[4] Cassa Depositi e Prestiti (CDP), *Annual Report 2019*, May 2020, p. 42, https://www.cdp.it/resources/cms/documents/RFA-12.2019%20Gruppo-CDP_UK.pdf.

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with the BRI. A more realistic negative consequence of the MoUs is that Italy's membership in the BRI could undermine a common EU approach to China, ultimately lessening the Union's negotiating power.

1. Intesa Sanpaolo

Intesa Sanpaolo has been present in China since 1981 with a representative office in Beijing, the first Italian bank to establish an office in the People's Republic. Besides the Beijing office, it also maintains an international SPOKE branch – defined as a branch that does not offer the full array of a financial institution with in-house staff but rather relies on nearby branches to provide those services – in Shanghai.

Historically, Intesa Sanpaolo has worked extensively with its Chinese counterparts to increase its presence in China. In 2005, it set up a joint venture with SIMEST – a subsidiary of CDP that supports Italian companies abroad – and BoC, which was called the Shanghai Sino-Italy Business Advisory Company (SIBAC). SIBAC offers advice and assistance to Italian companies seeking to invest in China.[5] A year later, Intesa Sanpaolo partnered with China Investment Bank and EXIM Bank to establish Fondo Mandarin Capital Partners, a private-equity fund created to support Italian companies investing in China and vice versa.[6]

In 2007, Intesa Sanpaolo and its subsidiary Eurizon were particularly active. Eurizon entered the Chinese market by acquiring 19.9 per cent of share capital in Union Life, a Top-25 insurance company in the Chinese market (in 2014, Intesa Sanpaolo sold its stake in Union Life for 165 million euro).[7] Eurizon also bought 49 per cent of Penghua Fund Management, one of China's largest asset-management firms with 74.5 billion euro of assets under management.[8] Intesa Sanpaolo purchased 19.99 per cent of the Qingdao City Commercial Bank, becoming the first Italian financial institution to make a direct investment in a Chinese bank. Qingdao City Commercial Bank is a regional bank with 141 domestic branches and 4,117 employees.[9]

[5] Intesa Sanpaolo, *Agreement for the Acquisition of 19.99% of Qingdao City Commercial Bank in China Signed*, 12 July 2007, https://group.intesasanpaolo.com/en/investor-relations/press-releases/2007/07/CNT-04-000000001AB73.

[6] Mandarin Capital Partners, *Un fondo di private equity per una maggior integrazione tra i sistemi economici italiano e cinese*, April 2007, https://www.assolombarda.it/fs/2007420164843_48.pdf.

[7] Intesa Sanpaolo Vita, *Intesa Sanpaolo Vita perfeziona la cessione del 19,9% della compagnia vita cinese Union Life*, 5 June 2015, https://www.intesasanpaolovita.it/chi-siamo/sala-stampa/comunicati-stampa/intesa-sanpaolo-vita-cede-union-life; S&P Global, *China's Top 25 Insurers*, November 2017, https://www.spratings.com/documents/20184/0/China%27s+Top+25+Insurers/5f4d65c5-130c-4027-83dd-dd3eec5b8796.

[8] Eurizon Asset Management website: *Penghua Fund Management*, https://www.eurizoncapital.it/pages/penghua-fund-management-en.aspx.

[9] In December 2019, the bank allocated 169 billion renminbi in gross loans (24 billion US dollars), of which 41 billion went to retail customers and 85 billion to corporate ones. It held 231 billion renminbi (33 billion US dollars) in deposits – 117 billion of them in corporate deposits and 56 billion in retail

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In 2014, Intesa Sanpaolo and EXIM Bank signed a strategic collaboration agreement to support enterprises from the two countries expanding access to each other's markets.[10] In 2016, the Italian bank launched a pilot of its subsidiary Yi Tsai (*Talento Italiano* – "Italian Talent") – a wealth-management firm – in the Qingdao Municipality, which was designed as a wealth-management Pilot Zone by China's central government. Yi Tsai is fully owned by Intesa Sanpaolo through three different business areas of the bank: 55 per cent Intesa Sanpaolo, 25 per cent Fideuram and 20 per cent Eurizon. The company offers multi-product and multi-brand company products, privileging the distribution of Penghua FM's and Eurizon's products.

Finally, in March 2019, Intesa Sanpaolo signed an MoU with the Municipality of Qingdao to confirm the Italian bank's commitment and investments in the field of wealth-management activities. The MoU states that the Qingdao Government will support Intesa Sanpaolo to establish a securities company, in which Intesa will participate with a 51 per cent capital share, which will help Yi Tsai launch its operations and expand the offer of investment solutions. In December 2019, Yi Tsai received a Fund Distribution Licence from the local authorities in Qingdao, which allows it to offer fund sales service. Intesa Sanpaolo is the first foreign bank authorised to offer this range of financial products in China. According to Carlo Messina, its Chief Executive Officer (CEO), the bank also plans to expand its wealth-management activities into other provinces.[11]

Intesa Sanpaolo's strong presence in the Qingdao Municipality has been driven by the strategic position of the city, which is China's seventh-largest port and its second-largest one for foreign trade. A major node on the 21st-Century Maritime Silk Road, Qingdao has experienced remarkable economic progress, with a gross domestic product (GDP) of around 1,200 billion renminbi (146 billion euro) in 2018.[12] The development of Qingdao's port and complementary economic activities have made the city a key hub for China–Europe trade.

A link between the procurement of the Fund Distribution Licence and the signature of the MoU between Intesa Sanpaolo and the Municipality of Qingdao in March 2019 is undeniable. Nevertheless, the Italian bank has been expanding its activities in China for over a decade, building up its business in the country

deposits. Bank of Qingdao, *2020 Interim Report*, 25 September 2020, http://en.qdccb.com/images/hg_dqgg/2020/09/25/322274D9E76615C02D05C48CF920869B.pdf.

[10] Intesa Sanpaolo, *Intesa Sanpaolo and China Eximbank Sign a Strategic Collaboration Agreement*, 15 October 2014, https://group.intesasanpaolo.com/en/newsroom/press-releases/2014/10/CNT-04-0000000223DFA.

[11] Intesa Sanpaolo, *Intesa Sanpaolo First Foreign Wealth Manager in China through Own Subsidiary*, 29 December 2019, https://group.intesasanpaolo.com/en/newsroom/news/all-news/2019/wealth-management--intesa-sanpaolo-first-foreign-bank-licensed-i.

[12] CEIC website: *China CN: GDP: Shandong: Qingdao*, https://www.ceicdata.com/en/china/gross-domestic-product-prefecture-level-city/cn-gdp-shandong-qingdao.

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step by step as many other foreign financial institutions have. Following China's gradual regulatory reforms, since 2017 several foreign institutions – among them, J.P. Morgan, American Express and PayPal – have started to gain more open access to the Chinese domestic market.[13] The expansion of Intesa Sanpaolo in this arena is, then, a positive development, providing the Italian bank with greater access to a very large market.

2. UniCredit

UniCredit has had a representative office in Beijing since 1982 and a branch in Shanghai since 1996. In November 2013, UniCredit and UnionPay, China's biggest card network, signed a collaboration agreement to enable the use of Chinese credit cards in Italy either for business purposes or tourism. In April 2019, the two companies agreed to support the expansion of UnionPay's activities in Central and Eastern European (CEE) countries. Around the same time, UniCredit signed an MoU with EXIM Bank also aimed at developing business opportunities between Chinese enterprises and Italian and CEE firms. The Italian bank has invested extensively in Central/Eastern Europe, where it controls seven major foreign-owned subsidiaries (which account for around 8 per cent of its total assets), showing its strategic interest in fostering business synergies with Chinese financial institutions operating in the area.

Table 1 | UniCredit subsidiaries and their assets

Subsidiary's denomination	Country	Total assets (billion euro)	Pre-tax profits (million euro)
UniCredit Bank Czech Republic and Slovakia	Czech Republic	25.4	466
UniCredit Bulbank	Bulgaria	10.7	216
UniCredit Bank Hungary	Hungary	9.6	160
UniCredit Bank Romania	Romania	10.1	151
UniCredit Bank Serbia	Serbia	3.5	71
UniCredit Bank Bosnia Herzegovina	Bosnia and Herzegovina	3.1	54
UniCredit Bank Slovenia	Slovenia	2.6	39

Source: figures calculated by the author from the annual reports as at December 2019.

Alongside CEE countries, the Balkans is another region in which UniCredit has invested in cooperation with EXIM Bank. After all, China has deep economic ties with the region: the Balkans have thus far been at the core of the BRI's investments

[13] See: Nicholas R. Lardy and Tianlei Huang, "China's Financial Opening Accelerates", in *PIIE Policy Briefs*, No. 20-17 (December 2020), https://www.piie.com/node/14812.

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in Europe. Between 2011 and 2019, the total infrastructure project value in the framework of the BRI in the Balkans amounted to 6.226 billion euro – of which 3.041 billion was allocated in Bosnia and Herzegovina, 2.530 billion in Serbia and 249 million in Albania.[14] EXIM Bank has been a major player in financing BRI investments globally. According to the European Union Institute for Security Studies, the Chinese development bank tends to lend directly to governments for infrastructure projects, providing 85 per cent of the needed capital while the remaining share is covered by the financial institutions of the recipient, or other, countries – thereby also producing business opportunities for other financial institutions.[15]

In October 2020, UniCredit announced an important MoU with Industrial and Commercial Bank of China (ICBC) to enhance their mutual cooperation in the PRC, Italy, Germany, Austria and CEE.[16] UniCredit has two major foreign-owned subsidiaries (FOS) in Germany and in Austria, being the fourth and the third largest banks in those respective countries, and they comprise almost one third of UniCredit's annual pre-tax profits. Moreover, also in October 2020, UniCredit together with China Investment Corporation and Investindustrial launched the China-Italy Industrial Cooperation Fund (CIIF). The partnership has an initial capital of 600 million euro, which will primarily support Italian small and medium-sized enterprises (SMEs) in China.[17]

In line with pre-existing collaboration initiatives, the BRI-related MoUs signed by UniCredit and its Chinese counterparts appear to be driven by two main complementary goals: first, improving the range of instruments available to support Italian businesses in China; second, strategically consolidating the Italian bank's collaboration in key foreign markets in order to further explore potential sources of revenue.

3. Cassa Depositi e Prestiti and SACE-SIMEST

Cassa Depositi e Prestiti, or CDP, is a joint stock company under public control. The Italian Ministry of Economy and Finance (MEF) owns 82.77 per cent of CDP while the remaining stake is held by several Italian bank foundations. For the

[14] James Kynge, "What Italy Stands to Gain by Endorsing China's Belt and Road", in *Financial Times*, 7 March 2019, https://www.ft.com/content/e2b7322c-4086-11e9-b896-fe36ec32aece.

[15] Plamen Tonchev, "China's Road: Into the Western Balkans", in *EUISS Briefs*, No. 3/2017 (February 2017), p. 4, https://www.iss.europa.eu/node/1293.

[16] UniCredit, *UniCredit and Industrial and Commercial Bank of China (ICBC) Announce Business Cooperation Agreement*, 22 October 2020, https://www.unicreditgroup.eu/en/press-media/press-releases/2020/unicredit-e-industrial-and-commercial-bank-of-china--icbc--annun.html.

[17] UniCredit, *Investindustrial, China Investment Corporation and UniCredit Announce the Launch of CIICF, a Fund Investing in Italian Mid-Market Companies*, 5 October 2020, https://www.unicreditgroup.eu/en/press-media/press-releases/2020/investindustrial--china-investment-corporation-e-unicredit--annu.html.

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purpose of this analysis, it is worth underlining that CDP has recently experienced a reorganisation of its activities. In 2012, the company purchased 100 per cent of SACE[18] from the MEF and 76 per cent of SIMEST[19] from the Ministry of Economic Development (MISE).[20] However, in the summer of 2020 the Italian Government decided to bring SACE back under the direct control of the MEF while SIMEST, of which SACE owns 76 per cent of shares, will be sold to CDP.

CDP is highly active in China. More than 60 firms in which the company has direct or indirect participation are active there,[21] while Chinese companies have invested more than 2.5 billion euro in subsidiaries of CDP.[22] Moreover, the company has developed several partnerships with Chinese financial counterparts – such as BoC, China Development Bank and EXIM China.[23] CDP also struck an MoU with Intesa Sanpaolo in 2018 and UniCredit in 2019 to support the growth of Italian enterprises that operate in the Chinese market with specially designed forms of financing. A first step has been the allocation of 300 million euro to UniCredit and 200 million euro to Intesa Sanpaolo to establish a revolving credit facility – which is a form of credit that allows borrowers to draw down, repay or withdraw again.[24]

In the framework of the China–Italy MoU of March 2019, CDP agreed to an issuance plan for debt securities known as Panda bonds and the structuring of a co-financing programme for Italian companies investing in China.[25] "Panda bonds" refers to a bond denominated in renminbi issued by a foreign organisation

[18] SACE offers export-credit services, credit insurance, protection of investments carried out abroad, financial guarantees, bonds and factoring.

[19] SIMEST is involved in promoting the international expansion of Italian businesses by taking equity stakes and providing subsidised credit and capital grants.

[20] CDP, *CDP Approves the Exercise of the Option to Acquire SACE and SIMEST*, 27 September 2012, https://www.cdp.it/sitointernet/page/en/cdp_approves_the_exercise_of_the_option_to_acquire_sace_and_simest?contentId=CSA11087.

[21] CDP, *Cresci con noi in Cina. Soluzioni per le imprese*, October 2019, https://www.cdp.it/resources/cms/documents/CDP_Cresci_con_noi_in_Cina.pdf.

[22] In 2014, State Grid Corporation of China bought 35 per cent of CDP Reti – an investment vehicle established in October 2012 that manages Snam (31.35 per cent), Italgas (26.04 per cent) and Terna (29.85 per cent) – for 2 billion euro. CDP Reti is currently owned by CDP (59.1 per cent), State Grid Europe Limited (35 per cent) and other Italian institutional investors (5.9 per cent). The same year, Shanghai Electric Corporation purchased 40 per cent of Ansaldo Energia for 400 million euro. In 2015, China Investment Corporation got 7 per cent of F2i SGR's capital and in 2017 Nuo Capital acquired 10 per cent of Elite's capital.

[23] CDP, *Cassa Depositi e Prestiti and Bank of China: A Partnership Agreement to Contribute to the Growth of Italian Enterprises in China*, 23 March 2019, https://www.cdp.it/sitointernet/page/en/cassa_depositi_e_prestiti_and_bank_of_china_a_partnership_agreement_to_contribute_to_the_growth_of_italian_enterprises_in_china?contentId=CSA21003.

[24] UniCredit, *Cassa Depositi e Prestiti and UniCredit Sign Agreement to Support the Internationalisation of Italian Companies in China*, 21 February 2019, https://www.unicreditgroup.eu/en/press-media/press-releases/2019/cassa-depositi-e-prestiti-e-unicredit-siglano-accordo-per-il-sup.html; Intesa Sanpaolo, *Cassa Depositi e Prestiti and Intesa Sanpaolo: An Agreement Is Signed to Strengthen Support for the Internationalisation of Italian Companies in China*, 27 August 2018, https://group.intesasanpaolo.com/en/newsroom/press-releases/2018/08/CNT-05-0000000511414.

[25] CDP, *Cassa Depositi e Prestiti and Bank of China: A Partnership Agreement to Contribute to the Growth of Italian Enterprises in China*, cit.

in China. The funding obtained by the sales of these bonds is, in this case, earmarked for financing the expansion and growth of Italian enterprises in China.[26] These kinds of securities help international lenders to offer a financial product to domestic renminbi investors, thereby entering the large and lucrative Chinese domestic market. Italy was not the first player to issue Panda bonds – the International Finance Corporation and the Asian Development Bank launched this kind of bond in 2005, followed by sovereigns as well as by private corporations such as the German carmaker BMW. Furthermore, Poland, Hungary, British Columbia, the Emirate of Sharjah, South Korea, Portugal and the Philippines all issued Panda bonds before Italy. The issuance of Panda bonds by sovereign entities is still in the pilot phase, representing just a small – if not economically irrelevant – portion of the total bonds issued by individual countries. For example, in 2017 Hungary issued 122 million euro of Panda bonds, against the 25.6 billion euro total gross bond issuance for that year. However, Panda bonds have a powerful symbolic value.

In Europe, Poland was the first country to issue Panda bonds, in 2016, while Portugal was the first member of the Eurozone to do so. Notably, Italy's Panda bonds differ from those of other European countries. The Portuguese Government stated that the funds gained from the sales of its Panda bonds would be used to diversify its investor base as well as to service its national debt. The Hungarian Government stressed that this instrument was a great opportunity to diversify its funding sources. Italy has adopted a more pragmatic approach, raising money in the Chinese capital markets to support and finance Italian enterprises' expansion into China. Success will mainly depend on two factors: the ability of CDP to allocate the funds to Italian firms and to efficiently manage the risks associated with the issuance of these securities.

CDP's Panda bonds are at a fixed rate (which is offered at good interest rates to attract investors), unsubordinated[27] and unsecured.[28] According to the MoU, CDP could issue up to 5 billion renminbi (733 million US dollars) in Panda bonds.[29] In July 2019, CDP issued the first tranche of Panda bonds for 1 billion renminbi (146 million US dollars, with a three-year maturity at a 4.5 per cent coupon rate). CDP has already allocated more than half of the total amount available from the first sales.[30]

[26] CDP, *Finanzia la tua crescita in Cina con i proceeds dei Panda Bond*, July 2020, https://www.cameraitacina.com/sites/default/files/cdp_presentazione_aziende_panda_bond_new_20200727.pdf.

[27] This means that this type of bond must be repaid before any other form of debt. So, its holders have the first claim over a company's assets or earnings if the debtor becomes bankrupt or insolvent.

[28] This type of bond is backed by the issuer's promise to repay its debt.

[29] CDP, *Cassa Depositi e Prestiti and Bank of China: A Partnership Agreement to Contribute to the Growth of Italian Enterprises in China*, cit.

[30] CDP, *Growth on the Chinese Market and Investment in New High-Tech Plants and Machinery for the Production of Electric Vehicle Parts for the Local Market*, 21 January 2020, https://www.cdp.it/sitointernet/page/en/cdp_finances_the_growth_of_the_eurogroup_laminations_group_

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Table 2 | Summary of Panda bonds' issuance in Europe

	Italy	Portugal	Hungary	Poland
Date of the issuance	July 2019	June 2019	July 2017 and December 2018	August 2016
Value of the issuance	RMB 1 billion (130 million euro)	RMB 2 billion (260 million euro)	RMB 1 billion (130 million euro); RMB 2 billion (260 million euro)	RMB 3 billion (451 million euro)
Maturity	August 2022 (three years)	June 2022 (three years)	July 2020 (three years); December 2021 (three years)	(three years)
Annual coupon	4.5%	4.09%	4.85%; 4.3%	3.4%
Features	Fixed rate, unsubordinated and unsecured	Senior, unsecured	NA	NA
Rating	AAA	AAA	AAA	AAA
Issuer	Cassa Depositi e Prestiti	Portuguese Debt Management Agency	Hungary	Poland
Underwriters	Lead: BoC Joint lead: China Development Bank, Goldman Sachs Gao Hua Securities Company Limited, HSBC Bank (China), ICBC and J.P. Morgan Chase Bank (China)	Lead: BoC and HSBC	Lead: BoC and HSBC	Lead: BoC and HSBC
Convertible	No	Yes	Yes	Yes
Official aim	Funding Italian firms operating in China	Diversifying its investor base	Diversifying its investor base	NA

Source: produced by the author.

in_china?contentId=PRG26861; CDP, *CDP finanzia la crescita del Gruppo italiano Stefano Ricci in Cina*, 28 July 2020, https://www.cdp.it/sitointernet/page/it/cdp_finanzia_la_crescita_del_gruppo_italiano_stefano_ricci_in_cina?contentId=CSA29669.

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Table 3 | Italian companies operating in China financed through Panda bonds

Company	Industry	Value (RMB million)	Date of funding
Deutz Fahr Machinery – Chinese subsidiary of Same Deutz Fahr	Manufacturer of tractors and agricultural equipment	400	October 2019
Sofima Automotive Filter – Chinese subsidiary of UFI Filters	Filtration and thermal-management technologies	40	November 2019
FIAMM Autotech – subsidiary of FIAMM Compenenti e Accessori	Production and distribution of horns and antenna systems	40	November 2019
Euro-Misi Laminations Jiaxing – subsidiary of Eurogroup Laminations	Production and distribution of stators and rotors, essential electric motor and generator parts	80	January 2020
Meter Bearing Group	Design and production of roller and ball bearings	40	June 2020
Gruppo Stefano Ricci	Production of luxury menswear and accessories	30	July 2020

Source: CDP.

The amount of Panda bonds issued by CDP has so far been relatively small – if not irrelevant – in comparison to Italy's gross public-debt issuance. Its modest size is even more striking if compared with CDP's position in terms of bond funding. In December 2019, the company's bond funding amounted to 19,641 billion euro, of which Panda bonds represented only 0.65 per cent.[31] Even if CDP issued 5 billion renminbi – the maximum amount agreed in the MoU – in one year, the figure would represent only around 3 per cent of its total bond funding. Since the first tranche of Panda bonds has been so successful, according to MilanoFinanza, CDP is planning to issue another tranche in the near future.[32]

In the framework of the commercial agreements signed in March 2019, SACE-SIMEST finalised an MoU with China Export and Credit Insurance Corporation to reduce the information asymmetry on shared projects and improve its share of good practice and expertise to operate in China.[33] It also signed an MoU with SUMEC to support Italian SMEs in the Chinese market. Specifically, SACE-SIMEST will provide financial and insurance coverage to Italian enterprises that have obtained contracts from SUMEC. The aim is to reach 1 billion euro in the next three

[31] CDP, Annual Report 2019, cit., p. 42.

[32] Andrea Pira, "Cdp studia il nuovo Panda bond", in *MilanoFinanza*, No. 205 (16 October 2020), p. 21.

[33] SACE, *SACE SIMEST (CDP Group) and SINOSURE to Support Trade and Investment between Italy and China*, 23 March 2019, https://www.sacesimest.it/en/media/sace-simest-(cdp-group)-and-sinosure-to-support-trade-and-investment-between-italy-and-china.

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years.[34] A few months after the signing of the March 2019 MoU, SACE-SIMEST also signed a sectorial MoU with EXIM Bank seeking to expand business cooperation between the two countries, including potential opportunities arising from the BRI.[35] These agreements followed previous synergy with BoC to support Chinese companies that import from Italy – with a particular focus on the Chinese civil-helicopter industry – signed in 2018.[36]

SACE-SIMEST has further advanced the range of instruments to support Italian enterprises in China in line with the potential growth provided by the Chinese market, which is underexploited by Italian exporters. Even though Italy is the second-largest manufacturer in Europe and one of the top European exporting countries, its sales to China were just 14.4 billion US dollars in 2019 (2.63 per cent of its total exports). Meanwhile, 15 per cent of Germany's total export was directed to China. Despite the various MoUs, SIMEST's exposure in China was 6.93 per cent (547 million euro) in 2018 and 6.51 per cent of its total portfolio (545 million euro) in 2019.[37] These figures point to a continuing downward trend: in 2017 The agency's exposure in China was 7.9 per cent (514 million euro) of its total portfolio.

4. China's commercial and development banks in Italy

China's and Italy's financial cooperation involves Chinese financial institutions in the Italian domestic market. In 1998, BoC opened its first Italian branch in Milan; the following year, it opened a second branch in the city and, in 2013, another one in Rome. BoC is the most active Chinese commercial BCH in Italy, offering banking services and products to both retail and corporate customers. In 2015, ICBC opened a branch in Milan, followed a year later by China Construction Bank; the Bank of Communications has an office in Rome. These branches provide basic banking services to corporate clients only.[38] As they are consolidated in the parent's foreign subsidiary in Europe,[39] no information is publicly available on the extent of their activities in Italy. According to officials from the Italian offices of ICBC and BoC, the two banks offer their services to Italian and Chinese clients in both countries' markets.

[34] SACE, *SACE SIMEST (CDP Group) and SUMEC Strengthen Cooperation to Support Trade Opportunities with Italian Companies*, 23 March 2019, https://www.sace.it/en/media/sace-simest-(cdp-group)-and-sumec-strengthen-cooperation-to-support-trade-opportunities-with-italian-companies.

[35] SACE, *SACE SIMEST (CDP Group) and CEXIM to Support Trade and Investment between Italy and China*, 10 July 2019, https://www.sace.it/en/media/agreement-sace-simest-cdp-cexim.

[36] SACE, *SACE SIMEST (CDP Group) and Bank of China Sign MoU to Enhance Cooperation between Italy and China*, 6 November 2018, https://www.sacesimest.it/en/media/sace-simest-(cdp-group)-and-bank-of-china-sign-mou-to-enhance-cooperation-between-italy-and-china.

[37] SACE-SIMEST annual financial statements 2018 and 2019.

[38] Associazione italiana banche estere (AIBE) website: *Bank of China*, https://aibe.it/?p=714.

[39] ICBC's, Bank of Communication's, and China Construction Bank European headquarters are registered in Luxembourg.

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The presence of Chinese FOS in Italy could have played a role in supporting Chinese enterprises in participating in mergers and the acquisitions of Italian companies. Unsurprisingly, the establishment of Chinese branches in Italy occurred in the period 2013–16, when Chinese investments in the country and in Europe peaked. As previously mentioned, the expansion of domestic banks in a foreign nation's market aims at supporting an increased commitment of their corporate customers to that country.[40]

Chinese foreign branches in Italy could also help Beijing to pursue its objective of a more international renminbi, although Italy is not a relevant clearing hub in Europe.[41] There has been no significant progress in the role of the renminbi in the Italian market. While Bank of Italy created a portfolio in renminbi for its foreign reserves in August 2018,[42] the decision seems to have been driven by a global trend and by the increased global role of China in the world economy. Indeed, in 2018 other major European central banks – such as the German Bundesbank and the ECB itself – started holding foreign reserves in renminbi. By December 2018, only 1.27 per cent of Bank of Italy's net foreign-currency assets were denominated in renminbi.[43]

The signing of the MoU in support of the BRI in March 2019 does not seem to have brought any change. China's two main policy-development banks – China Development Bank and EXIM Bank – usually provide most of the BRI infrastructure loans, yet the two credit giants currently have no offices in Italy. That said, both development banks were actively working with Italian counterparts before 2019. In 2009, China Development Bank struck an agreement with Mediobanca;[44] this led a year later to the establishment of Fondo Mandarin Capital Partners II, which represented a further step in cooperation following the creation of Fondo Mandarin Capital Partners. The new entity, which operates under Chinese law (its predecessor came under Luxembourgish law), manages funds of 1.2 billion euro, guaranteed by China Development Bank.[45]

[40] See: Nicola Bilotta, "Chinese Banks and Foreign Owned Subsidiaries Eye Latin American Markets: A New Challenge for the US?", in *IAI Commentaries*, No. 18|61 (October 2018), https://www.iai.it/en/node/9655.

[41] See: Laura-Marie Töpfer, "China's Integration into the Global Financial System: Toward a State-led Conception of Global Financial Networks", in *Dialogues in Human Geography*, Vol. 8, No. 3 (November 2018), p. 251-271; Sarah Hall, "Rethinking International Financial Centres through the Politics of Territory: Renminbi Internationalisation in London's Financial District", in *Transactions of the Institute of British Geographers*, Vol. 42, No. 4 (December 2017), p. 489-502.

[42] Bank of Italy, *The Bank of Italy Has Decided to Create a Portfolio in Renminbi as Part of Its Foreign Reserves Management*, 28 August 2018, http://www.bancaditalia.it/media/comunicati/documenti/2018-02/cs-2018.08.28-china.pdf.

[43] Bank of Italy, *Composition of Reserves*, 11 April 2019, https://www.bancaditalia.it/compiti/riserve-portafoglio-rischi/composition_reserves.pdf.

[44] Mediobanca, *Mediobanca – China Development Bank*, 6 July 2009, https://www.mediobanca.com/static/upload/ita/italia_cina_eng.pdf.

[45] Alfredo Sessa, "Mandarin al raddoppio per nuovi investimenti", in *Il Sole 24 Ore*, 6 October 2018,

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In 2013, China Development Bank together with Invitalia – the National Agency for Inward Investment and Economic Development, owned by the MEF – co-signed a document that provided Chinese businesses with key guidelines on how to invest in Italy.[46] As previously mentioned, in the framework of the 2019 MoU, China Development Bank partnered with CDP – but the two actors already had a history of cooperation. In 2014, they signed a bilateral MoU to increase cooperation in infrastructure, export finance, etc. through periodic meetings; three years later, they created the Sino-Italian Co-Investment Fund – with capital of 100 million euro – aimed at investing in SMEs from both countries.[47]

As indicated in the 2019 MoU, another Chinese development bank that is supposed to have a key role in the future of Italy–China financial cooperation is the Asian Infrastructure Investment Bank.[48] Established in 2015, the AIIB is a multilateral development bank of which Beijing is the largest shareholder with 26.5 per cent of voting power, followed by India (7.6 per cent) and Russia (6.0 per cent). European countries are also members of the AIIB – Germany (4.2 per cent), France (3.2 per cent), the UK (2.9 per cent) and Italy (2.7 per cent). At the end of 2019, the bank recorded 10.08 billion euro in cumulative investments for 63 projects – up from 6.2 billion euro in 2018.[49] Thus far, the AIIB has had a focus on Asian development – mostly co-financing projects led by other multilateral development banks.[50] In 2018, the bank showed a willingness to expand its activities to include non-regional members if their investments benefited Asia by strengthening cross-country connectivity or renewable-energy generation.[51] According to the AIIB's latest financial statements, its gross loan investments – in terms of both sovereign-backed and non-sovereign-backed loans – allocated in non-Asian countries decreased from 6.9 per cent of its total borrowing in December 2019 to 3.9 per cent in September 2020. Thus far, the bank has not announced any investment in Italy or in any other EU country.[52]

https://st.ilsole24ore.com/art/economia/2010-10-06/mandarin-raddoppio-nuovi-investimenti-222032.shtml.

[46] See: Invitalia, *Investimenti Italia-Cina, si apre una nuova fase*, 16 May 2013, https://www.invitalia.it/chi-siamo/area-media/notizie-e-comunicati-stampa/investimenti-italia-cina-si-apre-una-nuova-fase.

[47] CDP, *CDP in Beijing: New Sino-Italian Co-Investment Fund*, 16 May 2017, https://www.cdp.it/sitointernet/page/en/cdp_in_beijing_new_sinoitalian_coinvestment_fund?contentId=PRG20870.

[48] Italy and China, *Memorandum of Understanding*..., cit., p. 3.

[49] Asian Infrastructure Investment Bank (AIIB), *2019 AIIB Annual Report*, July 2020, https://www.aiib.org/en/news-events/annual-report/2019/home/index.html.

[50] Korinna Horta, "The Asian Infrastructure Investment Bank (AIIB). A Multilateral Bank where China sets the Rules", in *Heinrich Boll Foundation Publication Series on Democracy*, No. 52 (April 2019), p. 11, https://www.boell.de/en/node/43097.

[51] AIIB, *Strategy on Financing Operations in Non-Regional Members*, 24 February 2018, https://www.aiib.org/en/policies-strategies/strategies/financing-operations.html.

[52] AIIB website: *Approved Projects*, https://www.aiib.org/en/projects/approved/index.html.

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The Italian Government reportedly underlined the role of the AIIB in the BRI in Italy in order to counterbalance criticisms from the European Commission and the United States (US). In contrast to other Chinese development banks, which have been strongly criticised for the opaqueness of their governance and lending policy, the AIIB enjoys multi-stakeholder governance.[53] Even though most decisions require a majority of no less than three-quarters of the total voting power, providing China with a de facto veto, European countries together have 23.9 per cent of the total voting power, implying that they may also have a veto power if they act together. Nevertheless, concerns about AIIB's governance persist. The bank has a confused governance structure that gives too much power to its president (always a Chinese national) – with no independent supervision – and does not guarantee sufficient transparency and accountability.[54]

Conclusion

Italy's decision to join the Belt and Road Initiative, the first G7 country to do so, raised concerns in the EU and the US over the associated geopolitical and economic risks. Despite being a powerful symbolic event, the signing of the Memorandum of Understanding in support of the BRI has thus far not resulted in anything that may be considered disruptive of Italy's political and economic relations with its EU partners or the US. The MoU and the associated sectoral agreements in the field of financial cooperation are broad but also vague: the most that can be said of them is that they represent a basis for further cooperation.

Whatever progress we have observed until now mainly follows a path of collaboration begun several years before the signing of the MoU, which by no means points to a different pattern from those visible in other European countries. No major development has occurred since the signing of the MoU of March 2019, nor have Italian institutions received any investment strictly related to the BRI. The impact of the COVID-19 pandemic, which has disrupted the world economy and therefore also strongly undermined potential developments in Italy–China cooperation, should obviously be factored in. Another event that has slowed progress is the change in the coalitions ruling Italy since March 2019, which has brought into power governments more sensitive to EU and US concerns.

Officials from Italian trade agencies contend that they have observed a shift towards greater prudence in Italy's relations with China. By contrast, officials from Italian private financial institutions suggest an underlying continuity in their business strategy towards China under the old and new ruling coalitions.[55] Such divergent

[53] Davide Ghiglione, Rachel Sanderson and James Kynge, "Italy Eyes Loans from China-led Development Bank", in *Financial Times*, 15 March 2019, https://www.ft.com/content/29f4814c-467e-11e9-a965-23d669740bfb.

[54] Korinna Horta, "The Asian Infrastructure Investment Bank (AIIB)", cit., p. 18-19.

[55] Interviews with representatives from government and private sector.

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perceptions could be the result of the different objectives pursued by public and private institutions: the former directly answer to a government's industrial and foreign-policy strategy; the latter follow market dynamics and long-term business strategy, being however also influenced by the government's policy direction. The case of UniCredit is enlightening. Despite COVID-19 and the establishment of a new government, in 2020 the Italian bank enhanced its partnerships with its Chinese counterparts. As a pan-European bank featuring two US investment-management corporations among its largest shareholders,[56] UniCredit works to improve its network abroad for its corporate customers. Arguing that the bank's partnership with its Chinese counterparts could threaten Italy's national interests is, in these terms, quite a stretch. Nor can it be argued that Intesa Sanpaolo's procurement of a Fund Distribution Licence could damage Italy's national interests (quite the contrary).

Moreover, whereas MoU agreements involving critical infrastructures or strategic industries are subject to potential economic and political risks, the types of partnerships established by Italian private banks and trade agencies with Chinese companies are fairly standard arrangements aimed at providing greater financial support to corporate customers at home and abroad. One issue of concern around the BRI is that most of its projects are mainly financed by Chinese banks with little support from local or international financial actors. However, the Italy–China MoU emphasises the role in this regard of the AIIB – whose transparency standards, while not optimal, are generally considered superior to those of other Chinese development banks. More broadly speaking, Italy's approach to BRI-related projects is that of selecting mechanisms that would prevent the market distortions potentially arising from borrowing from Chinese state-owned commercial banks and policy banks. Looking at the projects approved in European-neighbour countries (such as Turkey or Russia) and financed by the AIIB, one can observe that many of them have experienced the direct participation of domestic financial actors as well as of other multilateral development banks.

Another set of concerns related to the BRI is that it could create debt traps for recipient states, in the long term threatening their political and economic independence. If this set of assumptions has grounds when considering fragile developing countries that are highly indebted to China, they have no reason to stand when it comes to Italy. In 2018, only 30 per cent of the Italian Government's debt securities was held by non-residents – and just 7 per cent of that was in the hands of entities based outside the Eurozone.[57]

Another risk is that a growing consolidation of Chinese financial actors in Italy, potentially boosted by the MoUs, could facilitate Chinese investments in sensitive/

[56] BlackRock Group (5.075 per cent), Capital Research and Management Company (5.022 per cent).

[57] Chiara Cremonesi, "Who Are the Foreign Investors in Italian Government Debt? A Breakdown by Geography and Institution", in *Rates Perspectives*, No. 65 (3 April 2019), https://www.research.unicredit.eu/DocsKey/fxfistrategy_docs_2019_170284.ashx?EXT=pdf.

strategic assets in the country – thus winning the PRC a degree of control over such assets. Yet, both as a member of the EU and on its own, Italy has in place legal frameworks that mitigate such risks. The national discipline that regulates foreign mergers and acquisitions in strategic sectors gives the Italian Government great leeway to block "unwelcome" moves by foreign companies. The country's investment-screening mechanism is actually one of the most stringent in the EU.

A more realistic risk related to the BRI is that EU member states, including Italy, fail to place their China policy in a common framework. This concern is extremely relevant for the financial industry. The PRC has been promising a more open domestic financial market for ten years now, and the process is far from complete – despite the positive step represented by Intesa Sanpaolo's recent licence. Even though one of the pillars of the Italy–China MoU is indeed the establishment of a more level playing field internally, Italian financial institutions are sceptical about China opening up its financial market and doubts exist as to whether the 2019 MoU will accelerate the process. More likely, their hopes rest on the eventual ratification of the Comprehensive Agreement on Investments that the EU and China concluded in December 2020, which should create more favourable conditions for European – and, hence, Italian – businesses to obtain access to the Chinese market.

In conclusion, despite their highly political symbolism, the BRI-related MoUs in the field of financial cooperation have led to no groundbreaking development thus far – nor do they pose short-term strategic risks for Italy. They can only provide Italy–China financial cooperation with a (vague) direction – leaving unclear the question of whether, and how, that cooperation could be further advanced.

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