

# The US–Italy Economic Relations in a Divided World

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## ABSTRACT

In 2021, bilateral trade returned to the sustained pace it had prior to the Covid pandemic. Direct investment also grew – crucially, not just Italian investment in the United States but the other way round too. While Italy's economic ties with Russia and China remain potential hotspots, Rome has never questioned its Atlantic orientation. Nevertheless, possible austerity policies following sanctions against Russia could spread social discontent that populist parties can exploit for consensus purposes in the 2023 general election, rekindling anti-Americanism rooted in different segments of Italian society.

*US-Italian bilateral relations | US economic policy | Italian economic policy | Foreign trade | FDI | Energy | Russia | China*

**keywords**

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## Introduction

In recent years, US-Italian economic and technological relations have evolved to reflect a global scenario that has completely changed due to a rapid technological transition. A digital transformation process, further accelerated by the Covid-19 pandemic, is having a disruptive impact on all areas of human activity: cloud computing, big data and the internet of things, machine learning and deep learning, artificial intelligence (AI). In this context, according to the Embassy of Italy in Washington, the collaboration between Italy and the United States has been making use of more structured synergies between universities, research institutions and large companies, and extending to all emerging technological fields.<sup>1</sup>

Artificial intelligence and energy transition are going to be priority issues in the US-Italian collaboration, which is developing in strategic technological areas in which massive investments in human and infrastructural resources are being planned. Foreign direct investment (FDI) is crucial. According to the Bank of Italy, in 2019 the United States was the top extra-EU destination of Italy's outward direct investment. Its euro value was almost four-fold compared to Italy's outward direct investment in China or Russia. Italy's FDI in the United States has constantly increased since the global economy recovered from the great crash of 2008. More

<sup>1</sup> Italian Embassy in Washington: *ItalyUS160: Innovation – Technology*, <https://www.italyus160.org/topics/innovation-technology>.

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impressively, in 2019, looking at EU countries, only the Netherlands and Spain had been more directly receptive to Italian FDI. Outward FDI's top industry sectors include industrial equipment, software and IT services, food and beverages, metals, renewable energy and auto components.

On the other hand, according to the Bureau of Economic Analysis, Italy has been quite unattractive for a long time. In 2020 US FDI in Italy was as little as 7.6 per cent of US FDI in Germany and 11.1 per cent of that in France. Notwithstanding Italy's membership in the Group of Seven (G7) major economies in terms of GDP, it is not the best country for doing business in: political instability, excessive red tape, a sluggish and erratic judicial system, inefficient infrastructures and a tax system that discourages job creation were all dragging back foreign investors.<sup>2</sup>

Nevertheless, the Covid-19 pandemic may turn out to be a game-changer. The flow of the US trade in goods with Italy was very high in the first ten months of 2021. American FDI is coming to the Italian market in advanced technologies.<sup>3</sup> According to KPMG, in the first three-quarters of 2021 American mergers and acquisitions (M&A) were 46 compared to 32 in 2020 (+44 per cent).<sup>4</sup> The value of US M&A in Italy was 4.5 billion dollars, while that of Italian groups in the United States was 1.8 billion. Mergers and acquisitions are one of the main tools for Italian companies to expand their presence in the United States.<sup>5</sup>

Bilateral trade is consistent with medium- and high-tech products. Contrary to conventional wisdom, food and agricultural goods only accounted for 10 per cent of Italy's exports to the United States. Machinery, automotive, pharma and fashion are crucial productive sectors.<sup>6</sup> Medium and medium-large companies are strategic players. They are representatives of the Italian "fourth capitalism", which includes the well-known "Made in Italy" industry and a considerable number of highly

<sup>2</sup> Economist, "Mario Draghi Gives Italy Another Chance", in *The Economist*, 18 February 2021, <https://www.economist.com/leaders/2021/02/18/mario-draghi-gives-italy-another-chance>.

<sup>3</sup> In 2021, Exos Aerospace Systems & Technologies, a Texas-based company, reached an agreement to establish its first European base of operations in Northern Italy to build and fly reusable rockets. Hybridisation of knowledge and spillover effects could be on the way. Exos Aerospace relies heavily on NASA-developed technologies. Its "core strength" combines multiple proven technologies to provide "operational excellence".

<sup>4</sup> Carlo Festa, "Made in Italy nel radar dei big Usa: così in dieci anni affari per 50 miliardi", in *Il Sole 24 Ore*, 3 November 2021.

<sup>5</sup> DiaSorin, *DiaSorin Announces Completion of the Acquisition of Luminex Corporation*, 14 July 2021, [https://diasoringroup.com/sites/diasorincorp/files/allegati\\_pressrel/diasorin\\_completes\\_luminex\\_acquisition.pdf](https://diasoringroup.com/sites/diasorincorp/files/allegati_pressrel/diasorin_completes_luminex_acquisition.pdf); Nice Group, *Nice Strengthens Global Smart Home & Building Automation Leadership Position with Nortek Security & Control LLC Acquisition*, October 2021, <https://www.niceforyou.com/na/node/2906>; Ali Group, *Ali Group and Welbilt Announce Definitive Merger Agreement*, 14 July 2021, <https://www.aligroup.it/news/ali-group-and-welbilt-announce-definitive-merger-agreement>.

<sup>6</sup> Giovanna De Maio, "Why the US-Italy Relationship Matters", in *Atlantic Council Issue Briefs*, 30 September 2020, <https://www.atlanticcouncil.org/?p=302321>. According to the United States Census Bureau, in 2020, the value of Italian export was over 50 billion dollars compared to over 57 billion dollars in pre-pandemic 2019. See US Census Bureau website: *U.S. International Trade Data: Trade in Goods with Italy*, <https://www.census.gov/foreign-trade/balance/c4759.html>.

specialised suppliers of complex and often advanced products and components, grounded in technological innovation and focused on commercial niches.<sup>7</sup>

Italian export to the United States accounted for 9.5 per cent of total Italian export in 2019 and 9.7 per cent in 2020. The United States was the third top trade partner (after Germany and France) for Italian export. Imports from the United States accounted for 4.0 per cent in both years.

After the great crash of 2008–09, Italy registered an external surplus in advanced technology sectors. Italy was second in the world after China in iron and steel products; third after Germany and Japan in non-electronic machines; and fourth after the United States, France and Germany in the aerospace industry.<sup>8</sup> Italian manufacturers have been running a solid trade surplus with the United States for years. US exports to Italy concentrate in such high-value sectors as chemicals, oil and gas, transportation equipment, primary metal manufacturing, and computer and electronic products.

### 1. The Trump Administration

Although the overall transatlantic relationship worsened during the Donald J. Trump Administration (2017–21), Italy and the United States consistently preserved positive ties. Italy managed to avoid the bulk of US tariffs on European goods, and trade exchange between Rome and Washington kept an upward trajectory in several high-value sectors.

After the World Trade Organisation (WTO) ruled that the European aircraft maker Airbus had received state aid incompatible with the EU membership in the WTO, the Trump Administration was authorised to impose duties on the import of EU products. However, the tariffs on imports of Italian agri-food products remain unchanged. Tensions did rise in the automobile and digital sectors, however. The Trump Administration threatened tariffs on European cars. This would be detrimental for Italy, the third European car exporter to the United States (after Germany and the United Kingdom) and an essential producer of intermediary parts for many German cars. In January 2020, following France and other European countries, Italy adopted a 3 per cent domestic digital services tax. The new tax, which targeted Facebook, Google, Amazon and other companies centred on digital advertising and marketplaces, was not well received in Washington. The Trump Administration protested that US companies were being unjustly discriminated against, and threatened sanctions and an investigation into taxes on digital

<sup>7</sup> Fabrizio Onida, Giuseppe Berta and Mario Perugini, "Old and New Italian Manufacturing Multinational Firms", in Gianni Toniolo (ed.), *The Oxford Handbook of The Italian Economy since Unification*, Oxford/New York, Oxford University Press, 2013, p. 417-452.

<sup>8</sup> Marco Fortis, "Il Made in Italy sul podio mondiale", in *Il Sole 24 Ore*, 17 February 2014, <https://st.ilsole24ore.com/art/notizie/2014-02-17/il-made-italy-podio-mondiale-091701.shtml>.

commerce adopted or proposed. The introduction of tariffs by the United States and the inevitable EU retaliation, the growing mistrust in the current system of rules supervised by the WTO, and the consequential high level of tension and uncertainty would have discouraged the internationalisation of many firms, especially small and medium-sized ones, even without specific barriers targeting Italian export sectors.

Other potential hotspots in the US-Italian relationship during the Trump years were Italy's ties with Russia and China. It is worth noticing though that regardless of Italy's historical energy and economic relations with Russia and irrespective of its increasing interest in tightening links with China, Rome never really questioned its Atlantic orientation.

Nevertheless, anti-Americanism has been a long-standing component of Italian and European cultures for decades. It was an enduring expression of anti-modernism rooted in different sectors of Italian society, from the Communist party to Catholic circles. In the late 1960s, opposition to the American war in Vietnam animated new waves of anti-Americanism. This populist attitude continues among different political forces from the radical left to the hard right, mixing anti-globalisation, anti-Europeanism and "sovereignism" (a form of nativist, defensive nationalism). It is true that across Europe populists were climbing in the polls, even in traditionally tolerant and progressive countries like Sweden, Denmark and Germany. In Italy, the nationalist and Eurosceptic League entered government with the anti-establishment Five Star Movement (M5S) in the so-called "yellow-green" coalition led by Prime Minister Giuseppe Conte, which sought closer ties with both Moscow and Beijing during its short spell in power in 2018–19.

On the other side, the peculiar situation created by President Trump, a "populist" in the White House, who openly appreciated authoritarian leaders like Russian President Vladimir Putin, seemed to support the first Conte government's economic policy. The International Monetary Fund, the Organisation for Economic Co-operation and Development (OECD) and the European Commission all expressed concerns and doubts about the government's Economic and Financial Document, in October 2018. Nevertheless, President Trump tweeted that the Italian prime minister was working hard for the Italian economy and that he would succeed.<sup>9</sup> At the end of the same month, President Putin, welcoming Conte in Moscow, expressed his appreciation for the Italian economic strength.<sup>10</sup>

<sup>9</sup> Gianluca Di Donfrancesco, "Lagarde: 'L'Italia rispetti le regole, è un membro della UE'", in *Il Sole 24 Ore*, 11 October 2018, <https://www.ilsole24ore.com/art/lagarde-l-italia-rispetti-regole-e-membro-ue-AEEIPCLG>; Andrea Bonanni, "Conte, Trump e Putin, i nuovi alleati nemici della UE", in *Repubblica*, 25 October 2018, [https://www.repubblica.it/commenti/2018/10/25/news/conte\\_trump\\_e\\_putin\\_i\\_nuovi\\_alleati\\_nemici\\_della\\_ue-300774112](https://www.repubblica.it/commenti/2018/10/25/news/conte_trump_e_putin_i_nuovi_alleati_nemici_della_ue-300774112).

<sup>10</sup> "Conte da Putin: 'Sanzioni da superare'. Firmati 13 accordi commerciali Italia-Russia", in *La Stampa*, 25 October 2018, <https://www.lastampa.it/esteri/2018/10/25/news/conte-da-putin-sanzioni-da-superare-firmati-13-accordi-commerciali-italia-russia-1.34055077>.

This notwithstanding, President Trump claimed that Italy also had to make things right because of its big trade surplus with the United States.<sup>11</sup> On the sidelines of the Western leaders' meeting to mark the 70th birthday of the North Atlantic Treaty Organisation (NATO) in London in 2019, Trump brought up crucial economic issues such as China, 5G and sanctions against Iran; and put Prime Minister Conte on alert, as Italy had been provisionally exempted from embargo on Iran's oil.<sup>12</sup>

As both Trump's "America first" approach and Italian populism made the US–Italy relationship more unpredictable, caught as they were between trade wars, protectionism and tariffs, the Italian employers' organisation Confindustria sent a mission to the United States. Its purpose was to strengthen relations with the US officials, support the US–Italy industrial partnership and, above all, reassure the United States that Italy was a loyal partner who had invested more than 45 billion dollars in the United States and created over 120,000 jobs. Confindustria's team stood for 79,000 Italian firms from all manufacturing sectors (food, pharmaceutical, electronics, furniture, fashion, machinery and machine tools, yachting) and aimed to consistently improve Italian export to the United States.<sup>13</sup> Large multinationals like Enel, Leonardo, Stellantis and Ferrero, renowned representatives of the fashion industry like Ferragamo, and hundreds of medium-size enterprises active in different production sectors, as well as over 1,200 Italian companies are present and operating in the US market. Although power and ambiguity continued to mark the US–Italy relationship during the Trump Administration, Italy remained one of the most valuable US allies in Europe. It was (and is) an essential contributor to NATO and a critical player in the Mediterranean. It is widely believed that the current government in Rome led by such an authoritative figure as Mario Draghi has the potential to revive both intra-European and transatlantic relations.

## 2. In the spotlight: Italy, the G20 and the PNRR

The Draghi government, formed in February 2021, has been depicted as a "technocratic government" with broad political party support. The new cabinet had to deal internationally with several crucial economic and political issues. As holder of the G20 Presidency, Italy had to address climate change, the Covid-19 pandemic, international terrorism, the global economy and supply chains disruption. On 7 April 2021, the Finance Track, which gathers the G20 finance ministers and central bank governors, welcomed the proposal made by the Italian Presidency to re-establish the Sustainable Finance Study Group and agreed to turn it into the

<sup>11</sup> Giulia Pozzi, "Trump e Conte amici anti-establishment", in *La Voce di New York*, 30 July 2018, <https://lavocedinewyork.com/?p=109029>.

<sup>12</sup> Andrea Carli, "Dalla Cina sul 5G alla web tax, quando gli USA mettono in guardia l'Italia", in *Il Sole 24 Ore*, 5 December 2019, <https://www.ilsole24ore.com/art/dalla-cina-5g-web-tax-quando-usa-mettono-guardia-l-italia-ACTchy2>.

<sup>13</sup> Riccardo Barlaam, "Made in Italy, road show negli Usa", in *Il Sole 24 Ore*, 6 December 2019, p. 15.

Sustainable Finance Working Group (SFWG).<sup>14</sup>

Italy reasserted itself as a transatlantic player. Draghi's first speech as prime minister insisted on Italy belonging to the Euro-Atlantic community. Under the G20 Presidency, the previous yellow-green government's drift toward Beijing faded away, even though Draghi urged US President Joe Biden not to push competition with China to the extent that it prevents cooperation on crucial issues such as the climate crisis.<sup>15</sup>

Chinese President Xi Jinping and Russia's Putin joined the G20 Rome Summit in a conference call only. This distance reflected the exacerbation of US–China geopolitical competition on the backdrop of structural tensions between Western democracies and authoritarian countries.

Critically, the United States and the EU decided to lift the steel and aluminium tariffs imposed by the Trump Administration in 2018, as well as the EU's countermeasures on the side of the G20. It was a token of improved transatlantic relations with Biden's presidency. The United States and the EU also agreed to suspend the related WTO disputes they had initiated against each other (the WTO had also ruled that Airbus's US competitor Boeing had received illegal tax credits beside certain procurement contract subsidies and had thus authorised the EU to retaliate). Nevertheless, there was no advancement in reforming the WTO itself.

Progress was made to address the issue of European digital taxes. In June, the Biden Administration put forward the proposal of a global minimum (15 per cent) tax on large multinational corporations, which was later embraced by the G20. According to the proposal, large multinationals would no longer be able to exploit the different national fiscal regimes in order to dodge taxation and would be forced to pay a larger share of taxes in the countries where they make a profit and not just those in which they legally reside.<sup>16</sup> From a transatlantic perspective, the global minimum tax also was a digital tax "exit strategy" and thus prevented a US-European rift.<sup>17</sup> The proposal was eventually approved by the OECD/G20 Inclusive Framework, a

<sup>14</sup> Italian Ministry of Economy and Finance (MEF) website: *G20 Italy - The Finance Track*, <https://www.mef.gov.it/en/G20-Italy/finance-track.html>. "The SFWG aims to mobilize sustainable finance as a way of ensuring global growth and stability and promoting the transitions towards greener, more resilient and inclusive societies and economies. The Group is tasked to identify institutional and market barriers to sustainable finance and to develop options to overcome such barriers, and to contribute to a better alignment of the international financial system to the objectives of the 2030 Agenda and the Paris Agreement." See also 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>.

<sup>15</sup> Patrick Wintour, "G7 Backs Biden Infrastructure Plan to Rival China's Belt and Road Initiative", in *The Guardian*, 12 June 2021, <https://www.theguardian.com/p/hnxkt>.

<sup>16</sup> White House, *Readout of President Biden's Meeting with Prime Minister Mario Draghi of Italy*, 29 October 2021, <https://www.whitehouse.gov/briefing-room/statements-releases/2021/10/29/readout-of-president-bidens-meeting-with-prime-minister-mario-draghi-of-italy-2>.

<sup>17</sup> European Commission, *EU and US Agree to Start Discussion on a Global Arrangement on Sustainable Steel and Aluminium and Suspend Steel and Aluminium Trade Disputes*, 31 October 2021, [https://ec.europa.eu/commission/presscorner/detail/en/IP\\_21\\_5721](https://ec.europa.eu/commission/presscorner/detail/en/IP_21_5721).

working group of 141 countries and jurisdictions, which made possible a global agreement in October 2021 and allowed the implementation process to get started.

Appreciating Draghi's leadership of the G20 during a year of overlapping global challenges, President Biden recognised the historic achievement of a global minimum tax and emphasised the importance of the US-EU partnership to set the rules of the 21st-century economy governance.

The Italian presidency also prearranged, for the first time, a G20 ministerial meeting on development cooperation. It focused on Africa, a crucial region for the EU and for Italy. This move meets President Biden's China strategy, which tries to create new diplomatic alliances in Africa and a Western alternative to China's Belt and Road Initiative (BRI), President Xi's programme of infrastructure projects that spans Eurasia, the Middle East and Africa.

As for the EU, the Draghi government focused on post-pandemic economic recovery and efficient application of the National Recovery and Resilience Plan (*Piano Nazionale di Ripresa e Resilienza*, PNRR), a fund of approximately 200 billion euro provided to Italy by the European Union.

The Plan unfolds around three strategic axes of sustainability – digitisation and innovation, ecological transition, and social inclusion. It aims to help Italy recover from the economic and social damage caused by the pandemic crisis. The Plan also seeks to address the Italian economy's weaknesses.

Many of Italy's structural challenges – the significant divides across regions, age, gender and productivity, as well as high levels of public debt – have been compounded by the Covid-19 crisis. The key priority for the recovery is to enhance the public administration's effectiveness. This should include, in particular, public investment governance and improved co-ordination and implementation across different levels of government.<sup>18</sup>

Since the PNRR seeks to address the weaknesses of the Italian economy, its success could provide leverage for further integration of the EU, starting with the way Brussels manages economic crises,<sup>19</sup> and completing the banking and capital markets unions required for this outcome. Suppose Rome manages the country's structural reforms to improve efficiency, productivity, social wealth and wellbeing without incurring a new significant deficit. In that case, the Italian experience could strengthen the case for turning the Recovery and Resilience facility into a

<sup>18</sup> OECD, *Economic Policy Reforms 2021. Going for Growth: Shaping a Vibrant Recovery*, Paris, OECD, April 2021, p. 164, [https://www.oecd-ilibrary.org/sites/3c796721-en/1/3/3/25/index.html?itemId=/content/publication/3c796721-en&csp\\_=78ed739c2af32ef1a4a4222eb49f90a3](https://www.oecd-ilibrary.org/sites/3c796721-en/1/3/3/25/index.html?itemId=/content/publication/3c796721-en&csp_=78ed739c2af32ef1a4a4222eb49f90a3).

<sup>19</sup> Giovanna De Maio, "Europe's Unlikely Champion", in *Foreign Affairs*, 24 September 2021, <https://www.foreignaffairs.com/node/1127856>; Nicola Casarini, "Italy's China Card: Finance, Trade and Geopolitics", in *America's Global Role* (blog), 30 October 2020, <https://americas.chathamhouse.org/article/italy-china-card>.

permanent tool, helpful in other emergencies.

Also, the Global Gateway, a 300-billion-euro initiative launched in December 2021 to counter China's BRI and cohere with Biden's Build Back Better World initiative, could open room for Italian entrepreneurs in Africa. According to the European Commission, the vision of "A Globally Connected Europe" highlights the need for the EU to pursue a geostrategic and global approach to connectivity. The aim is to advance its economic, foreign and development policy and its security interests, namely promoting European values.

On the other hand, the Italian economic structure's limitations, constraints and vulnerabilities distinctly emerged with the outbreak of Putin's war against Ukraine.

Italy's energy dependence on foreign suppliers, especially Russian oil and gas producers, has been dragging on for decades. Since the 1960s, all US administrations have criticised European countries for their dependence on Russian energy supplies. Italy has always been on the frontline of the economic Cold War between East and West because state-owned energy giant Eni was looking for drilling in the Mediterranean, often offering more favourable terms to Arab developing countries (run by nationalist governments) once under colonial rule, and signing massive oil and gas supply agreements with the Kremlin.<sup>20</sup>

Recently, two controversial gas pipelines became paradigmatic of transatlantic tensions: South Stream and North Stream 2. South Stream was supposed to transport Russian gas through the Black Sea to Bulgaria bypassing Ukraine. It was launched by Eni and Gazprom in the framework of a strategic partnership signed in November 2006, following the first major interruption of Russian gas supplies through Ukraine in January of the same year. It ended up with definitive cancellation by President Putin after the EU adopted sanctions to retaliate against Russia's forced annexation of Crimea in 2014. Italian governments had backed the project both at the bilateral and the European level, but the Commission repeatedly expressed its doubts about the legal framework of South Stream. The South Stream case is indicative of both the significant economic relationship between Italian and Russian companies and the international weakness of Italy.

Indeed, the European doubts of a technical-legal nature against the pipeline (South Stream was considered to be in breach of the Third Energy Package, adopted in 2009), and the contemporary green-light to North Stream 2, which doubled a gas pipeline from Russia to Germany through the Baltic Sea (Nord Stream 1), fuelled the tensions between Italy and the EU institutions. Rome accused Brussels of having adopted a double standard.<sup>21</sup>

<sup>20</sup> Adriana Castagnoli, *La guerra fredda economica. Italia e Stati Uniti, 1947-1989*, Roma/Bari, Laterza, 2015.

<sup>21</sup> Giovanna De Maio and Nicolò Sartori, "Le relazioni tra Italia e Russia", in *Approfondimenti dell'Osservatorio di politica internazionale*, No. 144 (November 2018), <https://www.iai.it/en/node/9691>.

As for North Stream 2, in 2019 the Trump Administration was determined to use extraterritorial sanctions to stop future Russian supplies through that pipeline even though several European companies, such as the German Uniper and British Shell, were involved in the project.<sup>22</sup> In February, the EU agreed to toughen regulations on North Stream 2 but not back plans that might threaten its completion. In December, President Trump signed a law that would impose sanctions on any firm that helped Russia's state-owned gas company, Gazprom, finish the pipeline. The United States considered the project a security risk to Europe. Congress voted through the measures as part of the annual defence appropriation bill, which described the pipeline as a "tool of coercion" by Russia.

The Nord Stream 2 project angered the United States (as well Eastern European countries and Italy) to the extent that both Republican and Democratic lawmakers opposed it. The Trump Administration feared the pipeline would tighten Russia's grip over Europe's energy supply and reduce its European market share for US liquefied natural gas. President Trump said the pipeline, owned by Russia's Gazprom, would turn Germany into a "hostage of Russia". In the end, the EU Parliament, without the votes of the Italian populist government parties, passed a resolution that questioned Moscow's status as the EU's strategic partner in fear of increasing gas dependence on Russia. However, German Chancellor Angela Merkel was determined and kept defending the German-Russian North Stream 2 as a commercial project, notwithstanding Eastern European countries' opposition, until German authorities temporarily stopped it, officially for technical issues, in late 2021.<sup>23</sup>

By then, President Biden had already sought and obtained Germany's diplomatic cooperation by agreeing to waive sanctions on Nord Stream 2 on the condition Germany would act if Russia were to make political use of it (as has indeed happened). However, profound divisions among EU member states remained since the pipeline was a geopolitical weapon that Vladimir Putin would use to destabilise Ukraine and increase Russia's sphere of influence.

The case of the two controversial gas pipelines lays bare the lack of vision and the weakness in the international posture of most of the Italian political élites. This leaves Italy at the mercy of a multiplicity of conflicting local interests undermining its role in Europe. Exemplary of this is the political opposition to the Trans-Adriatic Pipeline (TAP), which delayed the building of a strategic pipeline for many years.<sup>24</sup>

<sup>22</sup> Sissi Bellomo, "L'ombra delle sanzioni sui nuovi gasdotti dalla Russia", in *Il Sole 24 Ore*, 13 March 2019, <https://www.ilsole24ore.com/art/l-ombra-sanzioni-usa-nuovi-gasdotti-russia-ABaXLIdB>.

<sup>23</sup> Celestina Dominelli, "Dal South Stream al Tap: le vie del gas tra progetti falliti e nuove rotte", in *Il Sole 24 Ore*, 10 May 2017, <https://www.ilsole24ore.com/art/dal-south-stream-tap-vie-gas-progetti-falliti-e-nuove-rotte-AEMRelJB>.

<sup>24</sup> Domenico Palmiotti, "Dopo la 'guerra' al Tap, la Puglia ora apre a energie alternative", in *Il Sole 24 Ore*, 10 March 2022, <https://www.ilsole24ore.com/art/dopo-guerra-tap-puglia-ora-apre-energie-alternative-AEPufDJB>.

TAP turned out to be crucial in promoting both diversification of supply sources and consolidation of the role of Italy as a European gas hub, especially following Russia's invasion of Ukraine.

### 3. What the United States does not want: Russian-Italian economic relations

As Liana Fix and Michael Kimmage argue, "In the surreal winter of 2021–22, the United States and Europe are once again contemplating a major Russian military intervention, this time in Europe itself. [...] The permanent state of escalation between Russia and Europe may stay cold from a military perspective. It is likely, though, to be economically hot."<sup>25</sup>

This economic impact of Russia's war in Ukraine, which materialised in late February 2022, is undoubtedly going to be relevant for Italy. After the Russian annexation of Crimea in 2014, Western sanctions were reversible and conditional. Russia became ruthless in trying to get one or several European states to back away from economic conflict by linking a relaxation in tensions to these countries' self-interest. Russia's strategy aimed to undermine cohesion and consensus in the EU and NATO.<sup>26</sup>

Italy was considered by Moscow to be one of the EU's politically vulnerable spots. Russia increasingly strengthened its economic and commercial ties with Italy up until the invasion of Ukraine. Trade exchange between the two countries consolidated, and onward and outward investment showed remarkable resilience.

Despite the political difficulties of the post-2014 years and the pandemic crisis, the Italian-Russian relationship remained strong. Many Italian small and medium-sized enterprises are relevant for the international supply chains from Germany to Russia. In 2019 Italian exports to Russia amounted to over 9 billion euro, the country's fifth supplier, with a market share of 4.4 per cent; total trade exceeded 22 billion euro. In the first 11 months of 2021, Italy exported over 7 billion euro worth of goods and imported 12.6 billion euro, mostly in gas and raw materials.<sup>27</sup> Russia supplies over 40 per cent of Italian demand for gas.

The wooing of Italian firms increased after the great crash of 2008–09. It was not just about fashion and luxury brands. The high technological know-how of Italian companies makes them extremely attractive to Russian producers. According to

<sup>25</sup> Liana Fix and Michael Kimmage, "What If Russia Wins?", in *Foreign Affairs*, 18 February 2022, <https://www.foreignaffairs.com/node/1128457>.

<sup>26</sup> Ibid.

<sup>27</sup> Giovanna Mancini, "Italia-Russia a rischio 20 miliardi di interscambio", in *Il Sole 24 Ore*, 22 February 2022, <https://www.ilsole24ore.com/art/imprese-italiane-rischio-scambi-l-ucraina-oltre-4-miliardi-AEQVtSFB>.

the Italian Embassy in Russia, Italy was Russia's fourth-largest trading partner worldwide. Italian exports to Russia reached record figures in 2013, totalling 10.8 billion euro. In 2014, sales of Italian goods and services to Russia fell by 15 per cent in the wake of the first Ukraine crisis, and 2015 showed no improvement.

In 2015, President Putin stated that

the relationship between Russia and Italy has, indeed, always been privileged, both in politics and the economy. [...] We are cooperating actively in the energy sector, in an array of fields. Italy is the third largest consumer of our energy resources. We also have many joint high technology projects: in the space and aircraft industries, and in many other sectors.<sup>28</sup>

In 2016 Italy was the guest of honour at the St. Petersburg Economic Forum. Three years later, in an interview on 4 July 2019, Putin reaffirmed that Italy was "one of the leading trading partners" for Russia, the fifth (in 2018) after China, Germany, the Netherlands and Belarus. Notwithstanding Italy's participation in anti-Russian sanctions and related Russian retaliation measures, bilateral trade and economic relations developed pretty successfully. This trade activity was founded upon 500 Italian business entities represented in Russia. In 2018, bilateral trade increased by 12.7 per cent, up to 26.9 billion dollars. Cumulative direct investment from Italy reached 4.7 billion dollars at the beginning of that year, while Russia's investment in Italy amounted to 2.7 billion. Giants such as Eni, Maire Tecnimont and Iveco actively invested in Russia.

Companies from both countries created a series of significant investment projects. Among them were several power stations in the Tver, Ekaterinburg and Stavropol regions managed by Enel; two joint ventures to produce tires in Voronezh and Kirov with Pirelli; and a plant in Chelyabinsk that manufactures pumps for the oil industry with Termomeccanica. Chelyabinsk was a strategic location for several joint ventures with Italian partners, including a steel production plant, energy apparatus, high voltage electric motors and cryogenic machinery manufacturers.

Among the significant Russian investments in Italy, there was Lukoil, in the refining and distribution of oil products in Sicily; and Rusal, which owned one of the largest alumina factories in Europe, located in Sardinia. Various projects were underway in Russia with Italian participation: wind energy plans with Enel; the construction of a chemical company in the Samara region; a methane processing factory in the Amur region with the participation of Maire Tecnimont; and a new Barilla pasta factory.

<sup>28</sup> Paolo Valentino, "Vladimir Putin, interview to the Italian newspaper Corriere della Sera", in *Corriere della Sera*, 6 June 2015, [http://www.corriere.it/english/15\\_giugno\\_07/vladimir-putin-interview-to-the-italian-newspaper-corriere-sera-44c5a66c-0d12-11e5-8612-1eda5b996824.shtml](http://www.corriere.it/english/15_giugno_07/vladimir-putin-interview-to-the-italian-newspaper-corriere-sera-44c5a66c-0d12-11e5-8612-1eda5b996824.shtml).

Because of its geopolitical implications, the most crucial Russian-Italian project outside the two countries was the Zohr field, in Egypt, where Eni and Rosneft worked side by side.<sup>29</sup>

At the St. Petersburg International Economic Forum 2018, Claudio Descalzi, CEO of Eni, talked about how energy infrastructures were crucial for Europe. In his opinion,

the strong message both from the Russian side and the European industrial world concerns Europe's need for infrastructures, not only to decarbonize as well to bring down gas prices. In so doing to regain competitiveness compared to American companies which benefit from much lower gas prices.<sup>30</sup>

Interaction between Russian and Italian businesses did not stop in 2020 in spite of the Covid-19 pandemic, and Rome was Russia's fifth-biggest trading partner again. In July 2021, Italy was a partner country of the INNOPROM fair in Ekaterinburg, the most prominent Russian event in applied industrial and technological innovation. It was the first time for a European country.<sup>31</sup> Over 50 companies and about 20 Italian start-ups, supported by the Italian Trade Agency and the Embassy of Italy, attended the event. The fair gathers all major industrial Russian groups in the metallurgy, mechanics and energy sectors, and others ranging from AI to industrial automation. Russia-Italy trade turnover rose by over 30 per cent in the first half of 2021. According to the Italian Ministry of Foreign Affairs, bilateral trade was up to 21.7 billion euro at the end of that year, close to the total trade of 2019 (worth 22 billion euro).<sup>32</sup> These figures show that Italian-Russian exchange was again on an upward trajectory after the Covid shock.

Western sanctions against Russia have pushed many European companies to reduce ties with that country. However, some big corporate names as energy companies and commodities traders are among those most deeply involved in Russia, given the country's vast reserves of raw materials. As another major crisis over Ukraine loomed in January 2022, Italian top business executives held a videoconference with President Putin (although some companies pulled out of the long-scheduled event following pressure from the Italian government). Once again, the Russian president hailed Italy as one of Russia's leading economic partners. He said the

<sup>29</sup> Fabrizio Dragosei and Paolo Valentino, "Putin: 'Pronti a dialogare con gli Usa. Contatti costanti con la Lega di Salvini'", in *Corriere della Sera*, 4 July 2019; Giovanna De Maio and Nicolò Sartori, "Le relazioni tra Italia e Russia", cit.

<sup>30</sup> St. Petersburg International Economic Forum, *Energy Panel* (video), 25 May 2018, <https://forums.spb.com/en/archive/2018/programme/56900>.

<sup>31</sup> Country partners in previous years were, among other nations, China, India, South Korea and Japan; Kazakhstan will be the country partner in 2022.

<sup>32</sup> Italian Ministry of Foreign Affairs and International Cooperation, *Osservatorio economico. Scheda di sintesi: Russia*, last updated 24 May 2022, [https://www.infomercatiesteri.it/public/osservatorio/schede-sintesi/federazione-russa\\_88.pdf](https://www.infomercatiesteri.it/public/osservatorio/schede-sintesi/federazione-russa_88.pdf).

trade value between the two countries had grown by 53.8 per cent in the first 11 months of last year. The volume of gas shipped to Italy by Russian state-owned gas giant Gazprom also rose.<sup>33</sup> "There are also good prospects for boosting Russian-Italian business partnership in other energy sectors", Putin told the meeting.<sup>34</sup>

From Washington's perspective in the uncertainty over the result of the Italian presidential elections, a month ahead of Russia's invasion of Ukraine, the Russian-Italian business meeting jeopardised trust. "In these times" – said Charles Kupchan, adviser for European affairs to president Barack Obama – "private companies which open up a direct dialogue [with Putin] does not help."

### 4. Washington's concerns: China's investment in Italy

According to *Transatlantic Trends 2021*, between one-third and a half of Europeans no longer think the United States will be the leading global power in the post-pandemic world. Namely, just over half of the French (56 per cent), Germans (55 per cent) and Italians (51 per cent) see the United States as the most influential player. On the other hand, China has consolidated its standing as the second most influential global power in the eyes of the Germans (22 per cent), the French (28 per cent) and the Dutch (27 per cent). However, the Italians (32 per cent) were the most numerous, seeing China as the most influential global power.<sup>35</sup>

In August 2020, Chinese Foreign Minister Wang Yi visited Rome. Italy was the only G7 country that had signed a Memorandum of Understanding supporting the BRI during President Xi's state visit to Italy in the previous year. The populist yellow-green government led by Conte flaunted the MoU as crucial to strengthen Italian trade with China but other nations, namely France and Germany, got much bigger orders while refraining from endorsing the BRI. Neither Paris nor Berlin approved the rush of the Italian government. As Italy agreed to sign the MoU with Beijing, France's President Emmanuel Macron highlighted the need for a "geopolitical and

<sup>33</sup> Eleonora Micheli, "CNH: dietrofront dai massimi in Borsa, stop a cessione Iveco ai cinesi", in *Il Sole 24 Ore*, 19 April 2021, <https://www.ilsole24ore.com/art/cnh-dietrofront-massimi-borsa-stop-cessione-iveco-cinesi-AEW592B>; Gloria Methri, "Italy Repositions Ties with China amid Failed BRI Deal, Seeks Return to Western Alliances", in *Republic World*, 25 June 2021, <https://www.republicworld.com/world-news/china/italy-repositions-ties-with-china-amid-failed-bri-deal-seeks-return-to-western-alliances.html>; Francesca Ghiretti, "The Belt and Road in Italy: 2 Years Later", in *The Diplomat*, 23 March 2021, <https://thediplomat.com/2021/03/the-belt-and-road-in-italy-2-years-later>.

<sup>34</sup> Russian Presidency, Meeting with Representatives of Italian Business Community, Novo-Ogaryovo, 26 January 2022, <http://en.kremlin.ru/events/president/news/67638>. See also Giorgio Leali, "Putin Serenades Italy Inc. amid Ukraine Crisis", in *Politico*, 25 January 2022, <https://www.politico.eu/?p=1963875>. Russian participants included the ministers for economic development, energy, and finance. Igor Sechin, one of Mr. Putin's closest allies and the head of Russia's largest oil producer, state-controlled giant PJSC Rosneft, also attended, as did Dmitry Konov, chairman of the board of petrochemicals giant Sibur. Mr. Konov is co-chairman of the Italian-Russian business committee. The other co-chairman, Pirelli Chief Executive Marco Tronchetti Provera, also attended.

<sup>35</sup> German Marshall Fund and Bertelsmann Foundation, *Transatlantic Trends 2021. Transatlantic Opinion on Global Changes*, June 2021, p. 7, <https://www.gmfus.org/node/12408>.

strategic relationship” with China. Macron warned against “European naivety” toward Beijing underpinning bilateral agreements on the new Silk Road. Similarly, Berlin raised concerns through less public channels.<sup>36</sup>

In 2020, Chinese FDI in Europe came under greater scrutiny by EU member states that updated their FDI screening mechanisms in October. Member states have also moved to block several acquisitions by Chinese firms. In Italy, the “yellow-red” government, formed in September 2019 by the Five Star Movement and the centre-left pro-EU Democratic Party and still led by Prime Minister Conte, made it clear that Italy was a loyal partner of the EU and the Atlantic Alliance. Secretary of State Mike Pompeo’s visit to Rome in October was a signal to strengthen the US–Italy alliance. Hence, Italy would only develop bilateral relations with China in this multilateral framework.

Draghi openly re-established Italy’s international posture in line with Washington and Brussels. Although Rome’s attitude towards Beijing is collaborative, its boundaries and red lines lie in the transatlantic partnership and the EU.<sup>37</sup> By aligning its policies with US and EU priorities, Italy also clarified its position in the emerging technology issue. Several contracts and M&A with Chinese companies were halted in crucial high-tech industrial sectors: communications, industrial vehicles and production of microchips. The Draghi Administration used the government’s power to limit Beijing’s presence in Italy’s 5G infrastructure and to block the takeover of a semiconductor company. In addition, the suspension of talks over the potential sale of Italian truck-maker Iveco to China’s FAW Group benefited from coordination with France.<sup>38</sup>

According to Rhodium Group and Baker-McKenzie, headwinds to Chinese investment in Europe grew in 2021. Chinese FDI activity into Europe continued to fall in the first quarter of 2021, also remaining weak elsewhere, even as global M&A activity recovered and surged to a 10-year high of 1.08 trillion euro. China’s global FDI held steady in 2021, and Chinese outbound M&A reached 23.7 billion dollars, a slight decline compared to 2020. The eighth annual survey shows that Chinese FDI in Europe rose by 25 per cent to 12.8 billion dollars, whereas it fell by 34 per cent in North America to just 5.8 billion dollars. Europe saw the most M&A interest in 2021 with over 8.4 billion dollars’ worth of completed Chinese deals. Europe remains an attractive investment location for Beijing, namely Germany, the Netherlands and the United Kingdom. By contrast, Italy is less attractive.<sup>39</sup>

<sup>36</sup> Ludovica Meacci, “Italy Has Learned a Tough Lesson on China”, in *Foreign Policy*, 24 June 2021, <https://foreignpolicy.com/2021/06/24/italy-china-policy-belt-road>.

<sup>37</sup> Ivo H. Daalder, “The Return of Containment”, in *Foreign Affairs*, 1 March 2022, <https://www.foreignaffairs.com/node/1128598>.

<sup>38</sup> Eleonora Micheli, “CNH: dietrofront dai massimi in Borsa, stop a cessione Iveco ai cinesi”, cit.; Gloria Methri, “Italy Repositions Ties with China amid Failed BRI Deal, Seeks Return to Western Alliances”, cit.; Francesca Ghiretti, “The Belt and Road in Italy: 2 Years Later”, cit.

<sup>39</sup> Baker-McKenzie, *Chinese Outbound FDI Held Steady in 2021, As Global FDI Rebounded*, 26 January 2022, <https://www.bakermckenzie.com/en/newsroom/2022/01/chinese-outbound-fdi>

On the other hand, Italy is China's fourth European trading partner after Germany, France and the Netherlands. In the first nine months of 2021, Italian exports to China grew by 31.5 per cent (11.45 billion euro), and imports from China by 28.3 per cent (28 billion euro). Machinery is the most important industrial sector, followed by clothing, fabrics, stockings, leather articles and chemical products.<sup>40</sup>

### 5. ...What lies ahead

Even while Draghi openly restored Italy's international posture in line with Washington and Brussels, Italy remained willing to work with autocratic regimes like China and Russia, although Draghi made clear there were red lines.

However, there are still elephants in the room. The suspended EU-China Comprehensive Agreement on Investment (CAI) is still possible even though some analysts say not before 2023.<sup>41</sup> Brussels and Beijing agreed on the deal in December 2020 after seven years of negotiations, but over objections from President-elect Biden. Tensions between Brussels and China led the European Parliament to freeze the deal. The United States, the EU, the United Kingdom and Canada imposed sanctions on Chinese officials for alleged human rights abuses in China's Xinjiang region. Beijing also approved retaliatory measures. Nevertheless, the CAI "has lopsided benefits for Europe, and that's going to keep the deal alive".<sup>42</sup>

From China's point of view, President Biden's approach to prioritising alliances and forming coalitions could affect Beijing's economic development and ability to access high technology. Therefore, the EU and President Xi could also play the CAI card in the near future to establish fair, competitive cooperation. Italy could be at the frontline as a crucial global trade partner, together with Germany and France. In 2020, imports from China accounted for 8.6 per cent of total Italian imports, the United States accounted for 4 per cent and Russia for 2.4 per cent. On the other hand, exports to China accounted for 2.9 per cent of total Italian exports, the United States accounted for 9.7 per cent and Russia for 1.6 per cent.<sup>43</sup>

held-steady-in-2021. Asia and North America were second and third with 5.4 billion US dollars and 4.7 billion. M&A in Latin America reached 3 billion US dollars in 2021, while acquisitions in Oceania and Africa totalled approximately 1.5 billion US dollars.

<sup>40</sup> Neil Thomas, "Ratification of EU-China Deal Is Still Possible, Says Eurasia Group Analyst" (video), in *CNBC*, 14 June 2021, <https://www.cnbc.com/video/2021/06/15/strong-chances-of-ratification-for-eu-china-trade-deal-says-analyst.html>.

<sup>41</sup> Neil Thomas, China analyst at Eurasia Group, quoted in Yen Nee Lee, "EU-China Investment Deal Is Still Possible, But Not Before 2023, Analyst Says", in *CNBC*, 15 June 2021, <https://www.cnbc.com/2021/06/15/eu-china-investment-deal-still-possible-but-not-before-2023-analyst.html>.

<sup>42</sup> Ibid.

<sup>43</sup> Italian Ministry of Foreign Affairs and International Cooperation, *Osservatorio economico. Statistiche relative all'import/export di merci dell'Italia*, last updated May 2022, <https://www.infomercatiesteri.it/osservatorio-economico-interscambio-commerciale-italiano-mondo.php>.

Can Western efforts at restoring order contrast Russian efforts at sowing disorder? Italy had repeatedly pushed for diplomatic discussions about a multilateral response to other international crises. Nevertheless, its economic interests as an export-driven economy do not always match its international political position and standing. The unsuitability of its political élites could leave Italy at the mercy of a multiplicity of conflicting local and global interests undermining Italy's international role.

As Rome cultivated long-standing relationships with both Beijing (the Italian government recognised the People's Republic of China in 1970 after informing President Nixon of the political initiative) and Russia, the Draghi Administration could be a crucial diplomatic player thanks to its reassertion of Italy's belonging to the West. Nevertheless, the war in Ukraine could affect political elections coming in 2023. Inflation, economic downturn and possible austerity policies following sanctions against Russia could spread new social discontent that populist parties can exploit for consensus purposes, rekindling anti-Americanism rooted in different sectors of Italian society.

As Ivo H. Daalder, President of the Chicago Council on Global Affairs and former US Ambassador to NATO, states, Russia's containment requires paying attention to China. Indeed, increasing the West's leverage over Beijing implies strengthening the political, economic and military ties between the advanced democracies in Asia, Europe and North America. In this regard, Russia's invasion of Ukraine is a turning point because democratic powers are once again called upon to defend a rules-based order that has been violently uprooted. According to Daalder, "Fortunately, the Western powers possess the innate strength necessary to contain Russia and outcompete China for influence across the globe. The only real question is whether they have the will and determination to do so in unison."<sup>44</sup>

*Updated 31 May 2022*

<sup>44</sup> Ivo H. Daalder, "The Return of Containment", cit.

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