

**THE NEW GEOPOLITICS**  
EUROPE

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# **PLAYING WITH FIRE**

## **Italy, China, and Europe**

**GIOVANNA DE MAIO**



BROOKINGS – ROBERT BOSCH FOUNDATION  
TRANSATLANTIC INITIATIVE



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### EXECUTIVE SUMMARY

The most significant event for Italian foreign policy in 2019 was the signing of a Memorandum of Understanding (MoU) with China endorsing the Belt and Road Initiative (BRI), which marked a break in the ranks of G-7, raising important concerns from Washington that Italy would become an entry point for Chinese influence in Europe. In reality, Chinese investment in Italy's key industries, including energy and telecommunications, has been growing since 2013.

Chinese foreign direct investment in Italy is also significantly lower than in other major European economies such as Germany and France, which have not endorsed the BRI but have secured important trade and investment deals with Beijing. Due to Italy's difficulties in attracting investment because of high taxation and bureaucracy (among other factors), Italy's decision to sign the MoU on the BRI is an attempt to gain advantages over its European competitors to attract Chinese investment and address longstanding economic stagnation.

On top of these existing issues, the devastating economic impact of the COVID-19 pandemic (a 9.1% drop in GDP for 2020 is forecast by the International Monetary Fund) risks pushing Italy further into China's arms. There are indeed mechanisms on both national and European levels to protect against foreign investment in strategic sectors, while different views on China in the Italian political landscape have led to more decisive actions to restrict the development of a 5G wireless network through Chinese technology. But, as Italy's overall political instability and economic weaknesses prevent the development of a clear strategy vis-à-vis China, temporary economic gains can easily backfire.

### INTRODUCTION

With the United States and China on the brink of a trade war, a trans-Atlantic trade truce barely holding, and Chinese fifth-generation (5G) wireless technology spreading all over Europe, Italy's signing of a Memorandum of Understanding (MoU) with China on the Belt and Road Initiative (BRI) in March 2019<sup>1</sup> was both controversial and eye-opening.

The lack of transparency and communication surrounding this move created distrust between Italy and the United States, which had already been disoriented by the scattershot foreign policy and internal quarrels of the coalition government in Rome at the time — a partnership of the anti-establishment Five Star Movement and the right-wing League which lasted 16 months from May 2018 to August 2019. That government vocally advocated for closer relations with Moscow and Beijing — but Italy has a longer history of courting those capitals while remaining anchored in the West.

Nor is Italy alone in seeking close economic ties with China. While Italy has the largest market after China for Huawei smartphones<sup>2</sup> and Huawei is supplying 5G hardware to communication services providers in major Italian cities, German carmakers sell more to China than anywhere else,<sup>3</sup> and France has secured important energy deals with Beijing. Yet the fact is that Italy is the only G-7 country to have endorsed the BRI.



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In this context, Italy offers an important case study, illustrating the political and economic rationale for European countries to cooperate more closely with China. This paper explores Italy-China relations by providing a historical perspective, a comparison of Chinese foreign direct investment (FDI) in Italy and Europe's other advanced economies, and a consideration of increasing Italy-China cooperation in strategic sectors

(particularly communication infrastructure) and the mechanisms that are in place (at both European Union and national level) to protect strategic assets for national security.

After having discussed the China question in Italy's political debate, this analysis assesses that: 1) Italy's longstanding economic stagnation — and the economic shock of the COVID-19 pandemic — combined with its traditional political instability and particularly aggravated by the rise of populist and nationalist forces, places the country at risk of being overwhelmed by Chinese economic and technological power; 2) while Italy's endorsement of the BRI has harmed Italy's international credibility, the competitive dynamic between EU member states over their trade relationships with China prevents a shared approach to the Chinese power.

## ITALY-CHINA TIES IN THE COLD WAR AND BEYOND

In 2020, Italy and the People's Republic of China (PRC) celebrate the 50th anniversary of their diplomatic relations. As with the Soviet Union, the Italian Communist Party (PCI, the largest communist party in Western Europe during the Cold War) played a major role in connecting Rome and Beijing through the creation of the Center for the Development of Economic and Cultural Relations with China and the arrangement of cultural exchange visits to China.<sup>4</sup>

In line with the traditional foreign policy attitude of a middle power trying to resist pressure from and get the most out of bilateral engagement with larger powers, the new post-World War II Italian republic tried to balance solid Atlanticism with a certain openness to partners outside of the Euro-American camp. President Giovanni Gronchi, for example, was the first Western leader to visit the Soviet Union, in 1960, and supported the development of Italy's business ties with Moscow and later Beijing. While U.S. economic

aid played a vital role in Italy's postwar recovery, China's economic potential attracted Italy as well. Then as now, Rome encountered significant resistance from Washington, mostly ascribed to a fear of the Italian Communist Party's influence over Italy's foreign policy. In 1955, for example, a business trip to China by representatives from Fiat and two other companies from the defense (Viscosa) and chemical (Montecatini) sectors was canceled after intense lobbying by the U.S. ambassador to Italy. Similarly, two years later, the White House opposed Italy's trade deal with China on ball bearings, glycerin, and phenol, considered to be dual-use materials.<sup>5</sup>

With the support of Gronchi and Prime Minister Amintore Fanfani, both very ambitious regarding Italy's international role, the Italian state-backed energy company ENI, headed by Enrico Mattei, played a leading role in building up Italy's presence in China beginning in 1958. By 1963, SNAM, an ENI holding, signed the first contract with the PRC for a new hydrocarbon plant in China.<sup>6</sup> The Italian government officially recognized the PRC in 1970, a full eight years before the United States. After that, Italian diplomacy walked a fine line between attempting to profit from the worsening of Sino-Soviet relations to make the most out of relations with both sides and trying not to endanger its partnership with the United States. Although smaller in scope in comparison to other Western countries, trade exchange between Italy and China grew by 96% between 1973 and 1976.<sup>7</sup> Yet it was only in the 1980s that Italy-China trade relations entered a golden age, when the Italian government, under the initiative of Foreign Minister Gianni De Michelis, allocated 600 billion liras to development projects in China.<sup>8</sup> Italy was also the first country in the Western bloc that then Chinese Premier Li Peng visited after the Tiananmen square massacre.<sup>9</sup> In 2004, under Silvio Berlusconi's premiership, relations between Italy and China were formally upgraded to a "strategic partnership"<sup>10</sup> that covered not just bilateral political and economic ties but also cooperation on global issues such as multilateralism and EU-China relations.

As in the case of Russia in the 1990s, most parties across the political spectrum saw China in a relatively favorable light, as "an opportunity" (Prime Minister Romano Prodi, 2006),<sup>11</sup> "soon to be first global power" (Berlusconi, 2010),<sup>12</sup> "a very important strategic partner" (Prime Minister Mario Monti, 2012).<sup>13</sup> More recently, under the leadership of prime ministers Matteo Renzi (2014-2016) and Paolo Gentiloni (2016-2018), Italy expressed interest in the BRI, launched by Beijing in 2013. Starting in 2017 and especially in 2019, several Italian leaders increased the frequency of their official visits to China and their engagement with their Chinese counterparts. Renzi saw the BRI as a "chance for [the economic development] of Italian ports,"<sup>14</sup> while Gentiloni (the current European commissioner for economy, and on leave from his post as a distinguished nonresident fellow at the Brookings Institution) was the only G-7 leader attending the Belt and Road Forum for International Cooperation Forum in Beijing in May 2017, where he praised Chinese President Xi Jinping's decision to include the ports of Trieste and Genoa in the project.<sup>15</sup> More recently, after Xi's visit to Italy in March 2019 (when China and Italy signed the MoU on the BRI), other Chinese leaders visited Italy, such as Foreign Minister Wang Yi, Trade Minister Zhong Shan, Health Minister Ma Xiaowei, and He Lifeng, the minister in charge of the National Development and Reform Commission.<sup>16</sup> In addition to traditional entities supporting Italy-China relations such as the Italy-China governmental committee, the economic commission, the bilateral cultural forum, and the bilateral business forum, in recent months Italy and China have created new frameworks like a financial dialogue and a mechanism for political consultation between the two foreign ministries, with the stated goal of deepening economic and political connections and coordinating initiatives for the 2020 celebrations of the anniversary of diplomatic relations.

Over the years, in parallel with political and economic ties, Italy and China saw a rise of the number of Chinese citizens that established their homes in Italian territory and vice-versa. As of October 2019, Italy hosts 318,000 Chinese citizens on its territory,<sup>17</sup> making this the third-largest Chinese community in Europe (after those in the United Kingdom and France).<sup>18</sup> They work mostly in businesses that produce or sell clothing, in supermarkets, and in electronics stores.<sup>19</sup> According to the last census in 2017, there are more than 9,000 Italians in China (an increase of 3,000 compared to 2012).<sup>20</sup>

## CHINA IN ITALY: TRADE, FDI, AND EUROPEAN COMPARISONS

If Italy's geographic positioning at the center of the Mediterranean makes it naturally inclined to engage in trade relationships with countries outside of the EU, long economic stagnation, the global financial and euro crises, the migration crisis, and most recently, the devastating impact of the COVID-19 pandemic, have made it almost a necessity. Italy's



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industrial base mainly consists of small and medium enterprises that excel in terms of the creativity, design, and quality of their products, but lack the resources to significantly invest in research and development to cope with the challenges of globalization. Since the 1990s, Italy has suffered from an asymmetrical competition with China, whose export-oriented manufacturing and low labor costs particularly harmed Italy's industries, which still focus on traditional sectors.<sup>21</sup>

pursued structural adjustments to reduce public spending, exacerbating its economic problems. Youth unemployment peaked at 43% in 2014<sup>22</sup> (and is now at 33%),<sup>23</sup> while the gap between northern and southern Italy grew deeper. The economy faces a longstanding stagnation — since the early 2000s, Italy's GDP growth has struggled to reach beyond 1.5%; it shrank by 5.3% in 2009<sup>24</sup> and grew by only 0.2% in 2019.<sup>25</sup> Brexit and the hostile trade policies of the Trump administration towards China and the EU also contributed to deterring Italian investment and accelerating the search for alternative investors; all the more as EU sanctions against Russia and Russian countersanctions have deeply damaged the Italian agricultural sector and the exports from small and medium enterprises in Italy's northern and central regions.<sup>26</sup> Trade between Italy and Iran also significantly shrank after the U.S. pulled out of the 2015 Joint Comprehensive Plan of Action (JCPOA) nuclear deal and targeted Tehran with new sanctions.<sup>27</sup>

In the 2008 financial crisis, Italy, along with other southern European countries,

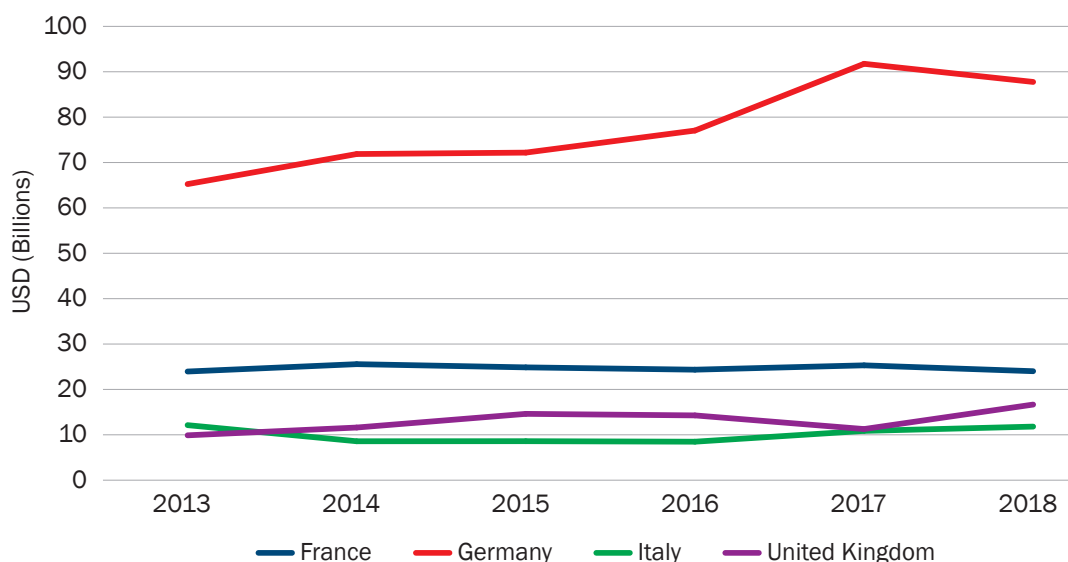
Under these circumstances — and given China's pivot to Europe in 2012, targeting the EU wealthiest economies<sup>28</sup> — Chinese acquisitions and investments, particularly since 2013, appeared not just as a “mandatory opportunity” for Italian goods to access the gigantic Chinese domestic market, but also as the only alternative to failure. This was the case for the fashion brand Krizia, bought by the Chinese stylist Zhu Chongyun; the motorcycle producer Benelli, acquired by the Qianjiang Group; and the luxury yacht company Ferretti, which was acquired by the Chinese company Weichai after financial troubles caused by its management and the lack of interest from other Italian companies due to the uncertainties and risk adverse attitude that permeated Italy's business after 2008.<sup>29</sup>

Chinese presence, and with it leverage, in important Italian companies, expanded in a variety of sectors. In May 2014, two Chinese companies, the Shanghai Electric Group and the China's State Grid, acquired large stakes in two Italian electric energy companies, Ansaldo Energia (40%) and CDP Reti (35%).<sup>30</sup> Chinese business interests also bought some more publicly visible assets: the soccer clubs Inter Milan<sup>31</sup> and AC Milan,<sup>32</sup> and the construction of luxury apartments in Milan by the China Construction Group. During the EXPO food and nutrition trade fair held in Milan in 2015, China was the only country that was present with three pavilions: one for itself, one for the city of Shanghai, and a third sponsored by China's largest real estate group, Vanke. It was also the first time that China participated in a world expo outside of Asia, making it clear that Chinese interest in Italy, and in Europe, was only going to grow.<sup>33</sup>

Italian companies appear to appreciate the Chinese way of conducting business, as they have been able to keep the project designing/engineering in Italy, while using Chinese resources to support research and development, gain access to new markets, and ultimately increase their competitiveness on the global market. In this regard, the 2015 ChemChina acquisition of majority quotas of the storied Italian company Pirelli – world leader in the production of tires – provides a good example of Chinese-Italian industrial synergies. In return for the know-how Pirelli had developed in its 140-year history, the company got access to the growing Chinese market for agricultural tires and the opportunity to export tires from China to the United States. At the same time, ChemChina and Pirelli formally agreed that the Pirelli research and innovation center would keep operating at the University of Bicocca in Milan, allowing Pirelli to hire Italian researchers and to preserve the quality of the product design.<sup>34</sup>

The increased volume of Chinese's presence in Italy can be better understood if put in perspective with the broader context of Chinese investments in Europe, where economies like Germany, France, or the United Kingdom have received more Chinese FDI over the past decade compared to Italy according to OECD data. (see Figure 1).<sup>35</sup>

**FIGURE 1: CHINESE FDI IN FOUR LARGEST EUROPEAN ECONOMIES**



Source: Organisation for Economic Co-operation and Development<sup>36</sup>

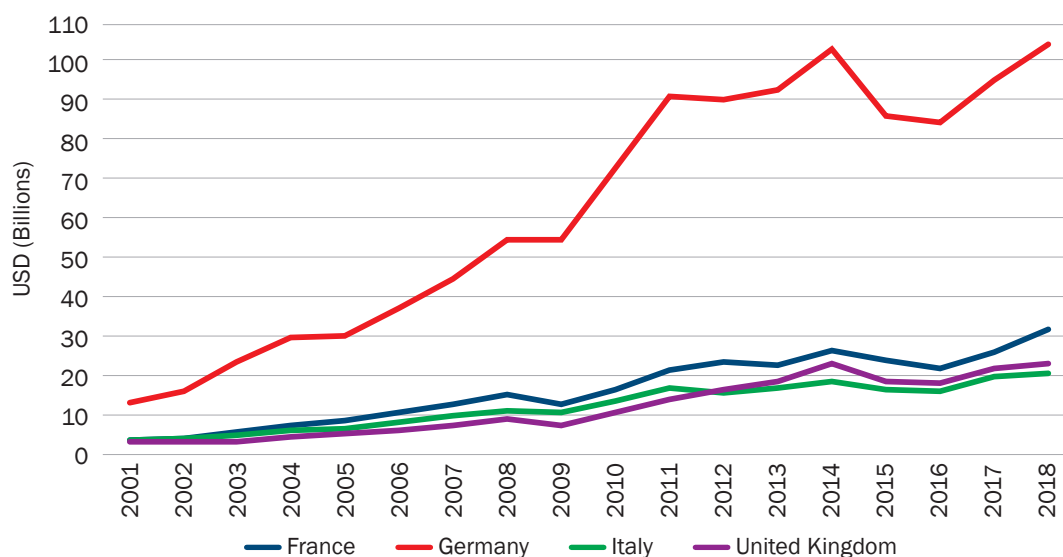


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In Germany, Chinese FDI accounts for more than \$80 billion and have been grown constantly since 2013, while in France it has been fairly stable in recent years, fluctuating around \$25 billion since 2013. Chinese FDI in Italy, meanwhile, accounts for \$12 billion and only began slowly increasing in 2016. However, according to the most recent statistics provided by Merics,<sup>37</sup> in 2018, overall Chinese FDI in the EU significantly shrank as a result of the tightening liquidity in China and increased investment screening in the EU.

As for EU exports to China, Germany again is the frontrunner among the EU countries. Italy's exports are approximately on the same level as the United Kingdom, just behind France, whose exports to China in 2018 accounted for over \$30 billion (see Figure 2).

**FIGURE 2: EXPORTS TO CHINA FROM FOUR LARGEST EUROPEAN ECONOMIES**



Source: UN Comtrade Database<sup>38</sup>

With the exception of Italy, the countries here illustrated have not endorsed the BRI; yet this has not prevented growing trade with China and Chinese FDI in their economies. So far, 13 European countries have signed similar MoUs on the Belt and Road Initiative (Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Greece, Latvia, Lithuania, Malta, Poland, Portugal, Slovakia, and Slovenia), often accompanied by specific investment deals in a variety of sectors (e.g. infrastructure, energy, or communication). At the same time, France recently secured lucrative Chinese contracts for \$15 billion in sectors ranging from aeronautics, to food exports, to even more strategic domains such a nuclear fuel plant to be built by the French group Orano (former Areva).<sup>39</sup> In June 2019, the United Kingdom also clinched deals with China worth \$620 billion during the Chinese vice-prime minister's visit to London.<sup>40</sup>



From the political perspective, EU member states have shown some coordination in both criticizing China for human rights violations in Xinjiang province,<sup>41</sup> restrictions on its domestic market, and unfair trade practices,<sup>42</sup> and in seeking to engage cooperatively with Beijing on climate change, upholding the 2015 nuclear deal with Iran, and North Korean denuclearization. However, from an economic point of view, EU member states find themselves in a competitive dynamic of business opportunities and technological challenges where they prefer to act independently. For example, German Chancellor Angela Merkel and French President Emmanuel Macron disappointed hopes for a joint visit to Beijing, opting for independent trips accompanied by influential businessmen of their respective countries (though Macron also took along Phil Hogan, the European commissioner for trade, and Anja Karliczek, Germany's education minister), while avoiding discussing conflictual issues such as technology transfers and cybersecurity.<sup>43</sup>

## ENDORISING BELT AND ROAD TO BEAT THE COMPETITION

As the above graphs show, an endorsement of the BRI is not an indicator of the extent of a given country's current or future trade relations with China in strategic sectors. Yet, while Italy is substantially less exposed to Chinese FDI and exports less to China than other major European economies do, the MoU that Rome signed with Beijing last March attracted more attention and criticism in Washington than other trade deals or MoUs between China and other EU countries. Questioned by the House Foreign Affairs Committee about the Italian decision, Secretary of State Mike Pompeo said that "It's disappointing any time any country begins to engage in behavior and commercial interactions with China that aren't straight up" and expressed sadness because, in his opinion, "the people of those countries ultimately lose."<sup>44</sup>

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Indeed, the MoU referenced cooperation in transportation, logistics and infrastructures (including telecommunications), but Italian authorities firmly insisted on its non-binding nature and on the fact that it was drafted in full accordance with European standards, and ultimately on the limited economic scope of the trade deals that accompanied it (\$2.8 billion).<sup>45</sup> But while U.S. criticism is focused on concerns over potential security risks connected with Chinese control of key infrastructure and data security issues related to the development of 5G networks, the real source of American frustration is the legitimacy that Italy provided the BRI as the first and only G-7 country to sign on to what is widely seen as a geopolitical project.

In this regard, characteristics of the Five Star-League government—the political clumsiness of unexperienced leaders, ambiguities in foreign policy resulting in sovereigntist choices, and rivalries and lack of cooperation between coalition partners—were particularly relevant in shaping the decision of signing the MoU on the BRI. While both coalition partners shared Euroskeptic views, they had different ideas on how to promote Italy's national interest, with the Five Star Movement more vocally quarreling with the EU on budgetary issues and more firmly convinced that deepening ties with Beijing would benefit the Italian economy. Yet, while engaging with partners outside the Euro-Atlantic area for economic interests fits into the traditional approach of Italian foreign policy, the signing of the BRI was a strongly political move. In addition to it, the League and the Five

Star Movement's many differences on domestic and foreign policy and their divergent fortunes in the polls (the League significantly more and the Five Star Movement significantly less popular than at the March 2018 election) heated up domestic political debate ahead of the May 2019 European Parliament elections, giving the impression of a government constantly on the brink of crisis. As a result, the government did not provide a sufficient oversight of the China Task Force and underestimated the consequences and reputational impact of signing a MoU on the BRI.<sup>46</sup>

Apart from breaking the ranks of the G-7 countries, Italy also undermined its credibility vis-à-vis European allies at a moment in which the European Union was starting to promote its Connectivity Strategy, envisaging a shared approach to enhance ties between Europe and Asia,<sup>47</sup> and was about to launch the EU-China strategic outlook, establishing a framework for cooperation with China. As a result, Italy raised apprehensions over it becoming an entry point for Chinese influence in the West.<sup>48</sup>

But this was precisely the political rationale of Italian negotiators: they hoped to leverage Italy's political weight in endorsing the BRI in order to acquire more diplomatic leeway with Beijing for potential business deals and to gain a competitive advantage over other European countries exporting to China. In line with its traditionally open and ideology-free approach to China and to international relations in general, Italy concluded this deal under the banner of its own national interest. Small and medium enterprises (the core of the Italian economy) in particular welcomed the MoU as it defines standards for trading with China.<sup>49</sup> As the MoU also established a framework for cooperation between Rome and Beijing in third countries, Italy's economic and security interests in the stability of North African countries (where Chinese influence and FDI have been growing in recent years) are particularly well served.

Notwithstanding the creativeness and high quality of Italian industry, the country's attractiveness for FDI is much lower in comparison to other European countries as assessed by the World Bank (for high taxation, intricate bureaucracy, and low level of productivity among other factors),<sup>50</sup> and it is fair to assume that the Chinese might have insisted on Rome endorsing the BRI as a condition for investments in larger-scale projects to improve infrastructure and connectivity. Following the signing of the MoU, Italy has already been granted a degree of political favoritism by China, as Luigi Di Maio was the only foreign minister amidst the heads of state and government attending the China International Import Expo in Shanghai in November 2019; he said there that 2020 will be the year in which Italy will "harvest the fruits of the MoU" and announced important deals for the export of Italian beef and special varieties of rice.<sup>51</sup>

Whether or not endorsing the BRI will help Italy beat its European competitors for future access to Chinese markets or attract more Chinese investments, is a question that it is too early to assess — overall it was meant to establish a framework for cooperation more than immediate benefits.<sup>52</sup> So far, there has been no significant progress in infrastructure projects discussed alongside the MoU, specifically regarding the industrial giant Chinese Communication and Construction Company's (CCCC) interest in the port of Trieste. That city's geographic location at the north end of the Adriatic Sea and the special free trade zone status of its port could make it the main entry-point for Chinese exports to central and eastern Europe, and a potential competitor for the German ports of Hamburg<sup>53</sup> and Duisburg.<sup>54</sup> But apart from these projects involving traditional infrastructure, urgent questions have been raised around the national security implications of increased cooperation with China on 5G telecommunications technology.

## HUAWEI IN ITALY: A RISK WORTH TAKING?

Since 2004, Huawei has steadily expanded its presence in Italy through projects on “smart cities”<sup>55</sup> with university research centers.<sup>56</sup> Today, Italy is the second largest market for Huawei smartphones and the Chinese tech giant employs around 800 people in Italy, a significant figure given that Huawei does not have production plants in the country.<sup>57</sup> Huawei’s employment numbers are even higher in Germany and France, respectively 2,200<sup>58</sup> and 1,000,<sup>59</sup> with the company’s first factory outside of Asia expected to be opened in France.<sup>60</sup> Furthermore, Huawei recently recruited 85 Italian developers to work on its own app distribution platform AppGallery<sup>61</sup> to supply Huawei smartphones instead of outsourcing it to Google’s Play Store.

During the Italy-China Forum in Milan in July 2019, Huawei Italia CEO Thomas Miao revealed the company’s plans to invest more than \$3.1 billion in Italy over the next three years in supplies, marketing operations, and research and development, with the intention of creating around 1,000 jobs, as well as a collaboration with the University of Pavia, the Microelectronics Innovation Lab.<sup>62</sup> With a strategy based on beating competitors through an unrivaled level of technological advancement combined with low prices, Huawei was able to partner with major Italy communication companies for pilot projects for the launching of a 5G network that would allow Italian providers to raise the prices for their services (which have been significantly decreasing over the last years). Huawei technology may be soon employed in the metropolitan areas where it has been already tested, including Milan, Bari, Matera, L’Aquila, Prato, and Rome, where it closely cooperates with TIM and Fastweb.<sup>63</sup>

Due to 5G’s incredibly innovative potential consisting in delivering low latency, high data rates, and reliable connections, Italy, like other countries, counts on the technology to play a crucial role in economic development first for urban areas and then for sectors demanding dedicated coverage (manufacturing, energy, and healthcare among others). Out of 50 5G commercial contracts Huawei has secured globally, 28 were signed in Europe.<sup>64</sup> As Huawei appears to be the most competitive company in the global race to 5G, with little direct European competition currently from Nokia and Ericsson,<sup>65</sup> both of whom are struggling to meeting demand,<sup>66</sup> European countries are generally finding it difficult to halt cooperation with China on 5G technology because of the vital importance they ascribe to this technology for their future economic development.

Yet the deeper the interconnections between industries and critical services become, the higher is the risk of cyberthreats related both to Chinese government control over Huawei and to the nature of the 5G technology itself. The European Commission<sup>67</sup> and the European Union Agency for Cyber Security (ENISA)<sup>68</sup> identify threats and risks of 5G technology as including espionage by state or state-backed actors, and state interference through 5G supply chains, among others. In its annual report, the Huawei Cyber Security Evaluation Centre (HCSEC) Oversight Board in the United Kingdom<sup>69</sup> warned about significant technical issues in Huawei’s engineering processes — specifically in software development — and declared that until these issues are solved, it would be difficult to provide substantial assurances regarding the management of long-term risks for U.K. national security. Similarly, the Italian Parliamentary Committee for the Security of the Republic conducted a study<sup>70</sup> in which it urged the Italian government to consider the exclusion of state-controlled companies such as Huawei from the building of 5G networks and has recently requested an investigation regarding the data of the Italian users of the Chinese video-sharing app TikTok.<sup>71</sup>

In July 2016, the European Union adopted a directive on the security of network and information systems<sup>72</sup> listing specific security requirements relevant to the 5G ecosystem and related critical systems in EU telecoms legislation. Specifically, member states need to ensure that telecoms operators take appropriate measures to manage security risks, preserve the integrity of their networks, and cooperate with each other on cross-border risks and incidents. Some officials advocate that the risk related to Huawei technology in the European market could potentially be “managed” overall by limiting outsourcing to Huawei of limited parts of the network that are not connected to the traffic of data, or, alternatively, by limiting the information circulated through the Huawei 5G network (for example no military or other classified intelligence).<sup>73</sup>



Nevertheless, the complex nature of this cutting-edge technology makes it difficult to provide any real security guarantees, because of the risk of hidden “backdoor” data access for Huawei.<sup>74</sup> If so, any sort of data transmission through a Huawei-built

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network could potentially be at the disposal of the Chinese government, especially in light of the 2017 Chinese National Intelligence Law, which obliges companies to accept government supervision and ultimately to cooperate with the government in matters of national security.<sup>75</sup> For this reason, the Italian government has put in place a new cybersecurity law<sup>76</sup> and expanded the “golden power rule” to require further screening of FDI in strategic sectors such as communications.

## INVESTMENT SCREENING AND ITALY’S “GOLDEN POWER RULE”

The challenges posed by Chinese-developed 5G technology must be understood in the context of the broader discussion on the screening of FDI coming into the EU from third countries.

In a March 2019 document, “EU-China — a strategic outlook”,<sup>77</sup> the European Commission refers to China simultaneously as a “partner” in some policy areas and “a systemic rival promoting alternative models of governance.” The report insists on the need for Beijing to take on more responsibility and reciprocity in its relations with the EU, a point reiterated by Macron when he met Xi in Paris together with Merkel and then-President of the European Commission Jean-Claude Juncker in March 2019 in an attempt to present a European front to address the China challenge.<sup>78</sup> Since strategic interests vary by country, the EU for now only sets guidelines for member states to engage with third countries and state-owned entities, establishing a broad framework for the screening of FDI into the Union, and instructing countries to evaluate criteria such as the potential effects on critical infrastructure and sensitive facilities.<sup>79</sup> As of now, 15 European countries have notified the European Commission of their screening mechanisms and amendments,<sup>80</sup> most of which consist of regulations allowing the government the use of special powers in order to screen FDI that is considered potentially harmful to the national interest.

As far as Italy is concerned, legislation on FDI screening is robust and has been evolving over the years to achieve its current formulation, which refers to these

special powers as the “golden power rule.” When it was first introduced in 2012, Italy’s screening of foreign investments was mostly related to asset acquisitions in the energy, transportation, security, and communications sectors. But in 2016, law decree 148 substantially extended the applicability of the “golden power rule” to the “high-intensity technological sector,”<sup>81</sup> in light of growing concern over Chinese acquisitions and investments in Italy.

Despite the broadened scope of the investment screening law, however, the decision to apply the “golden power rule” is ultimately a matter for political discretion. Italy does not have an independent committee to take screening decisions like the Committee on Foreign Investment in the United States (CFIUS).

In recent months, Italy has aligned itself with the more protectionist approach of France, Germany, and Poland, pushing the European Commission to take more decisive steps on competition laws in order to protect the EU’s strategic sectors and infrastructure against competition coming from both the United States and China.<sup>82</sup> The business community agrees with this approach: a recent position paper from the General Confederation of Italian Industry (Confindustria) advocates for more protectionist measures and the extension of European standards in trade relationships with third countries and urging the Italian government to cooperatively engage in the definition of a common European strategy towards China.<sup>83</sup>

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## CHINA IN ITALIAN POLITICS

Over Italy’s postwar history, parties in power from all political families have sought economic opportunities and political cooperation with China. As mentioned, recent prime ministers also saw potential fruitful opportunities for Italy in the BRI.<sup>84</sup>

However, under the recent Five Star-League government, Italy-China relations became an issue of disagreement between the coalition partners, at least in their foreign policy narrative. The Five Star Movement had been one of the main proponents of an intensification of Italy’s ties with China since it entered the Italian parliament in 2013 as an anti-establishment opposition force. Five Star’s advocacy for an alternative approach to foreign policy, particularly vis-à-vis countries like China and Russia, was tinged by strong Euroskepticism and mild anti-Americanism. For example, in 2015, the Five Star members of the Italian parliament’s foreign affairs committee organized a conference titled “the new world with the BRICS,”<sup>85</sup> aimed at providing Italy with a “new geostrategic approach that would be an alternative to the Euro and to Atlanticism.”<sup>86</sup> In 2016, Five Star MPs submitted a legislative proposal that would have subjected Italy’s membership in NATO to a biennial ratification by the Italian parliament.

The anti-Atlanticist attitude has gradually faded and now completely disappeared as the Five Star Movement gained more political experience, entered government, and changed coalition partners in August 2019. In line with its “ideology-free” approach to politics and ideas on prioritizing national interests over international cooperation, the party established a Task Force on China under the leadership of the Ministry of

Economic Development, headed at the time by the Five Star Movement's then-leader Luigi Di Maio.

Although aligned with Five Star on anti-European stances, such as blaming the EU for Italy's economic stagnation, the League's leader Matteo Salvini never criticized the United States and admired President Donald Trump's "America First" approach. At the same time and behind the scenes, the League kept on engaging with the two main challengers to U.S. leadership, China and Russia. In fact, while negotiating for government posts in the 2018 coalition formation, the League was able to place one of its key players, Michele Geraci, as undersecretary of state with responsibility for trade at Di Maio's Ministry of Economic Development, where he became the head of the Task Force on China. With a background in electronic engineering and business administration, Geraci has long been tied to China, with teaching experience in three Chinese universities, and he was the mastermind behind Italy's signing of the MoU on the BRI.

The frequent clashes between the coalition partners, along with the unstable climate of the electoral campaign for the 2019 European Parliament elections, gave Geraci a great deal of latitude for his work on the MoU, with little oversight from both Salvini and Di Maio, who underestimated the political weight of such initiative. As heavy critiques arrived from the White House<sup>87</sup> immediately after the signing of the MoU, Di Maio visited the United States and met with then-National Security Advisor John Bolton and then-Secretary of Energy Rick Perry in an attempt to reassure Washington about Italy's loyalty and trans-Atlantic commitments.<sup>88</sup>

The Five Star Movement's openness to China stayed consistent even after the collapse of the coalition with the League and the start of a new coalition with the center-left Democratic Party (PD), in which Di Maio became foreign minister. In this capacity, Di Maio pushed to transfer competencies for the international promotion of Italian business interests and brands to the Ministry of Foreign Affairs.<sup>89</sup> This means that the Italian Trade Agency (ICE), responsible for international trade, has been moved from the Ministry of Economic Development to the Ministry of Foreign Affairs, giving Di Maio a broad control over Italy-China relations in the framework of the BRI. This reform had been on the table for quite some time, but the fact that it was finalized under the leadership of Di Maio is a sign of the Five Star Movement wanting to have more control over Italy's economic agenda and ensure continuity in Italy's opening to China. This is reinforced by the fact that Di Maio chose Ettore Sequi, former Italian Ambassador to Beijing, as cabinet chief for the Ministry of Foreign Affairs.<sup>90</sup>

The Five Star Movement's fascination with China is also linked to its focus on technology. Davide Casaleggio — the son of the late internet guru Gianroberto Casaleggio, co-founder of the Five Star Movement and promoter of direct democracy — recently hosted Huawei Italia CEO Thomas Miao for an event on smart business organized in Milan by his company, the Casaleggio Associates, which manages the party's online platform Rousseau<sup>91</sup> as well as the blog of its other co-founder and former leader, the comedian Beppe Grillo. Di Maio symbolically "switched on" the first 5G antenna connecting Bari with Matera (inaugurating the second testing-round of this project),<sup>92</sup> while Manlio Di Stefano (currently undersecretary of state in the Ministry of Foreign Affairs) attended the inauguration of Huawei's Rome office in October.<sup>93</sup>

From behind the scenes, Grillo cultivated informal ties with the Chinese ambassador in Rome, who invited him for a private visit at the embassy.<sup>94</sup> Grillo has published

controversial posts (written by others) on his blog<sup>95</sup> denying the human rights abuses in Xinjiang against the Uighur population. Similarly, Di Maio had initially adopted a very cautious approach on the massive protests in Hong Kong at the China International Import Expo in Shanghai in early November 2019.<sup>96</sup> Yet, after the Chinese ambassador in Rome openly condemned the video conference between the Hong Kong protest leader Joshua Wong and Italian Members of Parliament, Di Maio finally said that “commercial ties [between Italy and China] cannot put into question the respect of the Italian institutions, of the parliament and of the government.”<sup>97</sup>

Conversely, Salvini’s League was the party that most vocally opposed close cooperation with China, supported by Berlusconi’s Forza Italia<sup>98</sup> and Giorgia Meloni’s Brothers of Italy. Though Geraci, who negotiated the MoU, belongs to the League, just a couple of weeks before Italy signed it, Giancarlo Giorgetti — the undersecretary for the prime minister and one of the League’s most influential personalities — traveled to the United States to reassure Washington about the content of the MoU and the legislative tools that the League was promoting in order to prevent intrusive foreign (read Chinese) investments. Later in June, Salvini met with Secretary of State Mike Pompeo and Vice President Mike Pence, reiterated Italy’s closeness to the United States,<sup>99</sup> and stressed the importance of national sovereignty over trade deals with China.<sup>100</sup> On a less rhetorical level, the League actually pushed for the extension of the above-mentioned “golden power rule” (screening foreign investment to protect national strategic assets) to electronic communication services running on broadband with 5G technology, mostly targeting Huawei and ZTE.<sup>101</sup> This proposition became a law in May 2019, and the new coalition government between the Five Star Movement and the left-of-center Democratic Party applied it to supply deals involving communications companies (TIM, Vodafone, Wind Tre, Fastweb, and Linkem) operating in Italy which had recently partnered with Huawei and ZTE on the development of 5G.<sup>102</sup> In a very propagandistic fashion, once back in opposition, Salvini also insisted on scheduling a vote to condemn the violence in Hong Kong and took stronger anti-Chinese stances.

In the meantime, the Five Star Movement’s current coalition partner, the Democratic Party — which has always had trans-Atlanticist views on foreign policy — has been essentially silent on the China issue with the exception of deputies like Lia Quartapelle<sup>103</sup> and Ivan Scalfarotto,<sup>104</sup> who have relatively limited influence on the leadership of the party. This silence is probably motivated by the fear of (further) destabilizing a precarious government coalition, and out of an acknowledgement of the importance of Chinese investments for revitalizing the Italian economy.

While all political forces seem to agree on this last point, the absence of a long-term and forward-looking China strategy does expose Italy to severe risks of economic blackmail. As the political clumsiness around the signing of the MoU has shown, China did not miss the opportunity to exploit the rivalries between Italy’s political forces and capitalize on the political endorsement of the BRI from a G-7 country. For

**China’s growing investments in Italy’s strategic sectors and infrastructure might still become an object of economic blackmail, particularly for Italian local administrations that are more likely to accommodate Chinese conditions to boost the local economy while not being protected by a stable central government with a consistent strategy on how to engage with China.**



now, experts from the Bank of Italy exclude the risk of Italy falling into a “debt-trap”<sup>105</sup> as a result of predatory Chinese lending practices as seen in smaller countries with weaker political systems.<sup>106</sup> For now, no significant advancement has been reported on Chinese operations regarding the ports of Genoa and Trieste, which were mapped as potential gateways for the BRI, and Italy is still far behind European peers in terms of Chinese FDI and trade. Yet China’s growing investments in Italy’s strategic sectors and infrastructure might still become an object of economic blackmail, particularly for Italian local administrations that are more likely to accommodate Chinese conditions to boost the local economy while not being protected by a stable central government with a consistent strategy on how to engage with China.

In addition to this, the global COVID-19 pandemic — which has taken a particularly hard toll on Italy, with more than 30,000 deaths — risks increasing Chinese political and economic influence in the country. As Beijing was more responsive than European countries in providing medical supplies and assistance in the initial phases of Italy’s crisis, both in the form of for-purchase goods and donations (such as the facemasks provided by Huawei and Xiaomei), Di Maio openly praised China and claimed that “investing in the friendship with China [through the MoU] has saved lives in Italy.”<sup>107</sup> Italian officials are not naïve about Chinese aid and Prime Minister Giuseppe Conte has made clear that Italy’s government is going to use the “golden power rule” to protect strategic sectors.<sup>108</sup> But in the absence of unified and decisive EU actions to support economic recovery, Italy, facing grievous economic damage — with its GDP expected to plummet 9.1% in 2020 according to the International Monetary Fund<sup>109</sup> — might well find itself forced to turn to China for help.

## CONCLUSION

Longstanding economic stagnation, confrontations with the EU over austerity policies and budgetary issues, trans-Atlantic trade instability, and Western tensions with Russia are the factors that contributed to Italy seeking closer contact with China.

Consistent with its Cold War history, Italy’s political leadership has sought to balance its Euro-Atlantic alignment with cooperative engagement with a variety of external players, mostly for economic but also for political reasons. Italy’s engagement with China fits this history, especially considering the risk averse attitude of the Italian business sector and the large Chinese investments in research and development in Italy.

But European competition over access to the Chinese market for European products undermines the possibility of a common European approach. While the EU has established baselines specifically on FDI screening and in general on rules of engagement with third countries, the reality is that its member states fiercely compete with each other. Compared to other large European economies, Italian exports to China as well as Chinese FDI in Italy are relatively limited. There are also several endemic deficiencies that prevent Italy from attracting FDI in general, such as high level of taxation, low productivity, and excessive bureaucracy. Therefore, the rationale for Italy’s signing the MoU with China was to leverage its political weight as the first and only G-7 country to endorse the BRI to potentially gain an advantage over other competitors.

Progress has been made regarding FDI screening and on an overall awareness of security risks connected to the development of 5G networks. Yet the application of



these regulations is highly contingent on political will. Both at the EU and Italian national levels, legislative tools for investment screening (like the “golden power rule”) have been strengthened through extension to telecommunications, now listed as national security assets. In several EU countries, and most recently in Italy where Huawei’s presence has grown since 2004, potential dangers for national security connected to the Chinese-led development of 5G technology are currently under scrutiny by state agencies. However, the decision to apply these protective measures ultimately depends on the political will of the parties in power.

Populist rhetoric and political quarrels between the coalition partners in Italy’s previous government led to inconsistencies in Rome’s foreign policy choices that damaged the country’s credibility. Aside from breaking G-7 unity on the BRI and receiving criticism from the United States, which expressed real concern over Italy becoming an entry point for Chinese political and economic influence, Italy also weakened the EU position vis-à-vis China, which was already undermined by inter-state competition over access to Chinese markets.

As the global recession due to the COVID-19 pandemic will have a particularly hard impact on Italy because of the existing shortcomings of its economy, and in the absence of a powerful and coordinated economic response at the European level, Italy will increasingly risk turning to China for investment and other economic assistance. Without substantial government oversight and a forward-looking strategy on protecting strategic sectors – but most importantly without political stability and an approach to China that is consistent over time – Italy risks being overwhelmed by Chinese economic and technological power, especially after the events of early 2020.

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