Istituto Affari Internazionali

IAI PAPERS 21 | 52 - DECEMBER 2021
ISSN 2610-9603 | ISBN 978-88-9368-235-0

China in Italy: Risk Assessment and Preventive Solutions

by Beatrice Gallelli and Lorenzo Mariani

ABSTRACT

Italy's 2019 decision to sign a Memorandum of Understanding with China in support of the Belt and Road Initiative sparked a heated debate at home and abroad. The possibility of Italy upgrading its trade and investment relations with China through the shortcut of a political endorsement of President Xi Jinping's flagship foreign-policy initiative was framed as either a heaven-sent opportunity or a serious strategic threat. Two years on, most of the concerns pointed out in the debate, especially regarding infrastructures, have proven unsubstantiated (although the economic opportunities for which the Italian Government wished have also failed to materialise). However, cooperation initiatives between Italian and Chinese entities in sectors often overlooked in the mainstream debate, such as media and academic partnerships, do present risks. The creation of an interagency China Information and Coordination Unit would help to prevent – or, at least, to minimise – such risks.

China | Italian foreign policy | Economy | Foreign trade | FDI | R&D | Technology | Education | Media

keywords

IAI PAPERS 21 | 52 - DECEMBER 2021 ISSN 2610-9603 | ISBN 978-88-9368-235-0

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Introduction

In March 2019, relations between Italy and the People's Republic of China (PRC) moved into the spotlight as never before. During a state visit to Rome by President Xi Jinping, Italian Prime Minister Giuseppe Conte, supported by a coalition between the anti-establishment Five Star Movement (M5S) and the Eurosceptic Northern League (later, simply the League),[1] signed a *Memorandum of Understanding between the Government of the Italian Republic and the Government of the People's Republic of China on Cooperation within the Framework of the Silk Road Economic Belt and the 21st Century Maritime Silk Road Initiative* (henceforth, MoU).[2] Twenty-eight further agreements (ten of commercial and eighteen of an institutional nature) were signed as additions to the broader MoU.[3] Italy thus became the first (and, thus far, only) G7 country to officially join the so-called Belt and Road Initiative (BRI) launched by President Xi in 2013. Despite being a non-binding document merely outlining a framework for cooperation, the MoU sparked a heated debate

[1] The Northern League changed its name to the "League" in December 2019 as a rebranding following an indictment for misappropriation of state funds by the Northern League's former leader, Umberto Bossi.

[2] Italy and China, *Memorandum of Understanding Between the Government of the Italian Republic and the Government of the People's Republic of China on Cooperation within the Framework of the Silk Road Economic Belt and the 21st Century Maritime Silk Road Initiative*, 22 March 2019, https://www.governo.it/sites/governo.it/files/Memorandum_Italia-Cina_EN.pdf.

[3] These accords are also called memoranda of understanding, but we call them "agreements" here to avoid confusion with the MoU signed by the two governments. See Italian Government, *Lista delle intese commerciali presentate a Villa Madama. Visita di Stato del Presidente cinese Xi Jinping*, Rome, 22-23 March 2019, https://www.governo.it/sites/governo.it/files/Intese_commerciali_Italia-Cina.pdf; and *Intese istituzionali sottoscritte in occasione della visita del Presidente Xi Jinping*, Rome, 22-23 March 2019, https://www.governo.it/sites/governo.it/files/Intese_istituzionali_Italia-Cina.pdf.

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. Paper prepared in the framework of the IAI project "When Italy Embraces the BRI", which aims to analyse the development of BRI agreements in Italy.

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inside and outside Italy's borders. Italian policymakers were careful to make the language of the MoU consistent with Western norms and standards as well as with the European Union's strategy on *Connecting Europe and Asia* of September 2018.[4] Nevertheless, the move was welcomed neither in Washington nor in several other European capitals.

The view from the United States

The harshest criticism came from the United States. When, in early March 2019, Italy's Undersecretary of State for Trade and Foreign Investment Michele Geraci confirmed to the *Financial Times* that the Italian Government was negotiating an MoU in support of the BRI, Garrett Marquis – at that time Senior Director for Strategic Communications at the US National Security Council (NSC) – urged it to refrain from supporting what he called China's "vanity project".[5] A tweet from the official account of the US NSC stated that "endorsing [the] BRI lends legitimacy to China's predatory approach to investment and will bring no benefits to the Italian people".[6] In the following days, more US officials joined in the criticism of Italy's decision. US Ambassador to Italy Lewis Eisenberg publicly stated that Chinese investments in Italian infrastructures would carry risks for Italy's national security.[7]

Ambassador Eisenberg's concerns about Chinese investments in infrastructural development in Italy revolved around two sectors in particular: telecommunications and maritime hubs. At that point, the administration of Donald Trump had already embarked on a global campaign to convince US allies to enact bans on the use of Chinese 5G technologies on the grounds that companies such as Huawei or ZTE could let the Chinese government eavesdrop on sensitive data. While 5G technologies were excluded from the remit of the Sino–Italian MoU, concerns evidently persisted in Washington.

Another reason for apprehension was that China's state-owned enterprises (SOEs) could now acquire majority shares in large Italian infrastructure facilities, especially ports, as had already been the case with the Greek port of Piraeus. Criticisms of Italy's decision to sign the MoU also drew on the experience of other countries involved in BRI-related projects, which showed that the initiative was fraught with problems. Specifically, some commentators argued that Italy might be unable to repay the generous Chinese loans through which joint infrastructural projects were supposed to be funded, and it could thus eventually fall into the so-

[4] European Commission and European External Action Service, *Connecting Europe and Asia. Building Blocks for an EU Strategy* (JOIN/2018/31), 19 September 2018, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52018JC0031.

[5] Jan Wolfe, "U.S. Official Suggests Italy Avoid China's Belt and Road Plan", in *Reuters*, 9 March 2019, https://reut.rs/2EQdJDQ.

[6] NSC 45, "Italy is a major global economy and a great investment destination…", in *Twitter*, 9 March 2019, https://twitter.com/WHNSC45/status/1104402719568203776.

[7] AdnKronos, "Intervista integrale all'ambasciatore americano a Roma, Lewis Eisenberg", in *YouTube*, 29 July 2020, https://youtu.be/5OM8Ipo99Jg.

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called debt trap.[8]

The US Government apparently also signalled its distress in private high-level meetings. According to the *New York Times*, Trump Administration officials pressured members of the League to disown the deal – with former Trump campaign manager Steve Bannon warning against China's "British East India Company model of predatory capitalism".[9] Although criticism coming from US officials was centred on security concerns, the main problem was that Italy was lending Xi's pet project a good deal of international legitimacy.[10]

The views from Europe

While criticisms from Washington focused on technology and infrastructures, the debate in Europe revolved around the notion that Italy's decision would create divisions between EU member states – thus jeopardising the Union's strategy vis-à-vis China.[11] The Dutch prime minister, Mark Rutte, warned Italy not to be "naive" and suggested considering "the possibility that China [… was] also pursuing some of its national interests".[12] French President Emmanuel Macron stated that "it is not a good method to discuss bilaterally agreements on the new 'Silk Road'".[13] In addition, veiled criticism came from German Foreign Minister Heiko Maas. Asked about Italy's endorsement of the BRI, Maas said that "if some countries believe that they can do clever business with the Chinese, then they will be surprised when they wake up and find themselves dependent".[14]

EU institutions also expressed some displeasure. European Commission spokesperson Maja Kocijančič commented that "neither the European Union nor any of the member states can effectively achieve their aims with China without full unity". She also recommended that the Italian Government "ensure consistency with EU law rules and policies" as well as respect for "EU unity in implementing new

[8] Former US Secretary of State Mike Pompeo also warned that Beijing would take advantage of Rome, recalling the common assumption that the BRI only plays in China's favour. Hannah Roberts, "US Warning to Italy: You're Being Exploited by China", in *Politico*, 30 September 2020, https://www.politico.eu/?p=1469788.

[9] Jason Horowitz, "A Forgotten Italian Port Could Become a Chinese Gateway to Europe", in *The New York Times*, 18 March 2019, https://www.nytimes.com/2019/03/18/world/europe/italy-trieste-china-belt-road.html.

[10] Giovanna De Maio, "Playing with Fire: Italy, China and Europe", in *Brookings Reports*, May 2020, https://brook.gs/2LyMwtc.

[11] Maaike Okano-heijmans and Tomoki Kamo, "Engaging but Not Endorsing China's Belt and Road Initiative", in *Clingendael Policy Briefs*, May 2019, https://www.clingendael.org/node/10262.

[12] Angela Giuffrida, "Italy and China in Plan for New Silk Road-style Trade Network", in *The Guardian*, 23 March 2019, https://www.theguardian.com/p/b4xp8.

[13] Alexandra Brzozowski and Jorge Valero, "'Don't Be Naive with China', EU Leaders Tell Italy", in *Euractiv*, 22 March 2019, https://www.euractiv.com/?p=1325630.

[14] Natasha Turak, "Italy Joining China's Belt and Road Project Is 'Geopolitically Unwise,' Former Prime Minister Says", in *CNBC*, 25 March 2019, https://www.cnbc.com/2019/03/25/italy-joining-chinas-belt-and-road-project-is-unwise-former-pm.html.

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policies".[15] The same advice came from Jean-Claude Juncker, the then president of the Commission, who, on the eve of Xi's visit to Italy, called for a unified EU policy towards China. Growing entanglement with the Chinese economy, he added, could result in the Union losing the ability to hold China accountable for its malpractices – from market distortions to human-rights violations.[16]

The debate in Italy

Interpretations also diverged in Italy. Some Italian commentators explained the MoU in support of the BRI as a profit-driven choice by a populist and Eurosceptic government ready to defy Italy's EU partners (and the United States) in order to secure greater access to China's market and investments.[17] The MoU was, in this respect, interpreted as a "soft balancing strategy" targeting Paris, Berlin and Brussels, as Italy could leverage strengthened ties with the PRC in negotiations with those European capitals on other issues.[18] The timing was indeed sensitive from the perspective of other EU member states, because the MoU was signed while the European Council was discussing the preparations for an upcoming EU–China summit.[19]

Others maintained that the MoU by no means implied that Rome was changing its traditional Euro–Atlantic foreign-policy approach. They argued that the heated debate about the MoU reflected mounting tensions over trade and other issues between the United States and China, and the politicisation of the PRC in the US domestic debate, rather than the agreement's actual contents.[20] According to this view, striking the agreement represented a way for Italy to defend its economic and strategic interests. These ranged from the desire to strengthen trade and investment relations with the world's second-largest economy to the need to establish a platform for dialogue with a new global power that was gradually increasing its presence in Italy's surrounding regions – especially at a time of

[15] Samuel Stolton with Gerardo Fortuna, "Leaked Memo Reveals China's Detailed Plans in Italy", in *Euractiv*, 8 March 2019, https://www.euractiv.com/?p=1320628.

[16] Ben Westcott, "EU Leader Juncker Criticizes Uneven Relations with China Days After Xi Visit", in *CNN*, 2 April 2019, https://edition.cnn.com/2019/04/02/asia/juncker-xi-eu-china-intl.

[17] Nicola Casarini, "Rome-Beijing: Changing the Game. Italy's Embrace of China's Connectivity Project, Implications for the EU and the US", in *IAI Papers*, No.19|05 (March 2019), p. 12, https://www.iai.it/en/node/10105.

[18] Philip Giurlando, "Populist Foreign Policy: The Case of Italy", in *Canadian Foreign Policy Journal*, Vol. 27, No. 2 (2020), p. 251-267.

[19] The priorities of the European Council included the establishment of a screening mechanism, an instrument widely seen as essential in defending against predatory investments – including, and especially, from the PRC. Italy abstained from the vote on the mechanism, which made it one of the two outliers (the other being the United Kingdom); even Greece and Hungary, traditionally deemed to be closer to Beijing than other member states, approved the draft text. Nicola Casarini, "Rome-Beijing: Changing the Game", cit., p. 7.

[20] Giulio Pugliese, "Italy and China: Much Ado about an MoU", in *East Asian Policy*, Vol. 12, No. 4 (2020), p. 73-89.

perceived American disengagement.[21] But that did not change Italy's preferences, which continued to lie within the Euro-Atlantic framework.

The MoU was also considered to be in continuity with Italy's previous approach to China, although it also resulted from the contingent political context of an unorthodox ruling coalition lacking a strategically long-term vision.[22] Supporters of the MoU defended the agreement, claiming that the document was compliant with both the EU strategy on connecting Europe and Asia (released in 2018) and with the principle listed in the EU–China 2020 Strategic Agenda for Cooperation.[23]

"When Italy embraces the BRI": The rationale behind the IAI's research

In the weeks preceding and following President Xi's visit, the possibility of Italy upgrading its trade and investment relations with China through the shortcut of a political endorsement of the Belt and Road Initiative was thus framed – depending on the source – as either a heaven-sent opportunity or a serious strategic threat. In the light of these polarised views, providing a factually grounded analysis became critical to a balanced assessment of Sino–Italian cooperation in the aftermath of the MoU. This was the background to a two-year research project that the Istituto Affari Internazionali (IAI) started in early 2020. The IAI's research efforts have aimed at ascertaining whether the aforementioned risks have materialised or, conversely, whether the MoU has brought the opportunities that the Italian Government wished for. Results show that a "grey zone" of nuance exists between these two ends of the spectrum.

The research has covered five fields of cooperation between China and Italy – namely, infrastructure, finance, science and technology (S&T), media partnerships and higher education. Each sector is mentioned in the Sino–Italian MoU in support of the BRI (Paragraph II, Areas of Cooperation). The memorandum includes specific sections on transport, logistics and infrastructure as well as finance – while the fields of science, education and media go under "people-to-people connectivity". In the following sections of this report, after a brief contextualisation of Sino–Italian economic and political relations, the potential risks associated with the MoU are spelled out and examined so as to distinguished between unsubstantiated risks and elements of genuine concern.

[21] Dario Cristiani, "Italy Joins the Belt and Road Initiative: Context, Interests, and Drivers", in *China Brief*, Vol 19, No. 8 (April 2019), https://jamestown.org/program/italy-joins-the-belt-and-road-initiative-context-interests-and-drivers.

[22] Simone Dossi, "Italy-China Relations and the Belt and Road Initiative: The Need for a Long-Term Vision", in *Italian Political Science*, Vol. 15, No. 1 (May 2020), p. 60-76, https://italianpoliticalscience.com/index.php/ips/article/view/126.

[23] Federico Manfredi Firmian, "Italy, Like Any EU Member State, Has a Right to Pursue Bilateral Agreements", in *Financial Times*, 25 March 2019, https://www.ft.com/content/cbcdc214-49ab-11e9-bbc9-6917dce3dc62.

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IAI PAPERS 21 | 52 - DECEMBER 2021 ISSN 2610-9603 | ISBN 978-88-9368-235-0 © 2021 IAI

1. Contextualising the MoU: Italy's attempts to enter the court of China

1.1 The state of Italy–China trade and investment relations

Between 2000 and 2019, Italy was the EU's third-largest recipient of Chinese direct investment (15.9 billion euro) after the United Kingdom (50.3 billion euro), at the time still an EU member, and Germany (22.7 billion euro) (see Figure 1 in the appendix).[24] Recently, however, Chinese investments in the Union have decreased – most notably, due to the impact of the covid-19 pandemic. In 2020, Poland overtook Italy in the list of EU recipients of Chinese investments, while the United Kingdom (since January 2020, no longer an EU member) and Germany stayed at the top of the list.[25] In fact, Chinese direct investments in Italy peaked some time ago – in 2013 – while Italian direct investments in China did so a year earlier (see Figure 2 in the appendix). Official data provide a distorted picture of Chinese investments in the EU and vice versa. This is because most Chinese foreign direct investments pass through Hong Kong before reaching Europe, while European companies investing in China do so through holding companies registered in tax-subsidised countries.[26]

While general trends in investment have followed an irregular trajectory, trade between China and Italy has increased more steadily (see Figure 3 in the appendix). As is almost always the case with China's trade partners, Italy imports from the PRC much more than it exports to it (see Figure 4 in the appendix). In 2019, Italy was the third-largest importer of Chinese goods in the EU (after Germany and France) (see Figure 5 in the appendix),[27] while China was the ninth destination market of Italian exports – albeit the first in Asia.[28]

These figures tell the story of an unsteady – at times, even troubled – economic relationship between Italy and the PRC. Whatever strategic considerations its supporters may have factored in, the MoU of 2019 was largely intended to inject greater stability and growth potential into this relationship.

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[24] Agatha Kratz et al., "Chinese FDI in Europe: 2019 Update", in *MERICS Papers on China*, April 2020, p. 11, https://merics.org/en/report/chinese-fdi-europe-2019-update.

[25] Agatha Kratz, Max J. Zenglein and Gregor Sebastian, "Chinese FDI in Europe: 2020 Update", in *MERICS Reports*, June 2021, p. 10-11, https://merics.org/en/report/chinese-fdi-europe-2020-update.

[26] Giuseppe Gabusi and Giorgio Prodi, "'Reality check': le relazioni bilaterali Italia-Cina in ambito economico dagli anni Settanta alle 'nuove Vie della Seta'", in *OrizzonteCina*, Vol. 11, No. 2 (2020), p. 12-25, https://doi.org/10.13135/2280-8035/5395.

[27] See "Tabella 5 B - Principali Paesi di provenienza delle importazioni italiane in base ai dati del 2021", in Italian Ministry of Foreign Affairs and International Cooperation, *Osservatorio economico. Statistiche relative all'import/export di merci dell'Italia*, last updated on 17 November 2021, https://www.infomercatiesteri.it/osservatorio-economico-interscambio-commerciale-italiano-mondo.php.

[28] Italian Ministry of Economy and Finance, *I rapporti tra Italia e Cina*, 9 July 2019, https://www.mef.gov.it/focus/I-rapporti-tra-Italia-e-Cina.

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1.2 The historical background to the MoU

In the 1980s and 1990s, Italy and China competed more than they cooperated economically. The reason for this state of affairs was that the Chinese and Italian economies mirrored one another in three critical respects: the existence of a strong manufacturing sector, a heavy reliance on exports and a low-tech production bias.[29] Unable to sustain competition from Chinese exporting giants in core sectors such as textiles, machinery, furniture and home appliances (see Figures 6 and 7 in the appendix), Italian companies ended up losing out badly. Especially in the early 2000s, Chinese exporters outperformed Italian companies in foreign markets and even at home.[30] To be sure, competition from China was asymmetrical, if not unfair, given the PRC's overall lower labour and production costs as well as the facilitating role played by the party-state. In contrast to other European countries, Italy thus largely missed out on the lucrative chance to exploit the opportunities offered by the rise of the PRC.

The relative loss of international competitiveness was one of the factors that contributed to Italy's unsteady economic performance during the 2000s. This difficult situation was exacerbated by the 2008–9 Great Recession and the ensuing sovereign-debt crisis in the Eurozone, which further increased Italy's high level of public debt and resulted in a credit-supply crunch. In this much worsened situation, Italy began to regard China as a source of investment as well as a market for Italian products well before the MoU.

In 2009, Prime Minister Silvio Berlusconi (at the time in his fourth spell in power, which lasted from 2008 to 2011) welcomed to Rome then Chinese President Hu Jintao (2003–13) in the first PRC high-level visit to the Italian capital in ten years.[31] Berlusconi signed a cooperation agreement that, on paper, was aimed at expanding bilateral trade – although the Italian prime minister hoped that it would pave the way for greater Chinese investment in Italy.[32] However, the deal did not bring about the wished-for boost in bilateral economic relations. With the Italian economy ravaged by the Eurozone crisis, the Chinese grew sceptical about investing in the county's sovereign-debt market without EU guarantees. Berlusconi bequeathed his attempt to court China to the technocratic government led by Mario Monti (2011–13), who met with his Chinese counterpart, Wen Jiabao, in Beijing as part of a tour across Asia to find potential investors. Addressing Chinese officials gathered

[29] Giovanni Andornino, "The Political Economy of Italy's Relations with China", in *The International Spectator*, Vol. 47, No. 2 (June 2012), p. 87-101.

[30] Giorgio Prodi, "I rapporti economici Italia-Cina", in Giovanni B. Andornino (ed.), *Cina. Prospettive di un paese in trasformazione*, Bologna, Il Mulino, 2021, p. 107-123.

[31] "Cina: firma con Italia accordi che portano avanti sviluppo (Berlusconi)", in *Agi*, 6 July 2009, https://www.agi.it/estero/agichina/cina_firma_con_italia_accordi_che_portano_avanti_sviluppo_berlusconi_-3260527/news/2009-07-06.

[32] Ibid.

in the Great Hall of the People, Monti depicted China as a "strategic partner" and emphasised the need for increasing the level of bilateral investments.[33]

The idea of China being the source of its economic lifeblood became embedded in the strategic outlook of subsequent Italian governments. In June 2014, Matteo Renzi, at the time prime minister and leader of the centre-left Democratic Party (PD), signed the *2014-2016 Action Plan for Economic Cooperation between Italy and China* and a memorandum of understanding on cooperation in six major areas (environmental protection and energy, agricultural products and processing, food security, urbanisation, medicine and health, and aviation) during a state visit to Beijing.[34] Just like Berlusconi, at home Renzi was not exactly a China enthusiast and he repeatedly complained about the growing trade deficit and the lack of reciprocity in bilateral investments.[35] Moreover, at the EU level Renzi stood out as one of the most vocal opponents to the granting of market economy status to China.[36] None of this prevented him from having a private meeting with representatives of major Chinese companies that had already invested heavily in Italy on the margins of the 2016 Hanghzhou G20 summit.[37] Renzi met with representatives from Suning (which had bought the Milan-based football team Inter), China National Chemical (which had acquired Pirelli), Bank of China (which had opened its first physical branch in Italy in 2011) and the State Grid Corporation of China. In 2015, Italy was among the seventeen EU member states (alongside the United Kingdom, France and Germany) that joined as founding members the China-led Asian Infrastructure Investment Bank (AIIB), which was meant to lend financial support to projects related to the Belt and Road Initiative.[38]

The political investment made by Prime Minister Renzi survived his term in office. In February 2017, the Italian president of the republic, Sergio Mattarella (2015–22), visited China, and a few months later then Prime Minister Paolo Gentiloni (2017–18) – Renzi's successor to the PD leadership – attended the Belt and Road Forum for International Cooperation in Beijing, the only leader of a G7 country participating in the event.[39]

[33] "Monti: La Cina partner strategico", in *Tg1*, 31 March 2012, http://www.tg1.rai.it/dl/tg1/2010/articoli/ContentItem-b14c95be-705f-4e44-bac2-9d1952b328ca.html.

[34] Giovanni B. Andornino, "Le relazioni Italia-Cina: verso il rilancio del partenariato", in *OrizzonteCina*, Vol. 6, No. 1 (2015), p. 9-10, https://www.twai.it/?p=1216.

[35] Alessandro Barbera, "Renzi in Cina: dobbiamo aprirci di più", in *La Stampa*, 11 June 2014, https://www.lastampa.it/esteri/2014/06/11/news/renzi-in-cina-dobbiamo-aprirci-di-piu-1.35743135.

[36] Francesca Ghiretti, "Italy and the Comprehensive Agreement on Investments: Disappointment Over the Process", in *Asia Europe Journal*, 25 July 2021, https://doi.org/10.1007/s10308-021-00630-6.

[37] "Renzi in Cina incontra presidente Xi, 'le relazioni si rafforzano'", in *Agi*, 3 September 2016, https://www.agi.it/politica/primo_giorno_di_renzi_in_cina_incontro_con_xi_imprenditori_e_studenti-1049092/news/2016-09-03.

[38] Giuseppe Gabusi, "Global Standards in the Asian Infrastructure Investment Bank: The Contribution of the European Members", in *Global Policy*, Vol. 10, No. 4 (November 2019), p. 631-638.

[39] Nicola Casarini, "Rome-Beijing: Changing the Game", cit.

IAI PAPERS 21 | 52 - DECEMBER 2021 ISSN 2610-9603 | ISBN 978-88-9368-235-0

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These high-level political initiatives show that cooperation in the fields covered by the MoU was set up largely before the signing of the MoU itself in March 2019. In this regard, the Italian case validates the argument that the BRI is largely a "rebranding" tactic for projects that predate the 2013 launch of the initiative and that can be traced back to the "Go out policy" of 1999, through which Chinese firms were encouraged to invest abroad.[40] Likewise, Italy's pursuit of deeper trade and investment relations with the PRC was a decade-long effort that was very much in line with a general trend in Europe and elsewhere to get economically closer to the fastest-growing large country in the world. The issue is whether the signing of a document in support of a controversial political initiative such as the BRI has indeed increased Italy's vulnerability to potential malpractices by China's government and/or corporations.

2. Risk assessment

It is worth underlining the fact that over the past two years external factors have played a key role in hindering collaboration with China – chief among which is the outbreak of covid-19. It is hard to measure the extent to which promises of deeper cooperation have failed to materialise because of the pandemic or as result of major changes in the composition of the Italian ruling coalition. Besides, the outbreak of the pandemic has changed some of the assumptions that motivated Italy's decision to seek deeper cooperation with China in the first place. In this regard, the funding opportunities brought by the NextGenerationEU initiative will probably satisfy – at least temporarily – Italy's thirst for foreign investments.

This said, the last two years do provide critical empirical evidence with which to make initial risk assessments. Potential risks related to China's presence in Italy pertain to the economic and political spheres. "Economic risks" concern a range of possibilities including predatory investments, unfair economic practices, forced technology transfers and Chinese SOEs acquiring undue influence in the Italian economy through, among other things, access to strategic assets (such as infrastructure and telecommunication hubs). "Political risks" are understood in a broad sense. They do not just relate to Beijing's leveraging of economic support to gain political influence at the level of central and local governments but also include risks associated with Chinese actions across different layers of Italian society – including academia, the media and public opinion.

Our research has determined that economic and political dangers do exist but are not always those commonly flagged up in the heated debate that followed the signing of the MoU – at least so far. The following sections discuss the risks that have so far proven to be unsubstantiated before delving into those that may

[40] Juliet Lu and Erik Myxter-Iino, "Beyond Competition: Why the BRI and the B3W Can't and Shouldn't be Considered Rivals", in *Rosa Luxemburg Stiftung Publications*, 14 October 2021, https://rosalux.nyc/?p=14763.

be genuine. Most of the unsubstantiated risks pertain to economic and financial cooperation. By contrast, there are good reasons to pay attention to political risks.

2.1 Unsubstantiated risks

Debt trap. One of the arguments raised by critics of the BRI concerns the so-called debt trap.[41] The notion stems from the assumption that the main driver behind China's investing in infrastructures abroad is the need to address domestic industrial overcapacity, thus implying that – contrary to Beijing's rhetoric – these ventures are aimed not at supporting local economies but at securing China's access to foreign natural resources and opening markets to its low-cost exports.[42] Besides commercial penetration, Beijing's investments would therefore also aim to convert economic access into political leverage on borrowing countries. Proponents of the debt trap go even further, as they contend that China may deliberately provide loans that are impossible to pay back to debtor nations so that Chinese companies can then take control of co-financed infrastructures as collateral. The most famous piece of evidence in support of this argument is the case of the Port of Hanbantota in Sri Lanka. In 2019, this "debt-trap diplomacy" became a major argument used to discredit BRI-related projects, including those in Italy.[43]

Our research has found that such concerns are groundless. Italy is by no means comparable with the developing countries usually mentioned by proponents of the debt-trap argument, given that Italy's companies are hardly incapable of repaying loans (and even in such a case, the government could pour in public money or even block the whole transaction).[44] Unsurprisingly, none of the agreements concerning infrastructures foresee Chinese loans. It is also very unlikely that the Italian Government – let alone Italian port authorities – would have agreed to projects funded and built entirely by Chinese entities. In short, even if taken at face value, the debt trap is hardly applicable to the Italian case.[45]

[41] The term was coined in 2017 by Indian political analyst Brahma Chellaney in order to describe China's strategy of co-financing infrastructure projects in developing countries. See Brahma Chellaney, "China's Debt-Trap Diplomacy", in *Project Syndicate*, 23 January 2017, https://prosyn.org/SyCuUWY.

[42] Ibid.

[43] "Pompeo 'Saddened' as Italy Joins China's Mega-Project", in *France24*, 28 March 2019, https://www.france24.com/en/20190328-pompeo-saddened-italy-joins-chinas-mega-project.

[44] Former Prime Minister Gentiloni dismissed this comparison when he rebuffed the hypothesis of Italy becoming economically beholden by China. See Natasha Turak, "Italy Joining China's Belt and Road Project Is 'Geopolitically Unwise,' Former Prime Minister Says", cit.

[45] In fact, the debt-trap argument is increasingly disputed in the literature. Recent research has demonstrated that, even in the case of Hanbantota, the argument is based on a misguided assessment of the advantages that would accrue to China and the damage that would be suffered by the recipient country (in this case, Sri Lanka). Recipient nations are assumed to be passive and "credulous victims" that blindly accept Chinese loans, while the PRC is framed as a "conniving creditor" slyly forcing other countries to accept Chinese capital for its own sake. In reality, things are much more complicated. China prefers to renegotiate loans rather than seize ownership or control of the asset in which it has invested. See Matthew Mingey and Agatha Kratz, "China's Belt and Road: Down but not Out", in *Rhodium Group Notes*, 4 January 2021, https://rhg.com/?p=6943.

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Public debt. A few commentators have also indicated the country's massive public debt as a potential chink in the armour that Beijing could have used to its advantage.[46] This is as far – if not farther – from the truth as the previous argument. Non-Eurozone entities account for just 7 per cent of Italian foreign debt (which is just less than a third of Italy's total public debt). Estimating the precise amount held by China is nonetheless not easy, as official data are not available. Speculations range from 4 to 13 per cent of the tiny fraction of Italy's foreign debt owned by non-Eurozone entities.[47] In a word, Italy's debt exposure to China is irrelevant. Even when it comes to the so-called "Panda bonds", the special assets issued by Cassa Depositi e Prestiti (CDP), Italy's sovereign fund, to finance Italian companies operating in China, the overall exposure is very low as they account for only 0.65 per cent of CDP's total bond funding.[48]

Takeover of connectivity lines/hubs. A much debated concern is that China takes control of connectivity lines and hubs by financing the development of transport infrastructures. BRI-related projects are financed by China's state banks and executed by SOEs, which have massive cash resources, and this creates concerns that Italian maritime hubs could be the next iteration of the story of the Piraeus, the chief port of Greece's capital Athens and one of Europe's biggest, which is majority-owned by China's COSCO Shipping, one of the largest container-ship companies in the world. However, Piraeus is more an exception than the rule – at least, within the EU. It is the only case in which Chinese investments have aimed at acquiring direct control over a port authority rather than individual terminals.[49] By contrast, the agreements between the Italian ports of Genoa and Trieste (the only two ports included in the broader MoU signed by Italy and the PRC in 2019) and the Chinese SOE China Communication Construction Company (CCCC) are hardly conducive to CCCC ever being in the position to take full control over the two hubs. Besides the fact that, according to Italian law, investments in public infrastructures such as ports must go through tender procedures and that Chinese companies have so far failed to win contracts,[50] in Italy ports can never be sold but only leased to companies. Even in the case of a lease, this can be revoked for commercial or security reasons.[51]

Lack of transparency. Another alleged risk concerns the low transparency surrounding investments in BRI-related projects. Loans for BRI-related

[46] Natasha Turak, "Italy Joining China's Belt and Road Project Is 'Geopolitically Unwise,' Former Prime Minister Says", cit.

[47] Nicola Bilotta, "China's Belt and Road Initiative in Italy: An Analysis of Financial Cooperation", in *IAI Papers*, No. 21|18 (May 2021), p. 4, 17, https://www.iai.it/en/node/13274.

[48] Ibid., p. 4, 12.

[49] Renzo Cavalieri, "La Belt and Road Initiative e gli investimenti cinesi", in *Mondo Cinese*, No. 165-166 (2018), p. 89-108.

[50] Francesca Ghiretti, "The Belt and Road Initiative in Italy: The Ports of Genoa and Trieste", in *IAI Papers*, No. 21|17 (April 2021), https://www.iai.it/en/node/13270.

[51] Ibid., p. 17.

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infrastructure facilities are usually provided by the PRC's policy-development banks (such as the China Development Bank and the EXIM Bank of China), which do not enjoy a good reputation in terms of transparency. However, in the MoU of March 2019, a major role is given to the Asia Infrastructure Investment Bank, which is a multilateral institution with multi-stakeholder governance. This arrangement has contributed to the AIIB's operating according to acceptable transparency standards. While Beijing is the largest shareholder and thus has a de facto veto power, European countries together account for 23.9 per cent of the total voting power – enough to block decisions.[52]

No advantage for local economies. A further concern stems from the assumption that the BRI solely plays to China's advantage, especially when it comes to infrastructures. Accordingly, Chinese projects abroad would bring small benefits to locals – for instance, in terms of job opportunities. It is indeed the case that among the various projects under the umbrella of the BRI there are some that rely heavily on imported Chinese labour. However, this does not apply to the Italian ports of Genoa and Trieste. Besides, the building of a new terminal at the Vado Ligure port (not included in the MoU) was conditioned on employing a local workforce and has thus brought economic opportunities to the surrounding area.[53]

Absence of legal protection. Criticism of Italy has also focused on the possibility that Rome's hunger for investments would result in the selling off of assets in strategic sectors.[54] Again, this is far from the truth as Italy can tap national and EU legal tools in order to limit the capacity of foreign companies to acquire strategic assets. The most important of such instruments is the so-called "Golden Power", which gives the government great latitude to limit or block altogether takeovers by or mergers with foreign companies of Italian companies holding strategic assets (see the box below for further information). In September 2019, with the centre-left PD having replaced the League as the M5S's ruling coalition partner, Prime Minister Conte (who had stayed in power) strengthened the Golden Power to reflect concerns over China's investment practices that had been raised by Italy's allies in the EU and across the Atlantic. The government banned the purchase of "goods and services" from Huawei and ZTE by the telecommunication companies Linkem, Vodafone, Wind Tre and Fastweb.[55] The Golden Power rules were further amended in April 2020 in response to the covid-19 pandemic.

With Prime Minister Mario Draghi, in power since early 2021, the government has gone further in the use of the Golden Power tool. Draghi has vetoed five major transactions, three of which involved Chinese companies. In April 2021, he blocked

[52] Nicola Bilotta, "China's Belt and Road Initiative in Italy: An Analysis of Financial Cooperation", cit., p. 15-16.

[53] Francesca Ghiretti, "The Belt and Road Initiative in Italy: The Ports of Genoa and Trieste", cit.

[54] Hannah Roberts, "US Warning to Italy: You're Being Exploited by China", cit.

[55] Luca Zorloni, "Conte bis, atto primo: scatta lo scudo speciale sul 5G", in *Wired*, 5 September 2019, https://www.wired.it/internet/tlc/2019/09/05/5g-golden-power-conte-bis.

the Italian semiconductor company LPE from selling 70 per cent of its shares to Shenzhen Investment Holdings.[56] In October, the takeover of Verisem – an Italian excellence in the food sector – by the Chinese-controlled Sygenta was put on hold. Less than a month later, the government stopped the buyout of the Italian branch of the US company Applied Materials by Zhejiang Jinsheng Mechanical.[57]

In a more recent case, Draghi used for the first time the newly introduced ex officio procedure (which allows the government to review a transaction on its own initiative – that is, without prior notification of the said transaction) to review the purchase of the company Alpi Aviation, which dated back to 2018, by a Chinese company. The decision came after an investigation by Italy's financial-crime police found that the company had failed to meet transparency requirements. The event drew attention worldwide as the company was a leader in the production of sensitive technologies for the production of aircraft, spacecraft and military drones and a supplier of the Italian Ministry of Defence.[58] The case was presented as a major scandal – proving that the government was not aware of the takeover – yet it showed the efficiency of the new, retroactive reach of the Golden Power.

Box 1 | The Golden Power of the Italian Government

Italy is equipped with one of the most powerful mechanisms for screening foreign investments in the EU. This legal tool was established in 2012 under the emphatic name of "Golden Power". It gives the government the power to oppose, or make subject to the satisfaction of certain conditions, acquisitions and corporate transactions that concern assets defined as "strategic" in the Italian territory.

The mechanism compels companies that operate in specific sectors to report – within mandatory deadlines – to the Italian Presidency of the Council of Ministers (the prime minister's office) all transactions before these take place. Upon receiving notification, the prime minister's office is required by law to issue a decision within 45 days. If it requests additional information, the time limit for the review can be extended to a maximum of 10–20 days depending on the nature of the information required.

In its first iteration, the scrutiny was limited to specific strategic sectors – namely,

[56] "Il governo Draghi usa per la prima volta il Golden power: bloccata l'acquisizione cinese di un'azienda lombarda dei semiconduttori", in *Repubblica*, 9 April 2021, https://www.repubblica.it/economia/2021/04/09/news/golden_power_dis-295721717.

[57] Francesco Bechis, "Altolà Cina, c'è lo stop di Draghi. Golden power sui microchip", in *Formiche*, 23 November 2021, https://formiche.net/?p=1434646.

[58] James Marson and Giovanni Legorano, "China Bought Italian Military-Drone Maker Without Authorities' Knowledge", in *The Wall Street Journal*, 15 November 2021, https://www.wsj.com/articles/china-bought-italian-military-drone-maker-without-authorities-knowledge-11636972513.

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defence and national security, energy, transport and communications. In 2020, in response to the covid-19 pandemic and following new guidelines issued by the European Commission, the Golden Power was amended and reinforced. The list of strategic sectors to which the screening can be applied was temporarily expanded to the following: critical infrastructures (including water, health and financial infrastructures); critical technologies and dual-use products; critical supplies (raw materials, data, information); the iron and steel industry and the agri-food sector; 5G technologies; financial technologies; insuretech; and smart contracts. Initially, the expansion in scope was intended to last until 31 December 2020. However, due to the persistence of the covid state of emergency, the term was extended until December 2021.

Another crucial innovation introduced by the 2020 amendment is the right for the prime minister's office to exercise its special powers retroactively in case of a failure to report a transaction (procedure ex officio).

Sources: Marco Gardino and Pierluigi Tusino, "Italian Golden Power Regime – The 2021 New Provisions Following DPCM 179-180/2020 and Law 176/2020", in *RP Legal & Tax*, 12 January 2021, https://www.rplt.it/?p=14005; Italian Government, Decree of the President of the Council of Ministers of 23 December 2020, No. 180: *Regolamento per l'individuazione degli attivi di rilevanza strategica nei settori dell'energia, dei trasporti e delle comunicazioni*..., http://www.normattiva.it/eli/id/2020/12/30/20G00200/ORIGINAL; Legance, "New Rules on the Italian Government's Review of Investments in Strategic Industries at the Time of COVID-19", in *Legance Newsletter*, April 2020, https://www.legance.com/?p=12387.

2.2 Actual risks

There are a number of risks that IAI's research has found to be plausible, although none of them has fully materialised so far.

Technology/know-how transfer. It has widely been established that the (at times, forced) transfer of knowledge has been a propelling force behind China's economic boom. The PRC is now going through the transition from a manufacture-based and labour-intensive economy to a knowledge-based, technology-driven and services-centred economy. It therefore comes as no surprise that, in the MoU between Italy and China, three institutional agreements and one commercial protocol concerned cooperation in science and technology.[59] For Italy, the main driver behind the decision to sign off on these agreements was economic and strategic, as it hoped that it would bring about not just economic returns but badly needed investment in Italy's innovation sector. Thus far, however, these agreements have brought few tangible benefits to the Italian scientific community and innovation

[59] Lorenzo Mariani, "The Belt and Road Initiative and the Internationalisation of China's Scientific Power: The Case of Italy", in *IAI Papers*, No. 21|40 (September 2021), p. 13-14, https://www.iai.it/en/node/13975.

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system – in terms of either funding opportunities or new partnerships. On the other hand, the agreements expose Italy to the risk of technology and knowledge transfer and brain drain, which may eventually result in a loss of competitiveness of Italian companies.[60]

Know-how spillover mostly take place in two ways – namely, through the establishment of research and development (R&D) centres in Italy (or other forms of research partnerships) or through the acquisition by Chinese companies of Italian firms that own high-value patents or that conduct R&D activities in strategic sectors. Italy has fallen behind other EU countries in terms of protecting research findings and intellectual assets. Despite an explicit warning by the European Commission about the need to further protect EU intellectual property (on the issue of which China represents the main concern),[61] successive Italian governments have, however, not taken any concrete action – with a single exception, concerning space cooperation.[62]

The most notable instances of acquisitions of Italian firms by Chinese companies (a process that began well before the MoU was signed) are arguably the purchase of Ansaldo Energia by Shanghai Electric and of Pirelli by ChemChina in 2015.[63] The Golden Power mechanism has somewhat mitigated this risk, yet not all assets can be credibly framed by the government as strategic. Additionally, the government may be understandably reluctant to intervene too frequently in business decisions or may not have the political strength to take such decisions.

Leveraging of partnerships between corporations and academia. China may acquire not just key knowledge but also political influence through partnerships involving academic institutions and corporations, especially in the arena of S&T. Given the large amount of funding that they bring, collaborations with Chinese companies such as telecom giants ZTE and Huawei may be so appealing that they end up surreptitiously influencing political decisions. The case of Huawei is illustrative. The Chinese corporation has funded several joint research centres that have facilitated its participation in eminent commercial projects such as the trials for the roll-out of the LTE network in southern Italy (with Telecom Italia); the deployment of ICT (information and communications technologies) smart solutions and services for the Municipality of Cagliari (Sardinia's main city); and the development of pilot projects for the 5G network in Milan (with Vodafone Italia),

[60] Ibid., p. 18.

[61] European Commission, *European Commission Steps Up Protection of European Intellectual Property in Global Markets*, 9 January 2020, https://ec.europa.eu/commission/presscorner/detail/en/ip_20_12.

[62] In February 2020, former Minister for Economic Development Lorenzo Fioramonti terminated collaboration on the construction of the Chinese space station Tiangong 3 upon the strong insistence of the United States. See Stefano Piccin, "L'Italia abbandona il programma spaziale cinese", in *AstroSpace*, 6 February 2020, https://www.astrospace.it/?p=867.

[63] Lorenzo Mariani, "The Belt and Road Initiative and the Internationalisation of China's Scientific Power: The Case of Italy", cit., p. 11.

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Bari and Matera (with Telecom Italia and Fastweb).[64] All of these trials were carried out between 2018 and 2019 – thus, prior to the implementation of the restriction on the participation of non-EU companies in the realisation of the 5G core network.

The first Conte government, supported by the M5S–League coalition, resisted calls from the United States to impose a direct ban on Chinese ICT companies involved in the roll-out of 5G networks in Italy.[65] It was only with the second Conte-led government, this time supported by a coalition between M5S and the PD, that the government introduced a number of reporting and transparency requirements on Italian companies working with potentially risky foreign providers of 5G. This provision was enough for Telecom Italia to exclude Huawei from a procurement call for the development of its own 5G network. The second Conte government also blocked a contract between Fastweb and Huawei.[66] However, no Italian government has explicitly excluded the Chinese giant from selling 5G technologies to Italian companies. In theory, Huawei could thus find a way to enter the Italian 5G market in the future, which is why the government led by Draghi has rolled out a set of new restrictions – most of which pertain to stricter security thresholds, such as the ban on remote intervention by Huawei to fix technical glitches.[67] In addition, in the footsteps of the second Conte government, the Draghi administration has already employed the Golden Power to halt a number of transactions between Chinese ICT companies (but also other foreign companies, such as the Taiwanese Askey) and Italian counterparts. These include a 5G supply contract between Fastweb and ZTE (March 2021);[68] another 5G supply contract to Linkem by Huawei and ZTE (March 2021);[69] a Chinese 5G supply to Vodafone (May 2021);[70] a service-supply contract to

[64] Ibid., p. 12.

[65] Nicola Casarini, "Silk Road Academic Connections: China–Italy Cooperation in Higher Education and Its Implications for the West", in *IAI Papers*, No. 21|44 (October 2021), p. 13, https://www.iai.it/en/node/14166.

[66] Francesca Ghiretti, "Europe's Manoeuvring on 5G Technology: The Case of Italy", in *IAI Commentaries*, No. 20|67 (September 2020), https://www.iai.it/en/node/12149; Nicola Casarini, "Silk Road Academic Connections", cit., p. 13; "Britain Bans New Huawei 5G Kit Installation from September 2021", in *Reuters*, 30 November 2020, https://reut.rs/3fROMKr; Anne Morris, "Germany Stops Short of Huawei Ban, But Raises Bar to Entry", in *Light Reading*, 30 September 2020, https://www.lightreading.com/5g/germany-stops-short-of-huawei-ban-but-raises-bar-to-entry/d/d-id/764300; Oliver Noyan, "EU Countries Keep Different Approaches to Huawei on 5G Rollout", in *Euractiv*, 19 May 2021, https://www.euractiv.com/?p=1605914.

[67] Elvira Pollina and Giuseppe Fonte, "Italy Gives Vodafone 5G Deal with Huawei Conditional Approval – Sources", in *Reuters*, 31 May 2021, https://reut.rs/3c4M9nO.

[68] Italian Government, Decree of the President of the Council of Ministers of 11 March 2021: *Esercizio poteri speciali, in ordine alla notifica della società Fastweb S.p.A. relativo all'acquisto di CPE 5G Askey e ZTE* (Senate Act No. 758), https://www.senato.it/leg/18/BGT/Schede/docnonleg/42178.htm.

[69] Italian Government, Decree of the President of the Council of Ministers of 25 March 2021: *Esercizio poteri speciali, in ordine alla notifica della società Linkem Spa per acquisizione di elementi hardware e software da Huawei e ZTE - rete 5G* (Senate Act No. 775), https://www.senato.it/leg/18/BGT/Schede/docnonleg/42244.htm.

[70] Italian Government, Decree of the President of the Council of Ministers of 20 May 2021: *Esercizio poteri speciali, con prescrizione, per la società Vodafone Italia Spa concernente la fornitura di beni e servizi necessari per la costruzione e l'aggiornamento delle reti di accesso radiomobile 5G della società Vodafone Italia S.p.a.* (Senate Act No. 843), https://www.senato.it/leg/18/BGT/Schede/

Fastweb by Huawei (June 2021);[71] a service-supply contract to Fastweb (July 2021);[72] and a contract between Fastweb and Huawei, ZTE and the Taiwanese Askey[73] (at the end of August 2021).[74]

Funding of higher-education programmes/centres. In recent years, Confucius Institutes and Confucius Classrooms – financed by the Chinese Government[75] but hosted, respectively, by foreign universities and secondary schools – have been accused of acting as a vehicle for of Chinese Communist Party propaganda. Over the past decade, foreign countries – including European ones – have seen sinister incidents involving these institutions. In a notable instance, secret payments by the Chinese Embassy to the Czech-Chinese Centre at Prague's Charles University created such a scandal that eventually the centre was closed and some faculty members were fired.[76] Italy hosts twelve Confucius Institutes and several Confucius Classrooms, but episodes of this sort have not occurred there so far.

Yet, cooperation in higher education and academia carries the risk of self-censorship, which is a hardly avoidable problem when foreign and/or private funding is involved. This is even more the case with a problematic country such as China. Antonio Tripodi, a member of the Academic Board of the Ca' Foscari University in Venice, has accused his own university of deliberately avoiding organising events on Taiwan, Tibet or the 1989 Tiananmen Square massacre for fear of missing out on Beijing's financial support.[77] Self-censorship is indeed an

docnonleg/42573.htm.

[71] Italian Government, Decree of the President of the Council of Ministers of 30 June 2021: *Esercizio poteri speciali, con prescrizione, per la società FASTWEB Spa in ordine all'acquisto di servizi acquistati da HuaweiTechmologies Co.Ltd.* (Senate Act No. 878), https://www.senato.it/leg/18/BGT/Schede/docnonleg/42800.htm.

[72] Italian Government, Decree of the President of the Council of Ministers of 8 July 2021: *Esercizio poteri speciali, con prescrizione, per la società FASTWEB Spa in ordine alla stipula di contratti o accordi aventi a oggetto l'acquisto di beni o servizi per la realizzazione di reti di comunicazione elettronica basate sulla tecnologia 5G* (Senate Act No. 891), https://www.senato.it/leg/18/BGT/Schede/docnonleg/42941.htm.

[73] Gabriele Carrer, "Con un Dpcm al mese, Draghi mette un freno alla Cina nel 5G. L'ultimo caso", in *Formiche*, 16 September 2021, https://formiche.net/?p=1417659.

[74] Italian Government, Decree of the President of the Council of Ministers of 5 August 2021: *Esercizio poteri speciali, con prescrizione, per la società FASTWEB Spa in ordine all'architettura di rete ad aggiornamento software delle CPE dei fornitori Huawei, ZTE e Askey* (Senate Act No. 947), https://www.senato.it/leg/18/BGT/Schede/docnonleg/43258.htm.

[75] The startup funding is provided entirely by China. Subsequent annual funding continues to be provided by the PRC, but with matching funds from the host institution. Donald Liena, Chang Hoon Oh and W. Travis Selmier, "Confucius Institute Effects on China's Trade and FDI: Isn't It Delightful When Folks Afar Study Hanyu?", in *International Review of Economics & Finance*, Vol. 21, No. 1 (January 2012), p. 147-155 at p. 148.

[76] Alžběta Bajerová, "The Czech-Chinese Centre of Influence: How Chinese Embassy in Prague Secretly Funded Activities at the Top Czech University", in *ChinaObservers*, 7 November 2019, https://chinaobservers.eu/?p=1514; Nicola Casarini, "Silk Road Academic Connections", cit., p. 10.

[77] Antonio Tripodi, "L'influenza degli Istituti Confucio è (anche) colpa di università succubi", in *Corriere della Sera*, 19 December 2019, https://www.corriere.it/la-lettura/19_dicembre_19/istituti-confucio-cina-polemica-replica-tripodi-venezia-la-lettura-9591dd64-2265-11ea-8e32-6247f341a5cc.shtml; Nicola Casarini, "Silk Road Academic Connections", cit., p. 9.

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actual risk – not least, because it is hard to detect. Yet, accusations such as Tripodi's may at times be wide of the mark. Ca' Foscari has, in fact, organised events on issues to which China is deemed to be sensitive (such as a workshop revolving around the recently published book *China Goes Green. Coercive Environmentalism for a Troubled Planet* that, as its title suggests, is far from been apologetic towards the PRC).[78]

Media partnerships. Since Xi took office in 2013, China's state-run media have expanded their networks abroad through training programmes for foreign journalists (mainly from developing countries), exchange programmes or fully funded trips to the PRC, international events promoting China's views on journalism, cooperative schemes with foreign media outlets or journalist unions and acquisitions of foreign media outlets.[79] The Italian media market has been suffering for years from a loss of subscriptions, news consumers and advertising opportunities – and even before the 2019 MoU, the country's media outlets had established a multitude of partnerships with Chinese companies in the hope of securing much-needed infusions of cash. President Xi's visit to Rome was the occasion to expand these ties further.

Rai (Radiotelevisione italiana), Italy's national broadcasting company, and Ansa (Agenzia nazionale stampa associata), the country's main news agency, signed bilateral agreements with China Media Group (CMG), China's conglomerate of state radio and television broadcasters, and Xinhua, the PRC's state-run press agency, respectively.[80] These agreements, which revamped past collaborations, raise some legitimate concerns. One is commercial and concerns a lack of reciprocity. For instance, Rai and CMG agreed that at least part of their co-produced contents should address audiences in both countries (for instance, by mutual republishing of each other's contents), but CMG has failed to do so. Another, more relevant, risk relates to Ansa's republishing of articles from Xinhua on its own website. To be sure, this is standard practice among media outlets all over the world. In addition, Ansa produces China-related news autonomously and whenever it hosts a news article purchased from Xinhua, it indicates the source. Yet most readers are unaware of what Xinhua is, and may misunderstand a text found on Ansa's website as having been produced by the Italian agency itself. In this regard, Ansa's reputation as a highly respected news agency may even be counterproductive – as readers may take Xinhua-produced contents, which follow the line of the PRC Government, as more reliable reporting than actually is the case.

[78] Yifei Li and Judith Shapiro, *China Goes Green. Coercive Environmentalism for a Troubled Planet*, Cambridge, Polity Press, 2020. The event "Can China Go Green? Environmental Governance in China" was held on 19 April 2021. See Cafoscarinews website: https://www.unive.it/data/agenda/1/48938.

[79] Francesca Ghiretti and Lorenzo Mariani, "One Belt One Voice: Chinese Media in Italy", in *IAI Papers*, No. 21|43 (October 2021), https://www.iai.it/en/node/14143.

[80] Ibid.

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Legitimation of the BRI. While the MoU is not a binding document, it nonetheless carries strong symbolic weight. Signing off on such a politically sensitive initiative as China's BRI risks undermining the perception of the EU as a cohesive actor, eventually weakening the Union's negotiating power vis-à-vis the PRC. It should always be borne in mind that Chinese investments are the result of a centrally planned scheme.[81] This is not to say that each single investment by a Chinese entity abroad is directly decided, planned and executed by the country's central government. Yet, Chinese companies increasingly abide by centrally formulated directives and plans, either because they are state-run or because in so doing they get more support from the state (or party). Being part of a centrally planned scheme is a feature common to all Chinese investments, which make them different from historical precedent and from most other foreign investments.

3. Policy recommendations

This section outlines practices and policies that could prevent or, at least, tackle the aforementioned genuine risks. In implementing these recommendations, Italy should always follow its basic values and norms – chief among which is the principle of non-discrimination. Applying this principle implies that all the recommendations should address not merely Chinese companies or individuals, and that equal treatment is guaranteed for all foreign entities.

Establish a China Information and Coordination Unit

Over the past several years, there have been a few attempts to create ad hoc institutional frameworks to deal with China. One example is the Technical Committee on S&T Cooperation with China set up by Italy's Ministry for Foreign Affairs and International Cooperation in 2014.[82] The committee serves multiple purposes, such as promoting knowledge of the Chinese S&T system, collecting information on cooperative opportunities between the Italian and Chinese scientific communities, and attracting new funding for joint research projects. A second example has been the China Task Force established in 2018 by the Ministry of Economic Development (*Ministero dello Sviluppo economico*, or MISE), which was announced as "a mechanism of cooperation and dialogue between Government, businesses and society [with] the mandate to develop a new national strategy aimed at strengthening Italy's economic and trade relationships with China". The main objectives of the task force were "strengthening the relationship

[81] Cecilia Attanasio Ghezzi and Renzo Cavalieri, "Is the Mediterranean Sea Still the Mare Nostrum? The Belt and Road Initiative and Chinese Investments in the Region", in Francesca Maria Corrao and Riccardo Redaelli (eds), *States, Actors and Geopolitical Drivers in the Mediterranean. Perspectives on the New Centrality in a Changing Region*, Cham, Palgrave Macmillan, 2021, p. 175-199 at p. 187.

[82] "MAECI: il Tavolo tecnico per la cooperazione scientifica e tecnologica con la Cina", in *First News*, No. 45790 (24 September 2019), https://first.art-er.it/_aster_/viewNews/45790/maeci-il-tavolo-tecnico-per-la-cooperazione-scientifica-e.

between China and Italy (in the fields of trade, finance, investment, R&D and co-operation in third countries)" and "guaranteeing Italy a position of leadership in Europe vis-à-vis China's Belt and Road and Made in China 2025 initiatives".[83] With the removal of Undersecretary Michele Geraci from his position following the 2019 cabinet reshuffle, the task force was dismissed.

Neither the committee at the foreign ministry nor the task force in the economic development ministry met according to a regular schedule, and both worked on an agenda that was entirely determined by contingent matters.[84] In addition, interagency coordination was poor and the involvement of external stakeholders, who could have contributed expertise and advice, was sporadic and short-lived. That said, these China-related bodies do provide valuable experience that Italian officials may build upon to establish a single interagency framework. This framework would consist of the following layers:

1) A *China Information & Policy Coordination Unit*, headed by a senior official and set up within the Directorate General for Global Affairs of the Ministry for Foreign Affairs and International Cooperation (alternatively, the unit could become a permanent body within the office of the prime minister). The China Unit, which would report to the foreign ministry (or the prime minister), would inform policy choices taken at the political level, monitor their consistency with EU legal frameworks and coordinate the execution of such policies. Involving officials from the prime minister's office and the ministries of foreign affairs, interior, finance and economy, and economic development on a permanent basis, it would meet according to a fixed schedule and on the basis of a predetermined agenda. It would oversee and coordinate the activities of a set of technical sub-units.

2)The aforementioned *Technical Units* would collect and process information concerning China's presence in specific sectors of Italy's economy and society, and identify the related challenges and potential risks. These sub-units would periodically update the China Unit concerning their activities. They would meet according to a fixed calendar and involve mid-level to senior officials from the ministries involved in the China Unit plus other government agencies that were relevant to the specific policy area on which the technical unit concerned focused. The number of technical units should be kept at a manageable level; initially, these sub-units could focus on the five areas investigated by our research – namely infrastructure, finance, science and technology, media partnerships and higher education. They would be in charge of drawing up research-based reports and action plans.

[83] Italian Ministry of Economic Development, *Italy's Ministry of Economic Development Launches Task Force China*, 21 August 2018, https://www.mise.gov.it/index.php/en/202-news-english/2038554.

[84] The Task Force on China at the MISE was convened only twice: once prior to and once following Xi Jinping's visit to Italy.

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IAI PAPERS 21 | 52 - DECEMBER 2021 ISSN 2610-9603 | ISBN 978-88-9368-235-0

3) A *network of China experts* would support the work of the technical units. This network would involve external stakeholders, including academics, experts, members of civil-society organisations and representatives from the private sector (including law firms). It would provide expertise and advice.

Identify and address gaps in the legal framework

The Italian Golden Power regime is one of the most advanced instruments at the European level for screening foreign direct investment and corporate transactions. This does not mean that the system is flawless, however. There is potential for improvement both at national and international level. In this regard, we propose the following recommendations:

1) At the national level, the main issue regarding the Golden Power regime is that the system works as long as companies operating in strategic sectors notify the government of their transactions. Although it is impossible to foresee a system in which the government is aware in real time of all private affairs or relevant investments, more should be done to improve the flow of information from the business community to institutions. One measure to address this problem would be for the government to create and regularly update a list of companies deemed strategic, on which scrutiny would be constant.

2) Another problem is that the Golden Power works only insofar as the government is willing to wield it. Its discretionary nature makes the tool susceptible to the internal balance (or imbalance) of ruling coalitions. One way to tackle this problem would be to make it mandatory for the government to define in advance parameters that would trigger the use of the Golden Power, and for individual parliamentary groups to require the government to justify decisions that are not in line with precedents of Golden Power use.

3) The expanded scope of the Golden Power has led to a sharp increase in the number of submissions of precautionary notifications.[85] The increasing number of reviews that the government is required to oversee creates the risk of engulfing the screening mechanism. Data shows that around 40 per cent of the notifications submitted in 2020 did not fall under the remit of the Golden Power regime.[86] Moreover, dysfunctions in the screening mechanism could discourage potential investors. In order to avoid these side effects, the government should release legal guidelines and offer advice to companies concerning the exact nature of transactions that may be susceptible to review.

[85] Gian Luca Zampa, Ermelinda Spinelli and Roberta Laghi, "The Foreign Investment Regulation Review: Italy", in *The Law Reviews*, 17 October 2021, https://thelawreviews.co.uk/title/the-foreign-investment-regulation-review/italy.

[86] Ibid.

4) In order to foster cooperation and the exchange of best practice, we recommend the creation of a team of reviewers within the Presidency of the Council of Ministries – composed of trusted diplomats and external experts – tasked with discussing, evaluating and assessing the compatibility of the Golden Power with other similar instruments adopted by non-EU strategic partners such as the United States, the United Kingdom and Australia.

Mitigate financial risks

Italy should keep working towards increasing reciprocity in financial cooperation. The Chinese domestic market could provide business opportunities for Italian financial institutions, but there is the need to compete on a level playing field. Despite significant improvements, Italian financial institutions still face remarkable challenges and obstacles in expanding in the Chinese domestic market. Financial cooperation should fall under the remit of the government's oversight and risk-prevention capacity. Our recommendation for the Bank of Italy is to enhance consultations with members of private Italian financial institutions, academia, think tanks and of the Italian Banking Association through the establishment of a permanent working group. This would be tasked with monitoring and discussing current and future developments in the field of Italy–China financial cooperation. The added value of such an initiative would be to inform Italian financial institutions on the current status of financial relations between the two countries and identify policy priorities in terms of opportunities and risks.

Strengthen the protection of strategic infrastructures

Italy already has a screening mechanism that protects strategic infrastructures, including ports. In particular, following the amendments made to the Golden Power in 2019, attention is paid to companies with state-owned subsidiaries – such as the Chinese CCCC, COSCO and CMG – which had been previously involved in negotiations on Italian ports. However, improving the monitoring of foreign direct investments in critical infrastructures is necessary. To do so, we recommend the following actions:

1) Map out investments in Italy, without waiting for notification from the private entities. At the moment, there is little the state can do if private entities do not notify it about foreign investments.

2) According to Italian law, ports cannot be sold but only be leased. However, striving for the diversification of financial sources prevents the risk of excessive exposure to China's investments that may lead to political influence. Therefore, the government should actively explore multiple investment opportunities and the Italian state should invest more in those infrastructures that are deemed strategic. NextGenerationEU and the recent Global Gateway may be key leverage to achieve this goal.

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IAI PAPERS 21 | 52 - DECEMBER 2021 ISSN 2610-9603 | ISBN 978-88-9368-235-0

3) Distinguish between majority and minority investments. Excluding *ex ante* minority investments is exaggerated, and it may turn out to be useless in terms of protecting national security and strategic assets.

Protect a free intellectual environment for research

Self-censorship due to collaboration with and/or funding from foreign institutions is a plausible risk. In order to tackle it, we recommend:

1) Further monitoring agreements and academic partnerships between Italian and foreign government agencies and higher-education institutions. To do so, we advise establishing an "ad hoc" position/office inside Italy's Ministry of Education, University and Research (MIUR) tasked with flagging up agreements that could put at risk freedom of expression and the autonomy of Italian academia.

2) Developing a screening mechanism for agreements and academic partnerships supported or sponsored by foreign entities – i.e. state-led research institutes and government-backed companies such as Huawei and ZTE. The Technical Unit (see 4.1, above) on Higher Education, with the participation of MIUR staff, should be in charge of this task. This would serve to further investigate the most sensitive agreements and academic partnerships, and take the necessary steps in case the national security of Italy is deemed to be at risk by some of the projects sponsored by foreign companies.

Prevent misinformation

With regard to the respect of fundamental rights concerning freedom of expression and the freedom of the press, the Italian Authority for Communication Guarantees (Agcom) should enhance its scrutiny on the nature of private agreements between Italian media agencies and their counterparts from authoritarian states. Whereas media outlets are free to engage in these kinds of activities, our research demonstrates that they might unwittingly contribute to the spread of fake news or take part in disinformation and misinformation campaigns. By providing a set of guidelines for the management of media partnerships with foreign state-run media, Agcom can proactively prevent the proliferation of disinformation campaigns on traditional media outlets.

In April 2020, the Italian Presidency of the Council of Ministries established a monitoring unit to contest the spread of fake news related to covid-19.[87] This working group should be used as a model for the Technical Unit on Media. This initiative would contribute to strengthening the exchange of information and best practice among public agencies (i.e. Agcom), non-governmental agencies (such

[87] Paolo Molinari, "La squadra del governo contro la disinformazione online", in *Agi*, 5 April 2020, https://www.agi.it/politica/news/2020-04-05/coronavirus-fake-news-martella-8215421.

as the Italian Digital Media Observatory) and European entities – mainly the East StratCom Task Force at the European External Action Service.

Updated 17 December 2021

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ISSN 2610-9603 | ISBN 978-88-9368-235-0

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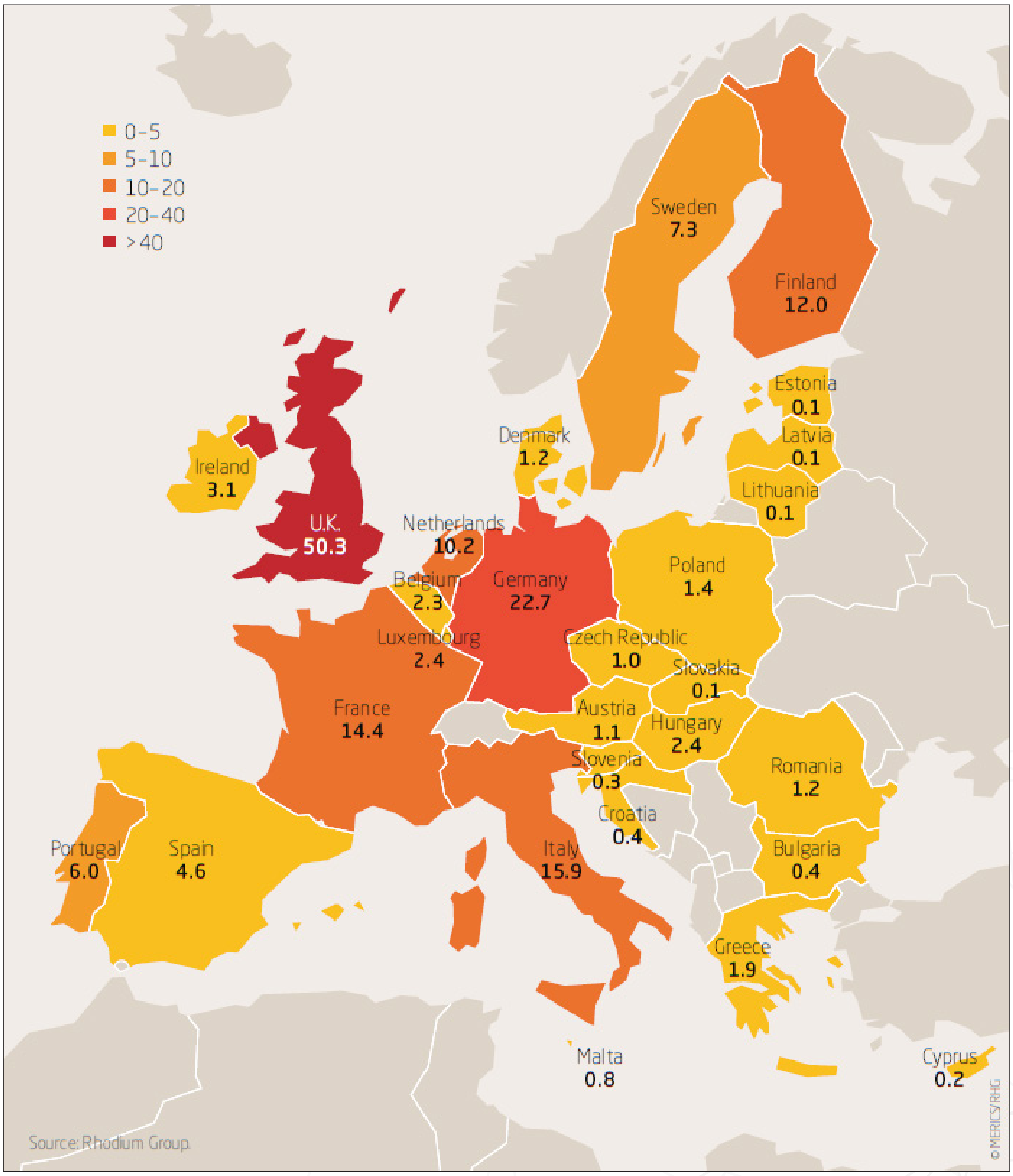
Appendix

Figure 1 | Cumulative value of Chinese FDI transactions in the EU by country, 2000–2019 (billion euro)



Source: Agatha Kratz et al., "Chinese FDI in Europe: 2019 Update", cit., p. 11.

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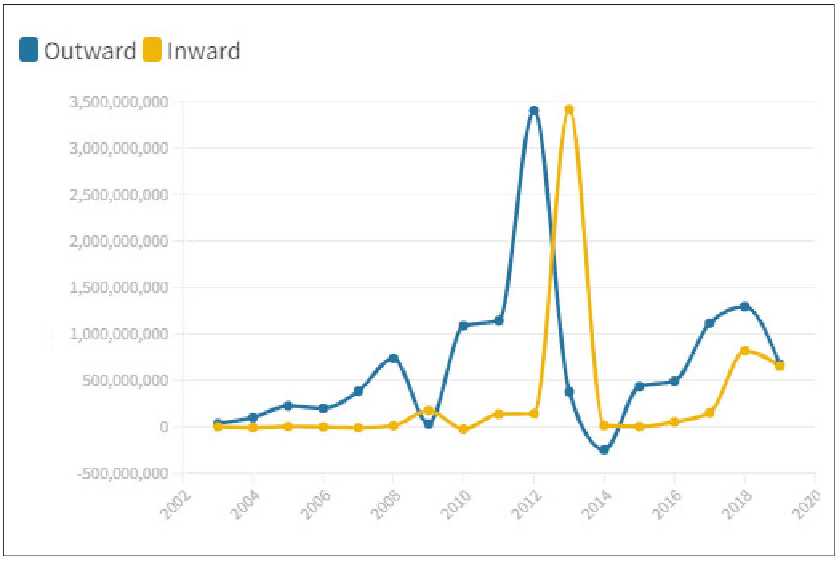
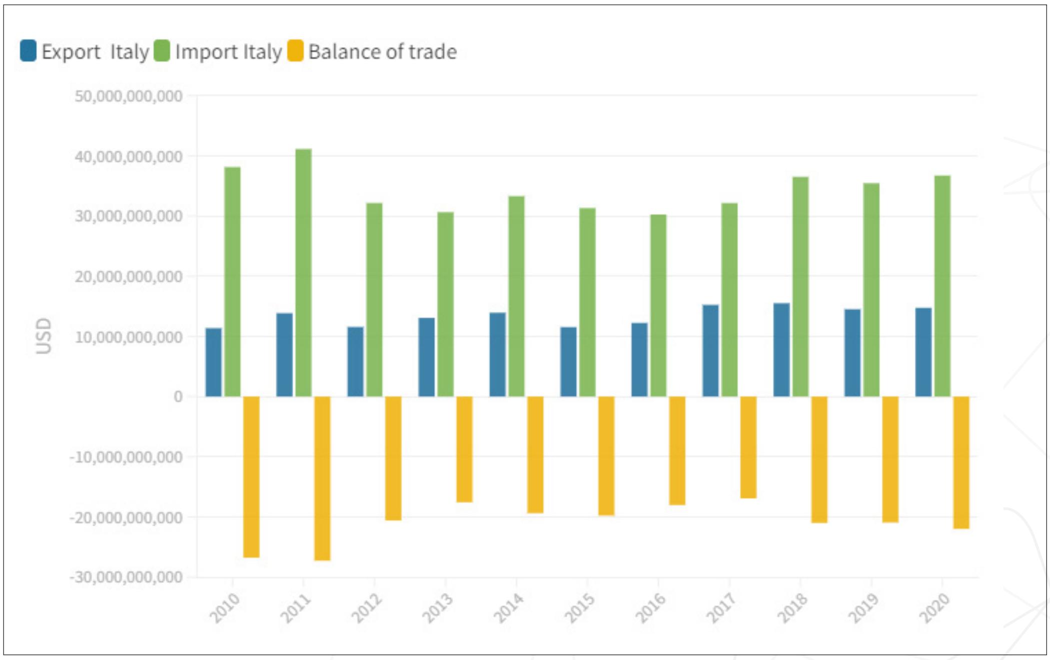
Figure 2 | Italian FDI flows to China (outward) and Chinese FDI flows to Italy (inward) (million euro)



Source: Source: Istat and ICE, *Commercio estero e attività internazionali delle imprese*, various years http://www.annuarioistatice.it.

Figure 3 | Trade flows Italy–China, 2010–2020 (US dollars)



Source: UN Comtrade data.

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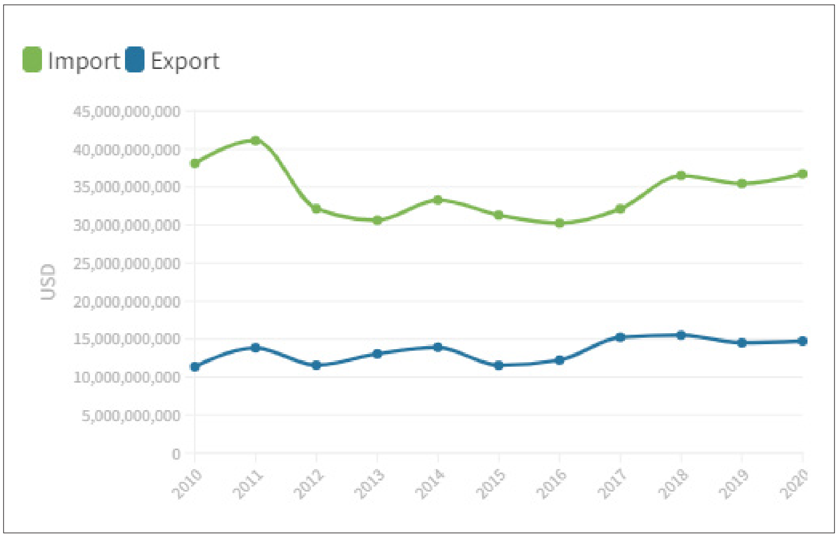
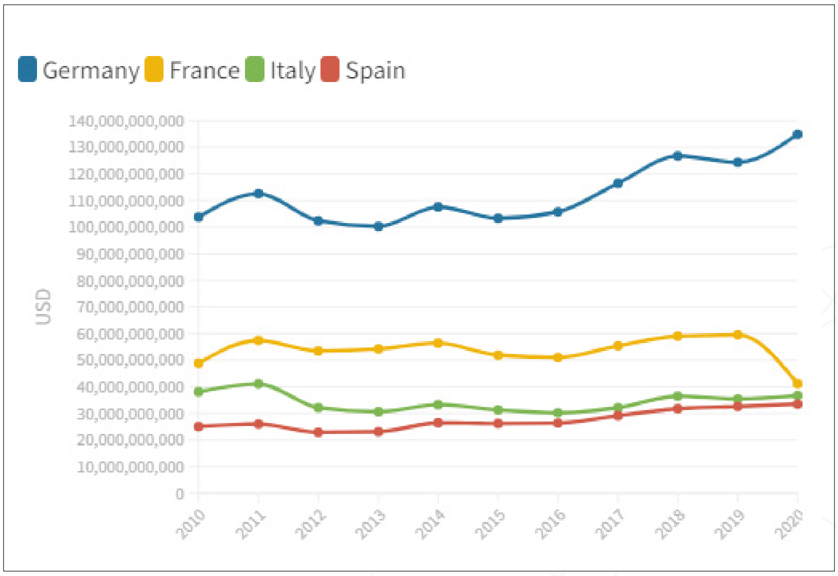
Figure 4 | Italy imports from China and Italy exports to China, 2010–2020 (US dollars)



Source: UN Comtrade data.

Figure 5 | Imports from China (US dollars)



Source: UN Comtrade data.

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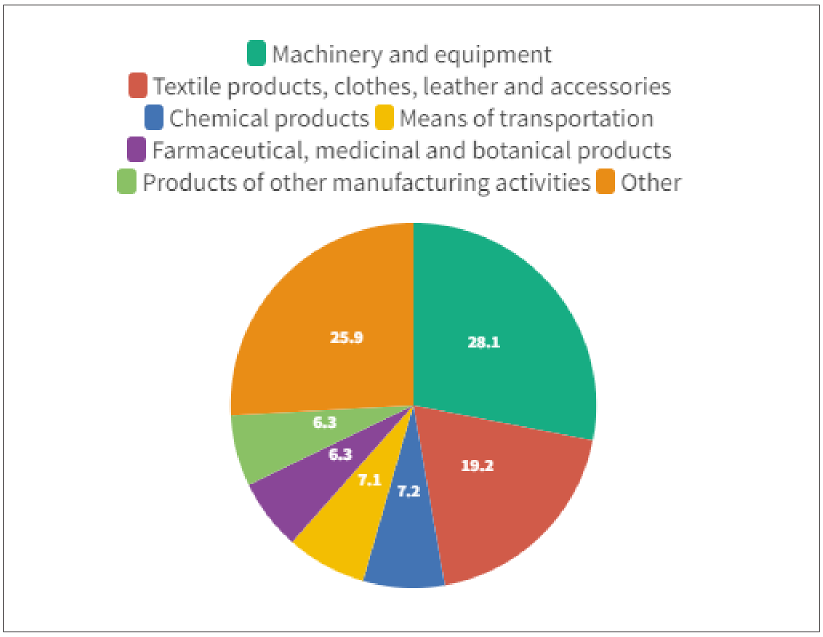
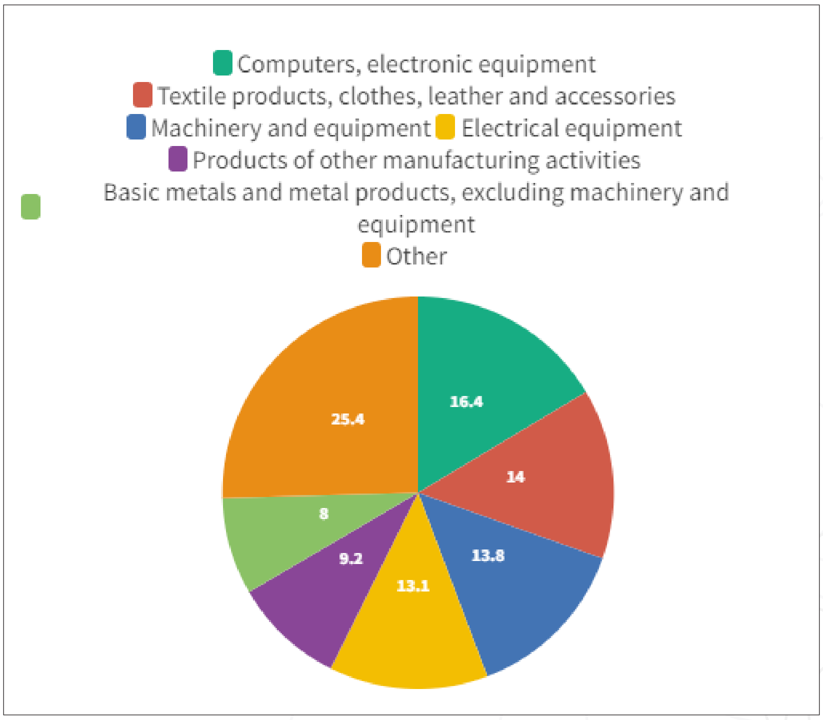
Figure 6 | Composition of Italian exports to China (%), November 2021



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

Figure 7 | Composition of Italian imports to China (%), November 2021



Source: Italian Ministry of Foreign Affairs and International Cooperation, *Osservatorio economico: Scheda di sintesi: Cina*, cit.

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