

The Political Economy of Italy's Relations with China

Giovanni Andornino

Sino-Italian bilateral relations are eminently economic in their focus, with trade and investments working as the main drivers of engagement. Two distinctive features have marked economic interaction in recent years: a pattern of asymmetrical competition, and an asynchrony of opportunities in bilateral trade and investment flows. Between 2009 and 2011, however, Sino-Italian relations underwent important changes. Against the background of the global financial crisis, China might become a key source of foreign investments for Italy. In addition, China's efforts to promote domestic demand under the twelfth Five-Year Plan might create unprecedented opportunities for Italian exports.

Keywords: Sino-Italian relations, international trade, foreign direct investment

The 2009–11 three-year period marked a significant turning point in bilateral relations between Italy and the People's Republic of China (PRC). On the one hand, political and economic interaction between the two countries grew in intensity in the volatile context of the global financial crisis; on the other, the anniversaries celebrated in 2010 and 2011 stimulated fresh assessments of the historical

Giovanni Andornino is Assistant Professor of International Relations of East Asia at the University of Turin and Vice President of the Torino World Affairs Institute (T.wai). This article was written during the author's tenure as visiting associate at the China Research Centre, University of Technology Sydney. The author is grateful to UTS for its hospitality, as well as to the Australian Centre on China in the World (Australian National University), T.wai, and the Department of Political Studies, University of Turin, for sponsoring his research leave. Email: giovanni.andornino@unito.it

significance and contemporary salience of a partnership defined by the two parties as strategic.¹

Although what is evoked at almost every encounter between Chinese and Italian interlocutors is a cultural genealogy of similarly ancient lineage (the purported “five thousand years of history” that Rome and Beijing should take pride in),² the pattern that really qualifies the ties between the Italian peninsula and China has more to do with a time-honoured practice of mutual exchanges. Observing how such long-established dynamics of transfer of private and public goods has evolved and persists today illustrates the extent to which the overall scope of relations between Italy and China transcends the mere interaction between the eighth and second economy in the world.³ In pre-modern times, while Venetian and Genoese ships helped connect Europe with the more advanced Sino-Arabic commercial circuits,⁴ Jesuits from Macerata, Trento and Milan (to name but a few paradigmatic examples) pioneered intellectual exchanges with the Chinese élites in fields as diverse as mathematics, astronomy, geography, history, art and methodology, touching upon issues that, two centuries later, would be at the core of traditional China’s deconstruction and as yet incomplete transition to modernity.⁵ Today, following a process of globalisation catalysed by advanced production, transport and communication technologies, the transformative effect of exchanges of goods between China and Italy reverberates more extensively in the two societies and their governments. Outcomes are numerous, affecting production arrangements as well as consumer habits, with an indirect impact on individual perceptions and behaviour, as citizens’ identities are increasingly shaped by their capacity and freedom to consume.

Relations between Italy and China have often been beclouded by myths, projection biases, intellectualisations and, ultimately, stereotypes. Literature has traditionally focussed extensively on the historical and socio-cultural aspects of the multiple encounters between two polities that are globally recognised as ancient civilisational

¹ In 2004, Chinese Prime Minister Wen Jiabao and his Italian counterpart, Silvio Berlusconi, signed a ‘strategic partnership’, Beijing’s standard term to describe the framework embedding bilateral relations with several of the world’s leading states. In 2010, the two countries celebrated the 40th anniversary of the full normalisation of their diplomatic relations and the following year marked the 150th anniversary of Italy’s national unification in 1861.

² This attitude mirrors a tendency, found mainly among central Chinese authorities, to project a ‘China story’ (*zhongguode gushi*), portraying China as having an orthogenetic, unitary matrix. In reality, this ostensibly monolithic China does not match well with Italy’s history of fragmentation and (often forced) absorption of exogenous cultural influences. If anything, Italy’s historical trajectory can be compared to that of China precisely on account of the pluralism that distinguishes them both, right up to their complex encounters with modernity.

³ World Bank statistics for the period 2010–11 highlighted the divergence in the relative weight of the Chinese and Italian economies. The former overtook Japan in GDP terms (current USD) to rank second globally, while Italy slid to eighth place, behind Brazil, <http://data.worldbank.org/indicator/NY.GDP.MKTP.CD>.

⁴ Abu-Lughod, *Before European Hegemony*.

⁵ An excellent summary can be found in Mitter, *Modern China*.

matrices.⁶ This article attempts an appraisal of the fundamental rationales and workings of current Sino-Italian bilateral interaction. It is eminently economic in its focus, since commercial and – more recently – financial considerations are the key motivating factors underpinning engagement between the two countries today. Contrary to the US, Japan, Australia, France or the UK, Italy does not have a strategic, geopolitical or security dimension to its relationship with China, nor does it weigh in the strategic calculus of the Asia-Pacific region through a local presence. Efforts to produce a coherent ‘China policy’ are still in their infancy in Rome, while public and parliament remain divided as to how to reconcile perceived threats and opportunities stemming from the burgeoning links being forged with Beijing and various Chinese provinces.⁷

Asymmetrical competition

Italy–China relations are rendered unique by three fundamental factors and two specific dynamics. The former are constituted by the presence – in both the Chinese and Italian economy – of a strong manufacturing sector, heavy reliance on exports, and a distinctively low-tech production bias. The two dynamics that have developed upon these foundations may be characterised as asymmetrical competition and asynchronous opportunities generation.

While China has now (re-)emerged as “the world’s factory”,⁸ with its manufacturing accounting for some 30 percent of added value on GDP in 2010 (current USD) according to World Bank statistics, there is far less recognition that manufacturing is equally significant in Italy. Added value originating from manufacturing amounts to 16 percent of Italian GDP, the second highest such percentage among advanced European economies after Germany at 19 percent. Manufactured

⁶ Bertuccioli and Masini, *Italia e Cina*; Viganoni, *Italia-Cina*; Di Nolfo, *Normalizzazione delle relazioni diplomatiche*; Samarani and De Giorgi, *Lontane, vicine*.

⁷ Interviews with Italian officials in Rome, Beijing, Brussels and Washington DC over the past three years confirm that relations with the PRC remained a peripheral issue at the Italian Ministry of Foreign Affairs with respect to Italy’s traditional foreign policy priorities (Rome’s partnership with Washington, European integration, stability in the Balkans, the Mediterranean security complex, etc.) at least until the 2000 ‘Dini reform’, which introduced geographical directorates at the Ministry, including one for Asia and Australasia. Relations with China are now increasingly fostered at the sub-national level, as regional governments were empowered in 2001 to operate internationally. In particular, a specific program was launched in 2007 by the Italian Ministries of Foreign Affairs and of Economic Development to facilitate the coming together of political and business leaders from sub-national units from the two countries to increase their reciprocal awareness of the cooperation potential that can be exploited by leveraging the resources available in their specific localities. The program thus attempts to maximise the impact of Italy’s domestic socio-economic and physical diversity by mobilising the critical mass of the central government apparatus to assist local regional authorities.

⁸ In 2011, data were circulated that placed China just ahead of the US as the world’s largest manufacturer (P. Marsh, “China Noses Ahead as Top Goods Producer”, *Financial Times*, 13 March 2011). While such data were measured in current dollars and are thus prone to price and exchange rate changes, they do point to a potential end to 110 years of US primacy as the top global goods producer, and China’s return to the position it occupied until about 1850 (Pomerantz, *The Great Divergence*).

goods are crucial for Italy's exports: while Chinese exports of manufactured goods topped Germany's in 2009 to achieve world primacy (9.6 percent of the world's total), Italy ranks seventh globally (3.2 percent),⁹ having consolidated its position as the third European country for overall extra-EU exports in 2010, at 10.7 percent of the Union's total.¹⁰ For the most part, Italy's exports are low-tech in content: in 2009 only 8 percent of Italian exports could be qualified as high-tech, an exceptionally small proportion compared to the OECD average, and barely half of what was reported for German manufacturing.¹¹

Over the past thirty years, Italy has pursued a peculiar path for an advanced economy:¹² rather than facilitating a transition towards new types of production at the higher end of the technological and human capital spectrum through investment in research and development, national manufacture has mostly continued to specialise in traditional sectors.¹³

Given these premises, the PRC's increasing projection on global markets following the 'reform and opening up' (*gaige kaifang*) policies pursued by Deng Xiaoping and his successors inevitably induced an early competitive dynamic, with consequent severe displacement of Italian companies. The PRC's newfound vigour in international trade brought radical changes to the dynamics of global business, beginning with labour-intensive, low-tech sectors.¹⁴ The initial effect was a sharp decline first in the value (1990s) and subsequently in the volume (first half of 2000s) of Italian manufacturing exports.¹⁵ Data published by ISTAT, Italy's national bureau of statistics, show that the pressure of Chinese exports is perceived throughout Italy's traditional production sectors: between 2001 and 2010, Italy's share of the global textile market fell from 8.70 to 6.62 percent (*vis-à-vis* China's growth from 18.62 to 36.74 percent); furniture dropped from 14.71 to 8.78 percent (against China's increase from 7.82 to 28.32 percent); mechanics decreased

⁹ WTO Press Release 598, 26 March 2010, http://www.wto.org/english/news_e/pres10_e/pr598_e.htm.

¹⁰ Germany (28.1 percent) and France (11.4 percent) are the two main exporters according to Eurostat statistics, http://epp.eurostat.ec.europa.eu/guip/mapAction.do?mapMode=dynamic&indicator=tet00038_1#tet00038_1. In the five-year period 2005-10, Italy suffered a relative setback from 11.4 to 10.7 percent of total extra-EU exports, although the absolute value of exports grew from €108.47 to 144.33 billion in the same period. ISTAT data for 2009 show that 77 percent of total added value for the manufacturing sector is concentrated in the export sector.

¹¹ World Bank Data, <http://data.worldbank.org/indicator/TX.VAL.TECH.MF.ZS>. High-end manufacture includes R&D-intensive goods, generated in sectors such as aerospace, information technology, pharmaceuticals and electronics.

¹² On the shift in comparative advantages of advanced economies *vis-à-vis* developing countries, see Flam and Helpman, "Vertical Product Differentiation", 810-22.

¹³ De Nardis, "Ristrutturazione industriale italiana", 33. In terms of overall national expenditure for research and development (GERD), the research inventory promoted by *erawatch* for the EU's Directorate General for Research estimates that Italy invested 1.27 percent of GDP in 2009, with an annual average growth of 1 percent in the period 1995-2007. Germany, while reporting similar growth, now stands at 2.82 percent, while the European Union average for the 27 states is 2.01 percent.

¹⁴ Naughton, *The Chinese Economy*.

¹⁵ Quintieri, *La sfida della qualità*, 9-10.

from 6.97 to 6.33 percent (while Chinese competitors increased their share from 3.92 to 11.02 percent).¹⁶ While a variety of endogenous factors should also be taken into account in examining Italy's enfeebled position in the global trade arena (including a long-running accumulation of structural deficiencies in its domestic economy and a resulting decline in overall competitiveness), the significant pressure brought by Chinese goods in all OECD markets, as well as in emerging countries, constitutes an especially salient variable, considering that such markets taken together are the destination of about 85 percent of Italian exports.¹⁷

As specialist literature and public debate in Italy have repeatedly emphasized, this competitive dynamic is characterised by its remarkable asymmetry. The underlying elements of such asymmetry are several, but mostly derive from the different scope for monetary flexibility, the diverse structure of comparative production advantages and dissimilar corporate governance practices in the two countries.

While the statute of the European Central Bank (ECB), which governs the currency shared by Italy with the sixteen other European economies that have adopted the euro, explicitly mandates that it safeguard price stability above all other concerns,¹⁸ the People's Bank of China (PBoC, *zhongguo renmin yinhang*) has far wider margins for action, constrained only by the government's economic policy choices. Chinese exports have greatly benefitted from a prolonged strategy of artificial undervaluation of the renminbi, which was finally allowed to appreciate gradually in the 2005–08 period, and again from June 2010, when the currency was permitted to fluctuate, although only within narrow pre-determined margins.¹⁹ Significantly, this appreciation did not occur across the board: while the renminbi's value against the dollar grew by approximately 21 percent in the 2005–08 period, and by a further 6 percent between June 2010 and August 2011, it initially displayed a more limited appreciation with respect to the euro (approximately 15 percent between 2005 and 2008) only to later depreciate again between June 2010 and early November 2011 (–2.7 percent), despite this being the height of the eurozone crisis.²⁰

As for production structure and corporate governance, the asymmetry between the Chinese and Italian contexts is determined by several variables. The most frequently cited data relate to low-skilled labour costs, inevitably much lower in

¹⁶ ISTAT, *Annuario 2010*.

¹⁷ Giovannetti *et al.*, *The 'China Effect' on Italian Exports*, 16.

¹⁸ Protocol 4 on the Statute of the European System of Central Banks (ESCB) and the ECB, art. 2, states "... the primary objective of the ESCB shall be to maintain price stability. Without prejudice to the objective of price stability, it shall support the general economic policies in the Union...".

¹⁹ See the article in this issue by Di Meglio, 58.

²⁰ Data found in the statistics section of the European Central Bank website, <http://www.ecb.int/stats/html/index.en.html>; and Labonte and Morrison, *China's Currency*.

China than in Italy, although slowly rising in recent years,²¹ and to the effectiveness of the regulatory framework, which in the PRC is not fully effective in preventing or prosecuting various kinds of dumping practices.²² The different size of companies in the two countries is a further significant factor, especially in consideration of the growing need to tap emerging markets, usually more complex than OECD ones: 94.8 percent of Italian businesses are micro-enterprises (with an average of 3.9 employees), a much bigger proportion than any other advanced economy.²³ Although there is a scarcity of comparable data for the PRC, it can be expected that Chinese companies, especially those engaging in export, are on average bigger. The recent revision of the regulations for 'National Industry Classification' (*guomin gongji hangye fenlei*) shows that the definition of SMEs refers to companies that are on average larger than their Italian counterparts.²⁴

Adding to the dimensional aspect of Chinese enterprises, many of which have grown to take advantage of economy of scale dynamics to an extent that is unattainable by Italian competitors, a sizeable number of the larger companies display ownership patterns that effectively qualify them as state-run. Although only a few of the 125 groups controlled by the Chinese party-state appear to impact directly on strategic Italian production sectors, their opaque ownership structure covers a variety of subsidiaries operating in various fields.²⁵ The continuing (and possibly growing) relevance of state firms in the Chinese economy (whose output is estimated between 30 and 50 percent of GDP) constitutes an additional element of disproportion between China and Italy. The well-established practice of Chinese-style 'revolving door politics', involving constant movement of personnel between state-run companies and the formal party-state apparatus, together with preferential access to credit and often privileged government procurement policies gives these companies a very valuable competitive edge.

²¹ In its assessment released on 17 January 2012, the National Bureau of Statistics of China indicates that residents' income from wages and salaries was up 21.9 percent compared to the previous year, while the average monthly income of migrant workers was up by 21.2 percent ("National Economy Maintained Steady and Fast Development in the Year of 2011", http://www.stats.gov.cn/english/newsandcomingevents/t20120117_402779577.htm).

²² In order to secure access to the WTO, the PRC agreed that its admission be conditioned upon a series of special provisions, including non-recognition of market economy status until 2016. This condition allows other countries greater leeway in case of commercial litigation before WTO arbitration bodies. Since it is theoretically impossible to establish the exact price of goods and services in an economy that does not fully respect market mechanisms, the imposition of duties against particular categories of Chinese products can be more easily presented as an action to protect against dumping phenomena (social, environmental, monetary, etc.).

²³ ISTAT data for 2009, published in October 2011, <http://www.istat.it/it/archivio/43673>.

²⁴ See instructions published by the National Bureau of Statistics of China in September 2011, http://www.stats.gov.cn/tjbz/t20110909_402753122.htm.

²⁵ OECD, *China's Emergence as a Market Economy*.

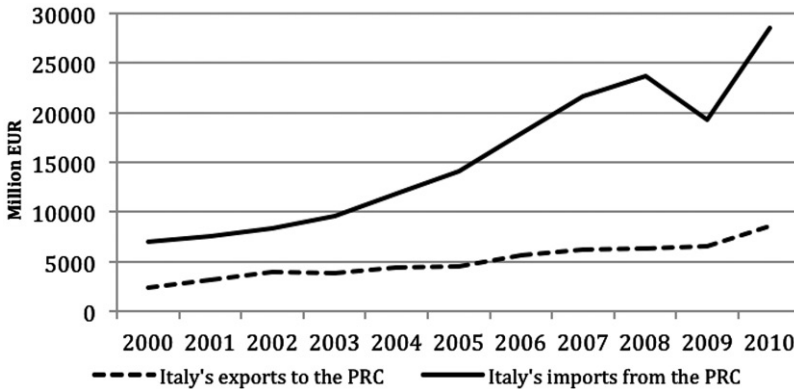


FIGURE 1. Italy-PRC trade
 Source: ISTAT trade data warehouse data, processed by author (2010 data are provisional).

Asynchrony of opportunities

The asymmetrical competition dynamics weighing on Italy-China relations since the 1990s has been complemented by a specific phenomenon of asynchrony of opportunities in bilateral trade and investment flows. While the global financial crisis may increase the political momentum for a thorough implementation of the PRC's twelfth Five-Year Plan (2011–15), calling for a rebalancing of the Chinese economy through increased domestic consumption, investment in human capital and outbound foreign direct investment (FDI), China's economy currently remains structured around export-oriented manufacturing, financed by substantial international investments and focused on low added-value production and the assembling of imported semi-finished products.²⁶ In this context, trade opportunities for Italy in China remain structurally deferred, while Chinese companies crowd competitors out of global markets. The clearest indicator of this tendency is Italy's trade deficit with the PRC, which has significantly increased over the past decade (Figure 1).

In 2010, Italy suffered a passive trade balance approaching 20 billion euros and it appears unlikely that this trend will see a structural correction, even though the two parties have formally committed themselves to increasing overall bilateral trade to 80 billion euros in the context of a progressive rebalancing.²⁷

²⁶ These are just some of the major resolutions outlined in the twelfth Five-Year Plan (2011–15) launched by the PRC government in March 2011.

²⁷ When Chinese Premier Wen Jiabao visited Italy in October 2010, the two parties signed a Three-year Action Plan (2010–13), reaffirming “the joint effort by the two governments to promote increased and more balance trade”, aiming to achieve a bilateral interchange of USD 80 billion by 2015 (Italian Ministry of Foreign Affairs press release archives, “Piano d'azione triennale 2010-2013 sul rafforzamento della cooperazione economica tra l'Italia e la Cina”, Rome, 2010). The absence of any precise target or timetable in terms of trade rebalancing is itself significant.

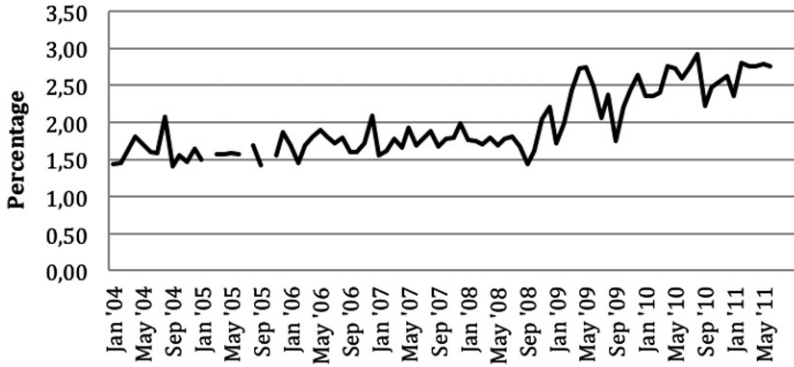


FIGURE 2. Italian exports to the PRC relative to the total value of Italian export
 Source: ISTAT trade data warehouse data, processed by author (2010 and 2011 data are provisional).

So far Italy has lacked the capacity to fully exploit the opportunities offered by the Chinese economy. The asynchrony of opportunities for Italian companies was to an extent inevitable, given that key national manufacturers – specialised in the production and export of consumer goods generally identified as ‘Made in Italy’ – were unable to tap into any sizeable demand for their products in a market that has long been rather modest in size and comparatively underdeveloped in terms of its consumption patterns. In 2010, in addition to being the recipient of an already modest 2.54 percent of total Italian exports (Figure 2), the PRC was the final destination of only 1.63 percent of total Made in Italy exports worldwide. While on average Made in Italy products contributed some 40.46 percent to total Italian exports in 2010, the relevant quota for the PRC was just 26.02 percent.²⁸ It is therefore unsurprising that Italy should rank twentieth among exporters to the PRC in 2010, even though it is tenth among world importers of Chinese goods, with 2 percent of total Chinese exports flowing into the country.²⁹ For the most

²⁸ Statistics compiled by the author using UN Comtrade data (<http://comtrade.un.org>). None of the bilateral trade data in this research include the special administrative regions of Hong Kong and Macau. Various definitions are used in literature to identify ‘Made in Italy’: here an extensive approach has been adopted, including in this category consumer goods such as food, clothing, household appliances, automobiles, paper, furniture, luxury goods, furniture and small leather goods. In particular, the following SITC (rev. 4) groups of goods were considered: 01, 02, 03, 04, 05, 06, 07, 09, 11, 42, 553, 554, 61, 64, 65, 77, 78, 82, 83, 84, 85, 87, 88, 894, 895, 896, 897, 898, 899. Patterns of consumption in China are still rather impervious to penetration by ‘Made in Italy’ products, as one may also note comparing China with Russia and Japan: in the case of Russia (a more ‘European’ destination of Italian exports but comparable to the PRC in terms of overall value) ‘Made in Italy’ accounts for 49.30 percent of the total of Italian exports to that country, while in Japan’s case (an advanced economy, but culturally much further away from Europe) purchases of ‘Made in Italy’ account for 60.69 percent of total Italian exports to Japan.

²⁹ Data from the Italian Ministry of Economic Development, http://www.mincomes.it/osservatorio_economico/asia/indicatori%20Cina%20agg.%20al%202012-02-2012.pdf.

part, Italy's as yet feeble footprint in the Chinese market is made up of capital goods, especially machinery, which accounted for some 48.84 percent of Italian exports to China in 2010.

The structure of the Chinese market, however, offers only a partial explanation for the severe imbalance existing in Sino-Italian trade relations: the Italian entrepreneurial and institutional systems too have proved less than dynamic in their response to the opportunities offered by China in this phase. Here, in addition to the aforementioned problems of production volumes and diverging economies of scale, other factors should be noted, including the lack of major Italian-owned distribution channels, a tendency by companies and individuals not to operate systematically in the context of a tightly-knit institutional setup, and a socio-cultural matrix that has not traditionally been overly exposed to interaction with East Asian cultures. The relatively scarce vitality with which Italian companies have traditionally invested in – and/or outsourced part of their business to – the PRC is a consequence of these obstacles: according to the Chinese Ministry of Commerce,³⁰ the stock of Italian investments in the PRC in 2008 stood at USD4,348 billion, a mere 1.07 percent of overall Italian investments abroad in that year (USD404,855 billion).³¹ These figures are all the more revealing if one considers that Italy is not a small investor in absolute terms (the twelfth largest in terms of stock in 2008; the tenth largest in 2009). Yet, it accounts for just 0.48 percent of the total stock of foreign investment in the PRC, compared to France's 1 percent, Germany's 1.68 percent and the UK's 1.75 percent.

Italy, China and the global financial crisis

The asymmetrical competition experienced by the Italian manufacturing sector, coupled with a partly structural asynchrony of opportunities determined by the peculiar configuration of the Chinese market, resulted in a pervasive wave of restructuring among Italian companies.³² This socially painful process was made inevitable by the transfer of sovereign prerogatives from eurozone countries to EU institutions in the realm of monetary policy, precluding Rome's main traditional policy response to the decline in competitiveness of Italian manufacturers, the devaluation of the *lira*. The ensuing response by Italian producers has been discussed in the literature as a strategy of *arroccamento* (fortressing),³³ entailing a defensive repositioning of producers within the same sectors but at a progressively

³⁰ Statistics compendium of the Invest in China service, <http://www.fdi.gov.cn>.

³¹ Figure taken from the International Trade Center Investment Map (<http://legacy.intracen.org/market-analysis/InvestmentMap.aspx>), whose statistics are consistent with those of the PRC Ministry of Commerce.

³² On this topic, see also Amighini and Chiarlone, *Rischi dell'integrazione commerciale cinese*.

³³ Quintieri, "Declino o cambiamento?", 75.

higher quality – and price – end.³⁴ An analysis of Trade Performance Index data offers initial statistical evidence of the relative success of this restructuring process:³⁵ in 2009 Italy was leader in terms of global competitiveness in traditional Made in Italy sectors such as textiles, leather and clothing, and ranked second in the fields of electronic components, non-electronic machinery and low-tech manufacturing.

Debate in Italy is lively as to the sustainability of these results and, more generally, on the future of a national economy relying increasingly on leadership positions in niche markets.³⁶ On the one hand, there is widespread concern that Italy may become marginal in the face of the shift toward higher-end, value-added production in “advanced emerging”³⁷ economies such as China. On the other, several observers note that Chinese competition in traditional sectors has not waned, and indeed is bound to become more acute, given a growing specialisation – not differentiation – of China’s exports.³⁸

With the explosion of the subprime bubble in 2008, Italy-China relations, already in a state of flux, evolved at an even faster pace. In Italy, the sudden credit contraction³⁹ and subsequent deterioration of public finances led to a liquidity crisis that went on to endanger the very solvency of the state (and of most banks, heavily exposed to government treasuries). Contextually, Beijing’s prompt and effective reaction to the severe deterioration of the world economy propelled China to a new global standing, highlighting a discontinuity vis-à-vis the previous phase that had long been in the making and could now be fully appreciated. The PRC thus emerged not only as an increasingly pivotal market, but also, crucially, as a key source of outward investment in both the public and private sector.

Although the precise contours of Beijing’s exposure to Italy’s sovereign debt are not publicly known – and may well be impossible to determine⁴⁰ – the indirect influence that China exerts on Italy, and on Europe more broadly, at this juncture is significant. The clear preference shown by Chinese authorities for investments in debt securities guaranteed at the European (rather than national) level impacts on

³⁴ Trento, *Innovazione e crescita delle imprese*.

³⁵ The Trade Performance Index is jointly developed by the World Trade Organisation and the United Nations, <http://www.intracen.org/exporters/trade-statistics>.

³⁶ A summary can be found in Di Maio, *L'economia italiana negli ultimi quindici anni*.

³⁷ This terminology is employed by SACE, Italy’s most influential export credit agency and offshoot of the Italian Ministry of Economy and Finance. China is undoubtedly the first and largest of such advanced emerging countries.

³⁸ See Amighini and Chiarlone, *Rischi dell'integrazione commerciale cinese*, 16; Amiti and Freund, “Anatomy of China’s Export Growth”.

³⁹ See, amongst others, Caivano *et al.*, *Trasmissione della crisi finanziaria all'economia italiana*.

⁴⁰ Figures ranging from 4 percent to 13 percent of overall Italian treasuries have been quoted in the press and by institutional sources. While the lower estimate is to be considered plausible, a specific request for information made by MPs during question time in May 2011 has yet to be formally answered by the Italian Ministry of Economy and Finance. See also G. Andornino, “Emergenza debito: Roma chiama Pechino”, *OrizzonteCina*, October 2011, 2, http://www.iai.it/pdf/OrizzonteCina/OrizzonteCina_11-10.pdf.

the debate developing within the European Union on the structural reforms that countries such as Italy are called upon to implement. As the need for a more comprehensive integration of the eurozone – whose material constitution is already being remodelled, albeit without a clear outcome on the horizon – is now recognised by all major European leaders, Beijing's financial leverage is set to remain a crucial factor in the complex political-economic equation that will shape the future of the Union and its member states.

Global and European negotiations tackling the eurozone crisis reverberate on the dynamics of Chinese investments in the Italian economy. On the one hand, Chinese institutional investors have indicated their preference for direct investments channelled through mechanisms such as the *Fondo Strategico Italiano* (Italian Strategic Fund), established in 2011 to promote the development of strategic national enterprises, and controlled by the *Cassa Depositi e Prestiti* (Deposit and Loan bank), a state-owned entity managing national postal savings. On the other, by declining to deploy any especially substantial degree of liquidity in the Italian sovereign debt market in the absence of European guarantees (thus contributing to forcing the European Central Bank to step in to keep interest rates under control), Beijing indirectly amplified European calls for Rome to implement the structural reforms that may bring lenders back to its treasury bonds auctions, thereby strengthening the stability of the whole eurozone.⁴¹

These tensions, coupled with a rather unfavourable business environment, also help explain Italy's disappointing performance as a destination of Chinese FDI.⁴² The total stock of PRC investment in the country remains low: USD223.8 million in 2010, or 1.79 percent of China's total stock in the EU, which itself accounts for only 3.94 percent of the PRC's global FDI stock.⁴³ Flow data are also telling: while Chinese FDI flows to Italy grew at an annual average 21 percent between 2008 and 2010, in line with a general trend that sees China on course to become one of the

⁴¹ While the impact of market dynamics was the decisive factor in the fall of the Berlusconi administration in November 2011, the position taken by key EU institutions and the main European chancelleries was also highly influential. It is significant that precisely the urgent need to give concrete answers to the "39 points" formally raised by the European Commission to the Italian government (4 November 2011) generated the political unity of purpose that enabled the Italian parliament to vote in Mario Monti's technocratic government on the heels of Berlusconi's resignation.

⁴² The 2011 World Bank *Doing Business* report (<http://www.doingbusiness.org/reports/global-reports/doing-business-2011>) ranks Italy 80th in terms of ease of doing business out of the 183 economies surveyed. The absence of significant changes in its complex regulatory frameworks has rendered doing business in Italy more complex and expensive over the past five years, particularly with regard to the tax system, building practices and contract enforcement.

⁴³ The data are contained in the 2010 statistical bulletin of China's Outward Foreign Direct Investment, prepared by the PRC Ministry of Commerce, <http://english.mofcom.gov.cn/aarticle/statistic/foreigninvestment/201109/20110907742320.html>. Although the estimates do not include most of the company merger and/or acquisition activities, as they are often financed by non-Chinese banks, these are the most up-to-date data available.

world's top investors,⁴⁴ the average for the whole of the European Union in the same period was 157 percent.⁴⁵

Initial research investigating the volume and logic of Chinese investments in Italy makes it possible to switch perspective and grasp one of the transforming influences that Italy could exercise over China. In line with what is observed at the European level, Chinese investments in Italy are implemented not only with the aim of penetrating Europe's single market, but also of gaining access to superior technologies, production processes and human capital.⁴⁶ Such 'strategic assets' are increasingly targeted through the acquisition of companies that are highly competitive in their niches, but suffer from financial weakness or have a long-standing practice of cooperation with the Chinese investor.⁴⁷ The 2011–12 European Business in China Position Paper published by the European Union's Chamber of Commerce in China argues that the learning effects that may result from enhanced interaction between Chinese and European companies can make a crucial contribution to achieving the sustainability goals mandated by the Twelfth Five-Year Plan. In the specific case of Italy, a further transferable competence entails local governance practices and the development of industrial districts and rural productive clusters, which could be of prime importance for Chinese authorities searching for new tools to manage their micro-enterprises.⁴⁸

One final tendency which is likely to be strengthened by the combined effect of the policy recommendations contained in the twelfth Five-Year Plan and the structural consequences of the global financial crisis regards the rebalancing of China's economy through increased domestic consumption. A successful welfare reform in China and the transformation of consumption incentives and patterns would open an unprecedented window of opportunity, mitigating the asynchrony that has so far characterised trade relations between Italy and the PRC. The research department of *Confindustria*, Italy's business association, estimates that private consumption in the PRC could grow from 36 percent of GDP in 2010 (nominal value) to 45 percent within five years, reaching 50 percent by 2020. In this context, consumption by the more affluent segment of Chinese society would escalate from USD981

⁴⁴ Already in 2010, with an outward FDI stream of over USD68 billion (in 2002 it was 2.7 billion), Beijing was responsible for 5.2 percent of global flows, ranking fifth worldwide. PRC Ministry of Commerce data crosschecked with UNCTAD's World Investment Report 2011, <http://www.unctad.org/Templates/WebFlyer.asp?intItemID=6018&lang=1>.

⁴⁵ Embryonic studies on the subject show that only a small minority of Chinese multinationals operating in Italy do not encounter significant difficulties. See Gattai, *Dissecting Chinese ODI*, 20.

⁴⁶ Pietrobelli *et al.*, *The 'Marco Polo' Effect*, 4–5. For more on the reasons for Chinese investment in Europe, see the article in this issue by Brown, 74.

⁴⁷ Amighini *et al.*, *Outward FDI from Developing Country MNEs*; Gattai, *Dissecting Chinese ODI*, 16.

⁴⁸ This understanding, already voiced by Chinese Premier Wen Jiabao in his 2011 report on government activities (*zhengfu gongzuobaogao*), with reference to the need to strengthen social development and improve the well-being of the people, was recently adopted by various ministries in the PRC, with the express goal of "studying foreign best practices", http://www.mof.gov.cn/zhengwuxinxi/zhengcejiedu/2011zhengcejiedu/201107/t20110704_570697.html.

billion in 2010 (2.6 percent of total world consumption) to 2,442 billion in 2015 (5.4 percent), and 5,575 billion in 2020 (over 10 percent of the world total).⁴⁹ According to ICE, the recently reshaped Italian foreign trade commission, over 120 million *nouveaux riches* will populate the global market by 2015, 32 percent of which will be located in the PRC.⁵⁰ This trend, combined with the increasingly central role played by women in the societies of emerging countries, is particularly promising for Italian producers of consumer goods falling into the category of 'affordable luxury', which comprises food, furniture, footwear, apparel and accessories made with quality materials and design but not conceived only for niche consumption. Sales of such goods, accounting for 14 percent of Italian exports in 2009, is expected to grow by approximately 46 percent in constant prices between 2009 and 2015, with about half of this growth being generated in non-OECD countries, and especially China.⁵¹

Conclusions

The dynamics outlined suggest that the economic bedrock of the Sino-Italian strategic partnership is witnessing fundamental changes. In the transformed context ushered in by the global financial crisis, the political economy of the bilateral relation is set to enter a new phase, moving past the cycle of asymmetrical competition and asynchrony of opportunities that has characterised the interaction between the two countries over the past two decades.

A long-held strategy of defensive repositioning at the higher quality/value end in the traditional, low-tech sectors of specialisation has partially succeeded in shielding Italian manufacturers from Chinese competition. The risk for the Italian economy is now that of being progressively confined to these niche markets, while failing to reap the benefits on any significant scale of higher-end, value-added production as advanced emerging economies such as China purposefully engineer the transition of their productive systems in this very direction.

For a virtuous rebalancing of the bilateral economic relation to gain momentum in the coming years, it is essential that Italy engage decisively with the transition of the Chinese economy towards greater domestic consumption and foreign investment. Notably, China's market currently absorbs only a residual portion of Made in Italy consumption goods, while Chinese investments in Italy's real economy remain minute, despite an apparently upward trend.

On the one hand, such a trend lends itself to being leveraged politically in Italy, as the need to attract capital and retain production and jobs may prevail over

⁴⁹ Marianera, *Trends in Private Consumption in China*. This study identifies wealthy Chinese as those having an average yearly income of at least USD 30,000 (PPP 2005 estimates).

⁵⁰ ICE, *L'Italia nell'economia internazionale 2009-2010*, 181.

⁵¹ Confindustria, Prometeia and SACE, *Esportare la dolce vita*.

widespread reluctance to improve the national business environment and its openness to foreign investors. On the other, China stands to benefit substantially from greater access to strategic assets such as superior technologies, production processes and human capital, which remain abundant in Italy's diverse galaxy of industrial clusters.

For this win-win cycle to fully realise its potential, however, more than political impulse and business engagement are required: much deeper commitment at the people-to-people level needs to be prioritised on both sides. This transcends the urgency to keep upgrading – both quantitatively and qualitatively – student exchanges, and means fostering a more articulate cultural interaction to mitigate the perceived gap in values between the two societies.⁵² Strategic inertia in the face of the severe depletion of the academic and policy-oriented communities of stakeholders in the bilateral relationship, especially in China, must be addressed.

References

- Abu-Lughod, J. *Before European Hegemony: The World System AD 1250–1350*. New York and Oxford: Oxford University Press, 1989.
- Amighini A. and S. Chiarlone. *Rischi dell'integrazione commerciale cinese per il modello di specializzazione internazionale dell'Italia*, LIUC Papers no. 150, supplement *Economia e Impresa* 37 (June 2004).
- Amighini, A., R. Rabellotti and M. Sanfilippo. "The Outward FDI from Developing Country MNEs as a Channel for Technological Catch-up". *Seoul Journal of Economics* 23, no. 2 (2010).
- Amiti, M. and C. Freund. "An Anatomy of China's Export Growth". In *China's Growing Role in World Trade*, edited by R.C. Feenstra and S.J. Wei. Chicago: University of Chicago Press, 2010.
- Bertuccioli G. and F. Masini. *Italia e Cina*. Bari: Laterza, 1996.
- Caivano, M., L. Rodano and S. Siviero. *La trasmissione della crisi finanziaria globale all'economia italiana. Un'indagine controfattuale, 2008-2010*, Questioni di Economia e Finanza Occasional Bank of Italy Papers 64. Rome: Bank of Italy, April 2010.
- Confindustria, Prometeia and SACE. *Esportare la dolce vita*. Ariccia: Confindustria, Prometeia and SACE, 2010.
- De Nardis, S. "Ristrutturazione industriale italiana nei primi anni duemila: occupazione, specializzazione, imprese". In *Trasformazioni dell'industria italiana, Quaderni di discussione dell'Istituto di Studi e Analisi Economica*. Rome: ISAE, 2007.
- Di Maio, M. *L'economia italiana negli ultimi quindici anni: analisi, problemi e proposte*, L'economia italiana tra declino nazionale e competitività internazionale Working Paper. Macerata: University of Macerata, Department of Economic and Financial Institutions, 2007.

⁵² The *Transatlantic Trends* report compiled yearly by the German Marshall Fund of the United States shows that the Italian public has been changing its perception of China as an economic actor: while the relative majority of polled citizens still sees China as more of an economic threat than an opportunity (47 percent in 2011, down from 55 percent in 2007), the number of respondents who hold the opposite view has grown steadily (37 percent in 2011, up from 30 percent in 2007). The same trend is not occurring in the realm of values perception: here Italy has the second-lowest proportion of respondents in Western Europe believing that enough common values exist to work with China (26 percent hold this view in 2010). At 18 percent Germany scores the lowest, <http://trends.gmfus.org>.

- Di Nolfo, E. *La normalizzazione delle relazioni diplomatiche tra la Repubblica italiana e la Repubblica popolare cinese*. Catanzaro: Rubbettino, 2010.
- Flam, H. and H. Helpman. "Vertical Product Differentiation and North-South Trade". *American Economic Review* 77, no. 5 (1987).
- Gattai, V. *Dissecting Chinese ODI: Dragon Multinationals in Italy*. Department of Political Economics Working Paper. Milan: Milan Bicocca University, 2009.
- Giovannetti, G., M. Sanfilippo and M. Velucchi. *The 'China Effect' on Italian Exports*. Working Paper 8. Rome: Fondazione Manlio Masi, 2011.
- ICE. *L'Italia nell'economia internazionale 2009-2010*. Rome: ICE, 2010.
- ISTAT. *Commercio estero e attività internazionali delle imprese. Annuario 2010*. Rome: ISTAT, 2011.
- Labonte M. and W.M. Morrison. *China's Currency: An Analysis of the Economic Issues*, Congressional Research Service Report for Congress. Washington DC: CRS, August 2011.
- Marianera, M. *Trends in Private Consumption in China: The Development of Chinese High Income Class and its Global Relevance*, Confindustria Centro Studi Working Paper. Rome: Confindustria, 2010.
- Mitter, R. *Modern China: A Very Short Introduction*. New York and Oxford: Oxford University Press, 2008.
- Naughton, B. *The Chinese Economy: Transition and Growth*. Cambridge, MA: MIT Press, 2007.
- OECD, *China's Emergence as a Market Economy: Achievements and Challenges*, Working Paper for the China Development Forum. Beijing: China Development Forum, 20–21 March 2011.
- Pietrobelli, C., R. Rabellotti, and M. Sanfilippo. *The 'Marco Polo' Effect: Chinese FDI in Italy*, International Economics Programme Paper 4. London: Chatham House, 2010.
- Pomerantz, K. *The Great Divergence: China, Europe, and the Making of the Modern World Economy*. Princeton: Princeton University Press, 2011.
- Quintieri, B. *La sfida della qualità. Il futuro delle aziende italiane sui mercati internazionali*. Rome: Fondazione Manlio Masi per il Comitato Leonardo, 2007.
- Quintieri, B. "Declino o cambiamento? Il (ri)posizionamento dell'industria italiana sui mercati internazionali". In *Trasformazioni dell'industria italiana, Quaderni di discussione dell'Istituto di Studi e Analisi Economica*. Rome: ISAE, 2007.
- Samarani G. and L. De Giorgi. *Lontane, vicine. Le relazioni fra Cina e Italia nel Novecento*. Rome: Carocci, 2011.
- Tremonti, G. *La paura e la speranza*. Milan: Mondadori, 2009.
- Trento, S. *Innovazione e crescita delle imprese nei settori tradizionali*, Centro Studi Confindustria Working Paper 57. Rome: Confindustria, July 2007.
- Viganoni, L., ed. *Italia-Cina. Un incontro di lunga durata*. Rome: Tiellemedia, 2008.