



China—April 4, 2019

(U) Beijing's Position in EU Bolstered by Italy's Participation in Belt and Road Initiative



(U) Chinese investment in Italy has an even chance of making Italy economically dependent on China, which is likely to influence Italy to support and defend China in the European Union (EU). Italy defending China in the EU is very likely to worsen divisions within Europe and weaken the bloc's solidarity and strength. Italy's current economic relationship with China falls behind several other EU nations, but this could change as Italy becomes increasingly incorporated into the Belt and Road Initiative (BRI). China's economic investments in Greece have built influence and have already affected Athens's position in the EU.

- China invested heavily in Greece following the 2008 financial crisis when the Greek economy struggled to recover; and in mid-2016 the Chinese ocean shipping company COSCO acquired a controlling stake in the Greek port of Piraeus, which has since become the fastest growing port in the world.^{i ii}
- In July of 2016, Greece and Hungary, two countries that rely heavily on Chinese investment, helped block the EU from issuing a unified statement against Chinese aggression in the South China Sea. In June of 2017, Greece prevented the EU from condemning China's human rights record; and days later it opposed tougher screening of Chinese investments in Europe.^{iii iv}
- France and Germany urged Italy not to join the BRI. Days after Chinese leader Xi Jinping visited Rome to sign the BRI Memorandum of Understanding (MOU) with Italy, French and German leaders, along with representatives of the EU, met with Xi in France to present a united front against what they consider China's aggressive economic expansion into Europe.^{v vi}

(U) China is likely to ensnare Italy into relying on China as an economic partner given China's generous investment offers and a perceived lack of support from the EU. Italy's economy went into a recession at the end of 2018; and at the same time Italy's 2019 budget proposal was rejected by the EU, causing a diplomatic row that lasted over two months. Trade and investment deals proposed in the recently signed MOU top \$2.8 billion U.S. dollars.

- Italy currently has the highest debt-to-GDP ratio in the EU after Greece. Italy's economy has been weakening since early 2017, and entered a recession at the end of 2018 after GDP growth rate dropped 0.1 percent in the third quarter and 0.2 percent in the fourth quarter of that year.^{vii viii}
- Italy's populist government, which came to power in June of 2018, acquiesced to EU demands to lower its 2019 spending deficit, originally proposed at 2.4% of its GDP, in December of 2018 after two months of negotiations. During the course of negotiations, the EU threatened Italy with sanctions if it did not comply.^{ix x}
- Chinese investment deals in Italy proposed in the BRI MOU are valued between \$2.8 billion and \$22 billion U.S. dollars, according to Italian Deputy Prime Minister Luigi Di Maio. As part of Italy's participation in the BRI, the China Communications Construction Company will develop and manage several Italian ports, including strategic Trieste, in an attempt to revive the port and spur economic activity as the Chinese did in Piraeus.^{xi xii}

UNCLASSIFIED//FOR EDUCATIONAL PURPOSES ONLY

(U) China's success in convincing Italy to sign onto the BRI likely weakens the potential for the rest of the EU to form a unified response to the BRI, and may lead to other EU nations eventually following Italy's lead and joining the BRI as well. At the request of its allies, Italy did not mention Huawei in its MOU with China; however, this could change as Italy becomes more influenced by China.

- In 2015, the UK became a founding member of another Chinese geopolitical project that was criticized by the United States, the Asian Infrastructure Investment Bank. Since then, several other U.S. allies, including France, Germany, and Italy, have followed the UK's lead and joined the bank.^{xiii xiv}
- Italy has dismissed U.S. requests to ban China's Huawei company despite EU and international scrutiny due to allegations of potential spying. Allowing Huawei equipment into Italy's telecommunications infrastructure could present a security risk to the EU and broaden a divide between Italy and the EU due to differing views on security threats.^{xv xvi}
- Increased control of Italian ports will grant China an even stronger foothold in Europe. Chinese owned shipping companies such as COSCO and CMPort currently control approximately 10% of Europe's shipping container capacity.^{xvii xviii}

ⁱ Apostolu, Nikolia. "China's economic lifeline for Greece tangles political relations with EU." The Washington Times. 5 March 2018. Retrieved from: <https://www.washingtontimes.com/news/2018/mar/5/chinas-investment-greece-tangles-europe-relations/>

ⁱⁱ Horowitz, Jason. "Chastised by EU, Greece embraces China's cash and interests." The New York Times. 26 August 2017. Retrieved from: <https://www.nytimes.com/2017/08/26/world/europe/greece-china-piraeus-alexis-tsipras.html>

ⁱⁱⁱ Kakissis, Joanna. "Chinese Firms Now Hold Stakes in Over A Dozen European Ports." NPR. 9 October 2018. Retrieved from: <https://www.npr.org/2018/10/09/642587456/chinese-firms-now-hold-stakes-in-over-a-dozen-european-ports>

^{iv} Denyer, Simon. "Europe divided, China gratified as Greece blocks E.U. statement over human rights." The Washington Post. 19 June 2017. Retrieved from: https://www.washingtonpost.com/news/worldviews/wp/2017/06/19/europe-divided-china-gratified-as-greece-blocks-e-u-statement-over-human-rights/?utm_term=.2df7c92082a9

^v Horowitz, Jason. "Defying Allies, Italy Signs onto New Silk Road with China." The New York Times. 23 March 2019. Retrieved from: <https://www.nytimes.com/2019/03/23/world/europe/italy-china-silk-road.html>

^{vi} Willsher, Kim. "Macron meets Xi Jinping to strengthen EU-China relationship." The Guardian. 26 March 2019. Retrieved from: <https://www.theguardian.com/world/2019/mar/26/emmanuel-macron-meets-chinese-leader-in-attempt-to-strengthen-ties>

^{vii} Ellyatt, Holly. "Fragility in Italy's economy needs to be addressed,' EU warns as it slashes growth forecasts." CNBC. 7 February 2019. Retrieved from: <https://www.cnbc.com/2019/02/07/valdis-dombrovskis-italys-fragile-economy-needs-to-be-addressed.html>

^{viii} "Italy GDP falls 0.2% in Q4 2018, throwing economy into recession." CNBC. 31 January 2019. Retrieved from: <https://www.cnbc.com/2019/01/31/italy-falls-into-recession-after-quarterly-decline-in-gdp-2018.html>

- ^{ix} Horowitz, Jason. "EU and Italy reach a budget deal, as populist plan runs into reality." The New York Times. 19 December 2018. Retrieved from: <https://www.nytimes.com/2018/12/19/world/europe/italy-eu-budget.html>
- ^x Tondo, Lorenzo. "Italy avoids EU sanctions after reaching 2019 budget agreement." The Guardian. 19 December 2018. Retrieved from: <https://www.theguardian.com/world/2018/dec/19/italy-avoids-eu-sanctions-after-reaching-2019-budget-agreement>
- ^{xi} Vagnoni, Giselda. "Italy signs deals worth 2.5 billion euros with China." Reuters. 23 March 2019. Retrieved from: <https://www.reuters.com/article/us-italy-china-deals-factbox/italy-signs-deals-worth-2-5-billion-euros-with-china-idUSKCN1R40KN>
- ^{xii} Meyer, David. "China Drops Its First 'Belt and Road' Anchors in the G7—at Two Italian Ports." Fortune. 25 March 2019. Retrieved from: <http://fortune.com/2019/03/25/china-belt-and-road-italy-deal/>
- ^{xiii} Chatzky, Andrew. "China's Belt and Road Gets a Win in Italy." Council on Foreign Relations. 27 March 2019. Retrieved from: <https://www.cfr.org/article/chinas-belt-and-road-gets-win-italy>
- ^{xiv} Higgins, Andrew. "3 European powers say they will join China-led bank." The New York Times. 17 March 2015. Retrieved from: <https://www.nytimes.com/2015/03/18/business/france-germany-and-italy-join-asian-infrastructure-investment-bank.html>
- ^{xv} Giuffrida, Angela. "Italy rattles US and EU with likely support for China's Belt and Road." The Guardian. 20 March 2019. Retrieved from: <https://www.theguardian.com/world/2019/mar/20/italy-rattles-us-and-eu-with-likely-support-for-chinas-belt-and-road>
- ^{xvi} Follain, John. "Trumps Huawei threats dismissed in Italian pivot toward China." Bloomberg. 19 February 2019. Retrieved from: <https://www.bloomberg.com/news/articles/2019-02-19/trump-s-huawei-threats-dismissed-in-italian-pivot-toward-china>
- ^{xvii} Kakissis, Joanna. "Chinese Firms Now Hold Stakes in Over a Dozen European Ports." NPR. 9 October 2018. Retrieved from: <https://www.npr.org/2018/10/09/642587456/chinese-firms-now-hold-stakes-in-over-a-dozen-european-ports>
- ^{xviii} Linden, Ronald. "China is buying up ports and influence across Europe." The National Interest. 10 June 2018. Retrieved from: <https://nationalinterest.org/feature/china-buying-ports-influence-across-europe-26210>