

Insights

Italy's New Government Likely to maintain a Pro-China Stance

Following the political crisis sparked in August by the League's leader Matteo Salvini, who jeopardized his momentum after calling a snap election in an attempt to become Prime Minister, a new government formed by the M5S and the Democratic Party (PD) was sworn in on Thursday morning. While the unexpected yellow-red alliance – amid doubts over its longevity – will pursue a political agenda including policies previously opposed by the League. Yet, there is one element that remains unchanged: Italy's newly discovered friendship with Beijing.

Since the 2018 election, mainly under the impulse of the Undersecretary of State at the Italian Ministry of Economic Development, Michele Geraci, the previous coalition formed by the M5S and League has sought to foster Rome's ties with Beijing.

Firstly, in March 2019, Italy signed a non-binding Memorandum of Understanding with the PRC to take part in Beijing's Belt and Road Initiative (BRI): for the first time, a G7 economy formally endorsed China's new wave of overseas foreign direct investment. Chinese and Italian firms also concluded other deals in the energy, steel, and gas pipeline sectors, worth around EUR 5 billion. Secondly, in July 2019, the People's Bank of China 中国人民银行 authorised Cassa Depositi e Prestiti (CDP) – the third largest bank in Italy, majority owned by the Ministry of Economy – to launch its first "panda bond" – a CNY-denominated bond issued in China by a non-Chinese entity. At the end of July, CDP successfully issued bonds worth CNY 1 billion (approximately EUR 130 million) on the Chinese market – fixed rate, unsubordinated, and unsecured.

Needless to say, this pro-China stance has caused great concern from both Brussels, apprehended by the possibility of an unbalanced Chinese penetration via the Mediterranean, and, above all, the White House, one of Italy's closest allies and the BRI's largest skeptic. Yet, while Matteo Salvini, the torchbearer for Trump-style nationalism in Western Europe, was eager to make Italy the US' closest ally in the EU: a few days ago, the same US President wholeheartedly supported Giuseppe Conte's presidency via Twitter.

At present, there is widespread optimism towards Italy's new government: not only has the EU, still firmly opposed by the League's leader, endorsed the new yellow-red coalition but in the last few days, the Italian stock market has outperformed. Lastly, Italy, in a similar fashion to what is now occurring in the UK, would have proved that it is possible to hinder the uprising of far-right ideologies. The question, therefore, is whether Rome will decide to either foster its Euro-Transatlantic ties, keep up its momentum with Beijing, or combine the two stances.

Cercius Group projects that regardless of how long the new government will last, Rome's stance towards China will prove increasingly significant from a geopolitical and geoeconomic perspective. Although the appointment of Luigi Di Maio, the M5S leader, as the new foreign minister was "criticized" by Xinhua due to his lack of experience, his pro-China stance is well known. At the same time, Roberto Gualtieri, the new Minister of Economy and Finance, may heal the rift with Brussels, especially over national budget policies. It will then be up to Prime Minister Conte's diplomatic maneuvering to ensure the White House will continue to regard Italy as one of its most dependable partners in the EU.